

A Note from Paul - Tax Savings Issue

It's almost the end of the year. That means its time for last minute tax savings tips. I'm in the process of meeting with clients to discuss the impact of new tax laws and how they can reduce their amount of tax due for 2002. I'll be happy to meet with you, just give me a call.

In this issue we will cover tips on deferring income, advancing payments that may afford you a deduction, and the impact of the new tax laws. Don't forget I am offering 20% off of your next tax return or service for every new client that you refer me. As always, if you have questions, please feel free to call me. - Paul

Interest Free Loans to the Government

DON'T MAKE THE GOVERNMENT YOUR BANKER! It's wise to make sure enough tax is withheld from your paychecks at work during the year so you don't wind up getting clobbered with IRS penalties for under-withholding. But most workers have far more tax withheld than necessary – in excess of \$1,700 based on

the average size refund check issued by the IRS in 2001. There is a price you pay for over-withholding. By extending the government what amounts to an interest-free loan, you lose the opportunity to make more productive use of that money for many months – like paying off 18 percent credit card debt.

The Action Plan for Tax Savings in 2003

You thought it was over in April? Naaah! Tax planning is an all-year-long activity. And, if you haven't started yet for 2002, you'd better get moving.

This year, it gets a bit tricky because big chunks of last year's tax law take effect in 2002. Add the changes made by recent revenue rul-

ings and the Job Creation and Worker Assistance Act of 2002, and you've got lots of changes . . . and lots of tax-savings opportunities. Remember, the big decisions have to be made by Dec. 31 to benefit you this year.

Rate reductions

(Continued on page 2)

Small Moves for Big Tax Savings

Take Action
to cut your
tax bill
before year
end.

As with any tax planning, there are plenty of smaller ways to trim your tax bill if you act now, and certainly by Dec. 31. Here are six great ways:

(1) Defer income if you can. If you don't have to take the income in calendar 2002, defer it into 2003. That way, the income is off your 2002 tax return. Plus, tax brackets are adjusted annually for inflation and will give you a small tax break by pushing some income into a lower bracket.

(2) Use the tax laws to minimize the pain from the stock market. With the stock market continuing to struggle, you may have some investments (they have to be in a taxable account) filled with deductible losses while others have (hopefully) major gains. You can use your losses to offset any gains. On a net basis, all capital losses, regardless of whether they're short-term or long-term, offset capital gains on a dollar-for-dollar basis. You can use \$3,000 of net capital losses in excess of capital gains to

The Action Plan, Continued

(Continued from page 1)

This one's for everybody. Most of the marginal rates for 2001 are reduced for 2002 and for 2003. Most rates to drop. Compare your bracket below:

2001 tax rate	2002 & 2003
10.0%	10.0%
15.0%	15.0%
27.5%	27.0%
30.5%	30.0%
36.0%	35.5%
39.1%	38.6%

Since the amounts in each income bracket are automatically increased for inflation, and the marginal rates imposed on those brackets reduced, this automatically puts more dollars in your pocket.

The practical effect of the change is this: Say you and your spouse file jointly, had taxable income of \$80,000 in 2001 and expect the same in 2002. Your

federal income tax bill will drop from \$16,350 to \$15,396 -- a savings of \$954. If your taxable income is \$150,000, the tax bill will fall from \$36,822.50 to \$35,410.50, a savings of \$1,412.

The only downside is that this time you'll have to wait until you file to appreciate these benefits. Last year, taxpayers received rebates from the government in the late summer and fall to boost the economy. That's not scheduled to be repeated for 2002. But, you can increase your current cash flow by adjusting your W-4 allowances, or estimated payments, to properly reflect any changes here and below. Increasing your allowances would decrease your withholdings and increase your cash take-home dollars. Your employer should have automatically reduced your withholdings to reflect the lower 2002 rates.

Disclosure: The information provided in this newsletter is of a general nature and isn't intended to address the circumstances of any particular individual, business or other entity. Please consult your CPA or Attorney if you have questions or concerns.

