



## Welcome to Tax News

In addition to providing tax preparation and personal financial planning services to our clients we will be preparing a weekly newsletter of relevant information that will strive to help you achieve your financial goals and lower your taxes.

In each weeks newsletter you will find:

- ◇ A calendar of upcoming tax deadlines
- ◇ A web site of the week that is relevant to business or taxes
- ◇ A question of the week that will be appropriate to most taxpayers situations
- ◇ Tax tips that will help reduce your taxes
- ◇ Plus much more

*Enjoy the read and profit from the experience of Tax News*

## In Today's Issue

### What Changes Can We Now Expect?

As the President heads into his second term a number of policy objectives have been intimated at.

### Scary Thought For The Week

Social Security: Is it a Benefit?

### Website Of The Week

[www.smbiz.com](http://www.smbiz.com)  
Help For Small Business

### Strange But True

Illegal Drug tax

### Ask John

"I am starting up a business – but don't have any income – how do I handle my expenses?"

## What Changes Can We Now Expect?

As the President heads into his second term a number of policy objectives have been intimated at. A desire to cut the budget deficit in half, reforming the tax code in a revenue neutral manner, and semi-privatizing Social Security are all challenges and may be mutually exclusive, as well as mathematically impossible.

What does semi-privatizing social security mean? Current social security taxes are collected from the employer on behalf of the employer and employee (Form 941 and form 8109) pooled together and in short term government securities. Current retirees receive their social security payments from this pool.

Under the proposals being floated a worker could divert a portion of their social security taxes into a personal account that could be invested in stock funds or bond funds.

The plan with most traction calls for workers aged under 55 to be given the option of investing a maximum of \$1,000 a year in a personal account.

The federal government has a Thrift Savings Plan that has been held out as a model for what early stage private accounts could resemble. Three of the 4 investment options are index tracking funds with annual expenses of 0.7% - \$7 per \$1000 of investment compared up to \$155 per \$1,000 for managed mutual funds.

It seems inevitable that the camels nose will get under the tent during the next 4 years. The move towards defined contribution plans in the private sector and even the wholesale abandonment of defined benefit pension plans (UAL, Delta etc.) is a move that will spread to Social Security. The pure demographics of an aging population and lower number of replacement workers supporting more retired workers means the traditional guaranteed retirement benefit to no longer be sustainable – unless you are a County employee and being funded by property taxes.

These unfunded liabilities are huge across the nation and will have to be confronted soon as well. Look for big battles between Police, Firemen and City Hall as the pension payments for these county works come home to roost. Just look at your county property taxes as they hit your mailbox in the next 30 days – a large percentage of the increases are coming from unconscionable pension payments yet still don't acknowledge the true liability of the unfunded portion of the pension plans.

Thanks Giving is only a week away and plans for the end of the year need to be looked at in the next month.

Welcome to BBS Tax weekly – feel free to email me directly at [john@bbstax.com](mailto:john@bbstax.com) if you have any comments or questions.

PRESIDENT

## Dates For The Diary

### November 26

Communications and air transportation taxes under the alternative method. Deposit the tax included in amounts billed or tickets sold during the first 15 days in October.

### November 29

Regular method taxes. Deposit the tax for the first 15 days of November.

## Tax News

The National Association of Securities Dealers have accused H&R Block Financial Advisors of fraud for selling customers nationwide around \$16 million of Enron bonds in late 2001 and claiming them as a safe investment when the energy-trading giant had already begun to collapse.

H&R Block Inc has disputed the allegations saying that they were not aware of the mismanagement of Enron and at the time of sale the bonds were rated investment grade.

A disciplinary hearing will be held in the near future to address the accusations, companies can be fined or suspended from the securities industry if found to be in violation of NASD rules.

## Contact

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## Scary Thought For The Week

### Social Security: Is it a Benefit?

The social security wage base will be \$90,000 for 2005, up \$2,100 from 2004. The tax rate on employers and employees (FICA and Medicare) will remain the same. 6.2% for FICA on up to \$90,000 of pay and 1.45% for Medicare on all wages. Self employed will pay 15.3% on the first \$90,000 and 2.9% above that.

