



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

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Tax Deduction to Foreign-Based Companies Denied

According to the United States Treasury Department international companies, such as DaimlerChrysler and BP, that let American employees purchase shares under a stock ownership plan cannot claim tax deductions for dividends paid on those shares. The department, who released new regulations last week, announced that only the parent company could claim the deduction, which is useless to non-United States companies that pay taxes in their home countries.

According to a spokesman for the Organization for International Investment the new regulations could lead to the elimination of employee stock ownership plans for U.S subsidiaries of foreign companies.

The regulations, which will go into effect after a comment period, also say no companies, regardless of where they are based, can deduct the cost of repurchasing shares sold to employees under a stock ownership plan. It is believed that the proposed regulations provisions were aimed at a 2003 court case on the matter won by Boise Cascade, now OfficeMax.

According to one employee stock ownership specialist, the new regulations could have an impact on a pending tax law case involve DaimlerChrysler, with the regulations in effect mirroring the Government's litigation position. The Chrysler portion of the company now trading as DaimlerChrysler established an employee stock ownership plan when it was still an American corporation in 1980.

Under a deal compensating unions for wage and benefit concessions, the Chrysler Corporation agreed to transfer \$162.5 million worth of its shares into the plan over a four-year period. The plan was terminated under a 1985 collective bargaining agreement with the union, and Chrysler repurchased the shares for \$426 million.

The company claimed a \$327.6 million tax deduction for 1985 which was contested by the Internal Revenue Service, with the matter still pending a federal appeals hearing.

Tax News

IRS Seeking Taxes from United Employees

United Airlines' employees have seen their wages lowered, benefits reduced and pension plans cute, but when the airline emerges from bankruptcy they could face another hit, multimillion dollar tax liabilities.

The Internal Revenue Service is arguing that million of dollars in securities and notes the airline plans to distribute to its workers after it leaves bankruptcy should be considered taxable income.

The IRS has told the bankruptcy court it considers such payments compensation, and that they should be taxed accordingly.

If the Internal Revenue Service is successful, it could be a huge economic blow to workers who have already made wage, benefit and job concessions in a bid to save the carrier more than \$2 billion annually.

The matter is scheduled to be considered by a bankruptcy judge in Chicago soon, though it is unlikely that the matter will be completely resolved at the hearing.



Dates For The Diary

September 12

Employees who work for tips. If you received \$20 or more in tips during August, report them to your employer. You can use Form 4070.

September 15

Individuals. Make a payment of your 2005 estimated tax if you are not paying your income tax for the year through withholding (or will not pay in enough tax that way). Use Form 1040-ES. This is the third installment date for estimated tax in 2005.

Corporations. File a 2004 calendar year income tax return (Form 1120 or 1120-A) and pay any tax, interest, and penalties due. This due date applies only if you timely requested an automatic 6-month extension.

S corporations. File a 2004 calendar year income tax return (Form 1120S) and pay any tax due. This due date applies only if you timely requested an automatic 6-month extension. Provide each shareholder with a copy of Schedule K-1 (Form 1120S) or a substitute Schedule K-1.

Corporations. Deposit the third installment of estimated income tax for 2005. A worksheet, Form 1120-W, is available to help you estimate your tax for the year.



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Tax Tidbits

- ◇ Your basis in an inherited home is the fair market value at the time of the prior owner's death. When you sell property, you usually have a gain or loss, that is, the difference between the sales price and the inherited value plus the expenses of the sale. If the amount is a loss, it is a deductible capital loss on Schedule D, provided you did not use the home as your principle residence.
- ◇ If you don't have enough deductions to itemize, consider bunching – by delaying or accelerating – your eligible expenses so that you can itemize every other year. Some expenses for which you may be able to control the payment time include Medical-related costs, real estate and personal property taxes, charitable contributions, and work-related expenses.
- ◇ If you serve on a jury, your employer may continue your full salary but require you to turn over the jury fees. The law demands that you report the jury fees as income, though, so claim a deduction in the adjustments section of your return to protect yourself from being taxed on money that only passed through your hands.

News From The IRS

Teachers Reminded to Save Receipts for Expenses

With back-to-school specials underway, the Internal Revenue Service has reminded teachers and other educators to save their receipts for purchases of books and classroom supplies.

These out-of-pocket expenses may lower their 2005 taxes.

The deduction is available to eligible educators in public or private elementary or secondary schools.

To be eligible, a person must work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide.

Educators may subtract up to \$250 of qualified expenses when figuring their adjusted adjusted gross income (AGI) for 2005.

This deduction is available whether or not the taxpayer itemizes deductions on Schedule A.

Under current law, this deduction is scheduled to expire at the end of 2005. In tax year 2003, the most recent year for which figures are available, educator expense deductions totaling almost \$814 million were claimed on nearly 3.3 million individual income tax returns.



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

Mexico Cuts Tariffs on Old Foreign Cars

Mexican President Vicente Fox slashed tariffs on 10- to 15-year-old cars from the United States and Canada recently, creating concern among domestic carmakers and distributors that the imports will cut into sales of locally made automobiles. Fox, in a decree published last week, cut import duties on used cars to 10 percent from up to 50 percent, saying the imports would help make cars more affordable for more of the population.

He also allowed Mexicans who own cars that were smuggled into the country to register and make them legal by paying the duty.

The measure drew criticism from carmakers and dealerships, who said the lower tariff will create unfair competition for the local industry by encouraging imports of low-cost vehicles that in the United States were ready to be junked. Because of the measure, Mexico's Association of Auto Dealerships cut its forecast for domestic sales of new vehicles this year to less than 1.1 million units from 1.2 million.

About 800,000 passenger cars and light vehicles that are at least 10 years old are brought illegally into Mexico from the US each year, they circulate without license plates, have no registration and don't go through pollution emission inspections.

Fox's decree also reduces taxes on new cars that cost up to 190,000 pesos (\$17,683) allowing people that one used cars to be able to trade up to a new car, he also exempted new cars that cost up to 150,000 from a new-vehicle-tax.

More Tax News

Tax-free Week in Connecticut

Connecticut's annual sales tax-free shopping week for clothing and footwear, which is the state's equivalent of a back-to-school sale, runs through a Saturday and retailers are using it as part of their promotions.

According to one retailer, customers love it, and the experience with tax-free days in about a dozen other states shows that the promotions generate new sales that stores would not otherwise have gotten.

The state Department of Revenue Services says it forgoes about \$3.3 million in tax revenue by letting consumers buy items priced up to \$300 without charging the 6 percent tax, with clothing purchases of less than \$50 already tax free.

A spokeswoman for the tax department said the tax-free week is timed to coincide with the approach to school but can also benefit anyone needing a new suit for a job interview or a new winter coat. You can even save tax on sneakers, hiking boots, a Boy Scout uniform or even rental of a tuxedo.

However the exemption is not available for ski boots, dance shoes, soccer cleats, football helmets and most other sports gear, which falls into a different tax category. The sales tax-free week began in 2000 but was almost eliminated in 2003 by the General Assembly as part of a budget-balancing decision but lawmakers reconsidered and restored the tax-free week just before the legislation took effect.