Small Moves for Big Tax Savings, Cont'd

Act Now to
Cut your Tax
Bill for 2002

offset ordinary income. Any excess left over is then carried forward to 2003. But watch out for the wash sale rules. The IRS disallows losses on securities sold if substantially identical securities are bought within 30 days before or after the loss sale. Best case: buy 31 days later.

(3) Medical expenses. Only medical expenses in excess of 7.5% of your adjusted gross income are allowed as deductions. So, if your adjusted gross income is \$100,000, you get no deduction for the first \$7,500 of your medical expenses. But there are some medical expenses you can defer or accelerate, depending on whether you expect to exceed this floor. Elective surgery, orthodontia or the payment of your medical insurance premiums can all be advanced or postponed to meet your minimum floor.

(4) Miscellaneous itemized deductions. These are only allowed to the extent they exceed 2% of your adjusted gross income. If you're going to exceed the 2% floor, then accelerate your deductions.

Prepay your accountant in 2002 to do the tax return that you don't have to file until April 2003. Renew and pay for your investment publications before the end of the year. If you don't have the cash, charge these expenses. The charges are allowed in the year of the charge, not when you actually pay your credit-card bill.

(5) Accelerate payments that can produce a tax deduction. If you write your January mortgage check or the check for your property taxes on or before Dec. 31, you can claim the interest deduction or tax deduction in 2002.

(6) Non-cash charitable contributions. Give your old clothes, furniture, equipment, etc. to your church, synagogue, Salvation Army or Goodwill before Jan. 1 and take a deduction for the fair market value. Make sure you get a receipt; no receipt means no deduction. Since the brackets are going up next year, the tax savings are higher this year on the same contribution.

Larger Retirement Deferrals

Everyone hopes to put some more money aside for retirement. Last year's tax law made extensive changes to the rules relating to IRAs and qualified pension plans, increasing contribution limits:

Plan type	2001	2002
401(k)'s	\$10,500	\$11,000
IRA's	\$2,000	\$3,000
Defined Cont. Plans	\$35,000	\$40,000

As of Jan. 1, 2002, the limits on SIMPLE retirement plans, SARSEPs, 403(b) annuities and Section 457 plans were all increased by \$500. Special additional contributions are now available if you're age 50 or older. You can contribute an additional \$500 (for a new total of \$3,500 for 2002) into an IRA. Section

401(k), 403(b) annuities, and Section 457 plans now allow for additional \$1,000 contributions. If you contribute to a SIMPLE plan, you can add another \$500 in 2002 once you hit the half-century mark.

Contribution limits weren't the only things changed. You can now borrow from your qualified plans if you're self-employed or an employee shareholder of an S corporation. Now only loans from IRAs are prohibited.

With all of these retirement changes, you're going to need some good direction. The good news is that as of 2002, your employer can provide you with retirement planning advice on a tax-free basis. The bad news is that this doesn't cover tax preparation, accounting, legal or brokerage services.

Shannon Ragsdale, Attorney at Law is offering a Basic Will Packet which includes a Simple Will, Power of Attorney and Advance Directive for Healthcare for only \$299 per couple or \$149 for one. Call today 274-3698.

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*Solid Financial Advice for the
21st Century*

A big change in health benefits

The IRS issued my favorite change for 2002 on June 26. Revenue Ruling 2002-41 lets a company establish a new employer-funded health-reimbursement arrangement (HRA) that's both tax-free to the employee and that can carry over into future years. Under the current rules for flexible spending accounts (also called salary reduction or cafeteria plans), any dollars not spent by the end of the year are lost. In an HRA, an employer can buy a high-deductible insurance policy and use some of the premium savings to set up individual accounts for employees. The employees can draw on the accounts for out-of-pocket health expenses. If they don't draw them down all the way, the remainder can be rolled over into the next year -- and carried with the employee after he leaves his job. The tax break still applies. So the arrangement creates an incentive to economize on health expenses.

In Closing.....

If you have a question as to how to save more on taxes, give me a call to set up a meeting to review your situation. I am currently setting up appointments for individual review and planning. There are still things we all can do to save on taxes even at this late date. Remember, It's not too late to make a difference for 2002...as long as you act before January 1, 2003!