Social Security benefit checks will be 2.7% larger in 2005.

Earnings limits for beneficiaries rise also. Those aged between 62 and 65 and six months can make \$12,000. For each \$2 earned over that \$1 of benefits is lost. Those who will be aged 65 and six months in 2005 can earn \$31,800 until they reach that age. For each \$3 earned after that, benefits drop \$1. There is no cap on those aged more than 65 and six months.

The retirement age for social security is going up again. People who turn 62 in 2005 will have to wait until they turn 66 to get the full benefits, two months later than folks how turned 62 this year.

Medicare Part B premium is \$78.20 a month starting in 2005, up \$11.60.

## Website Of The Week

### Help For Small Business

[www.smbiz.com](http://www.smbiz.com)

The Small Business Taxes and Management website was designed in 1980 to help provide tax and management advice and guidance to small and medium sized businesses.

The website, is packed full of the latest news and reports on all things business tax related, on a daily basis a news item and tax tip is updated allowing all who visit the most up to the minute advice.

A Special Report section has been designed where specific frequently asked questions and government changes are addressed and analyzed by people who know small business tax.

Included on the site, is a reference section providing everything from back issues through to 1988, a glossary on all things tax and business related right down to depreciation and percentage withholding tables.

The Small Business Taxes and Management website is definitely a useful site that should be added to every small business owner's favorites list.





## What's On Offer

At Taxlogic, the accountants are all professionals with over 25 years experience in the taxation industry with an extensive knowledge and focus on electronic filing.

By using the team at Taxlogic to prepare and file your tax returns, not only will you be given excellent service, but you will also be treated like a person not just a number.

From any computer, anywhere in the world, 24 hours a day, seven days a week Taxlogic can help you with your tax preparation.

As well as the ability to prepare personal tax returns the team at Taxlogic also are very knowledgeable with corporate/business returns for the current or previous years.

The team also provide services to help with company formations, annual minutes for corporations and payroll preparation.

Bookkeeping courses and weekly newsletters are provided by Taxlogic to help keep you informed on the latest and greatest of all things tax orientated.

Help can also be given when preparing your employee handbooks

For all things tax related, look no further than the team at Taxlogic.

## Strange But True

While everyone knows about income tax and sales tax, there are some strange state taxes around that many may be surprised to learn even exist. For the next few issues we are going to address these strange but true taxes!

### Illegal Drug Tax

You actually have to pay a tax as well as get prosecuted, confused? That's not surprising. In North Carolina, within 48 hours of obtaining a fixed quantity of illegal drugs or alcohol, buyers must purchase stamps from the state and fix them to the substance. If a person gets busted without stamps, they must still pay the tax.

Those who purchase the stamps do not need to provide personal identification information to the Department of Revenue but still there aren't too many lines outside the door.

Since the law was enacted in 1990 through until 2003, only 63 people have purchased drug stamps, many of whom are believed to be stamp collectors. However, the State has distributed some 60,000 fines for failure to display the stamps, receiving nearly \$63 million in revenue.

According to the Unauthorized Substances Tax website, purchasing the stamps does not give you legal possession of the drugs, it fulfills your civil obligation but you are still breaking the law.

No wonder, there haven't been too many people buying the stamps!

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## Ask John

### The Question

*"I am starting up a business – but don't have any income – how do I handle my expenses?"*

### The Answer

From October 22nd, 2004 the old rules are out and guess what – a new more complex set of rules govern start up expenses. In the past you were able to add up your initial set up costs and divide by 60 months (5 years) and amortize these costs over the new business life.

Under the new rules you will be able to deduct up to \$5,000 of those expenses up front, the write off phases out dollar for dollar as start up costs top \$50,000. Means that if you have over \$50,000 of start up costs you will need to amortize them all over the new 15-year period. Not only that but the start up expenses now have to be amortized over 15 years. This is the same for partnerships and corporations.