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HOLTZ RUBENSTEIN

adviser



JUNE, 2001

HOLTZ RUBENSTEIN WINS HUNTINGTON TOWN BUSINESS OF THE YEAR AWARD

At the end of its 25th anniversary year, Holtz Rubenstein & Co., LLP is proud to have won Business of the Year honors from the Huntington Township Chamber of Commerce.

The gala for the 8th Annual Business of the Year Awards is among the biggest events in the town, honoring businesses that exemplify strength and leadership in the business community. Holtz Rubenstein is honored to have earned this distinction in the town in which it has been doing business since 1975.

Twenty-five years, 12 partners and a total staff of 80 people later, the firm consistently ranks among the top

10 firms on Long Island and again this year was judged by Bowman's Accounting Report (Atlanta, GA) as one of the top 25 best-managed firms in America – one of only four firms nationwide to have earned this distinction five years in a row. In addition, the firm was a finalist in this year's Hauppauge Industrial Association's Business of the Year award.



Frank Candia and Neil Geschwind accept Business of the Year award.

This Month

- ⇒ **Holtz Rubenstein Wins Huntington Town Business of the Year Award**
- ⇒ **Suffolk Sales Tax Increase - Contractors Entitled to Credit**
- ⇒ **Holtz Rubenstein Awards Scholarships to Hofstra Students**
- ⇒ **CyberNotes – Fodors.com**
- ⇒ **Q&A: Mortgage Interest Expense Deduction**
- ⇒ **The Adviser Corner: Donating to Charity - Alternatives to Cash**
- ⇒ **Bequeathing Frequent Flyer Miles**
- ⇒ **IRS Grants Tax Relief to Certain Taxpayers Claiming Refunds on Delinquent Tax Returns**
- ⇒ **Mum's The Word! - Federal Privacy Disclosure Rules**
- ⇒ **DFK Website of the Month**
- ⇒ **Special Briefing on New Tax Law**

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Suffolk Sales Tax Increase – Contractors Entitled to Credit

As of June 1, 2001, Suffolk County's sales tax has increased to 8.5%. This increase will have an impact on businesses both collecting and paying sales tax in Suffolk County.

Generally, the sales tax rate imposed at the time of sale is controlling. However, there are transitional rules that address situations in which a subsequent change in the rate could affect the sales tax imposed on the transaction.

One such situation occurs in the case of a pre-existing lump sum or unit price construction contract. This is a contract

Notable and Quotable

"This is an exciting time for CPAs and their profession. There are quite a few new initiatives and trends away from the traditional way of doing things, and I am looking forward to the upcoming year," says Partner **Beatrix McKane** upon her induction as President of the Suffolk chapter of the New York State Society of CPAs (NYSSCPA). Beatrix is also Treasurer of the Suffolk Community Council and serves on the Boards of Directors of Hospice Care Network and the Regional Plan Association.

The professionals at Holtz Rubenstein are further involved in the Suffolk chapter of the NYSSCPA. Partner **Arnold Haskell** has been newly inducted as the chapter's Vice President. Supervisor **Michael Mikulski** is the Chair of the Not For Profit Committee and Supervisor **Brendan Logan** is Co-Chair of the Tax Committee.

Audit Partner **Howard Weiner** has been elected a Director at Large of the NYSSCPA for 2001-2004. Howard has been a member of the NYSSCPA since 1970. He has served as President and Executive Board member of the Nassau Chapter. He

(continued on page 4)

for the construction of improvements to real property where the amount payable to the contractor is fixed, without regard to the contractor's costs, and:

- 1) Was irrevocably entered into prior to May 8, 2001; or
- 2) Resulted from the acceptance by a governmental agency of a bid accompanied by a bond or other performance guaranty that was irrevocably submitted prior to such date.

(continued on page 4)

HOLTZ RUBENSTEIN AWARDS SCHOLARSHIPS TO HOFSTRA STUDENTS

Each year, Holtz Rubenstein selects students from Hofstra University to receive the William J. Holtz Endowed Memorial Scholarship, named after the late co-founder of the firm. The scholarship is awarded to a Long Island resident who is a full-time accounting student with a GPA of 3.0 or greater, who has demonstrated civic contribution and a requirement of financial aid. This year's winners are Anna Kanterakis of Valley Stream, and Neil Varghese of Elmont, who each receive the \$1,250 scholarship.

Anna Kanterakis is a junior at Hofstra University, with a GPA of 3.96. Her



Scholarship winners Neil Varghese and Anna Kanterakis with Audit Manager Andy Vuono.

interest in accounting began as a senior in high school, and she has since interned at two public accounting firms. Neil Varghese is a second-year winner of the Holtz Rubenstein last summer. He is a junior at Hofstra, who plans to get his accounting degree next year.

The scholarships were awarded at the annual spring induction ceremony of Beta Alpha Psi, the national accounting honor society. If you are interested in contributing to the scholarship fund, please contact Holtz Rubenstein Partner Gordon Siess at 631-752-7400 x-315.

if you do not rent it, you do not have to use the home during the year to take the deduction. But if you rent it out part of the year, you also must use it as a home during the year for it to be a qualified home for the deduction. You must use this home for more than 14 days, or more than 10% of the number of days during the year that the home is rented at a fair rental price, whichever is longer. If you don't use the home long enough, it is considered rental property and not a second home.

Q: I paid my mother's mortgage and real estate taxes last year. The house and mortgage are in her name. Can I deduct the mortgage interest and property tax on my tax return?

A: Generally, you can deduct only taxes that are imposed on you personally. You can't deduct the property taxes since you are not the legal owner of the property,

and therefore, the taxes are not imposed on you. The same holds true for the mortgage interest; you can't deduct this since you are not legally liable for the loan.

Q: My daughter and I own a house together. Her name is on the mortgage, but both our names are on the deed. Can we each claim half the yearly interest and property tax on our income tax returns?

A: Again, you can only deduct the interest deduction if you are both legally liable for the loan. Since only your daughter's name is on the mortgage and she is solely liable for it, only she can deduct the interest. But since both of you are legal owners of the property, both of you may deduct half of the real estate taxes paid during the year.

Q: We purchased some land to build a home on. Is the interest on the mortgage secured by the land deductible?

A: No. In order for the interest to be deductible as home mortgage interest, the loan needs to be secured by a qualified residence. Once you start construction on your home, you may treat the home under construction as a qualified residence up to 24 months, but only if the home becomes a qualified residence at the time it is ready for occupancy.

CyberNotes – Fodors.com

Summer is almost here and many people making travel plans will be looking for help planning their trip. The Internet has an abundance of travel-related websites that can help you choose a destination, book a flight and reserve a hotel room.

One of the most all-encompassing travel-related sites is **Fodors.com**. At **Fodors.com** you can get information about over 200 domestic and international destinations, as well as detailed information on hotels, restaurants, nightlife, sights, and attractions. It also goes beyond the basic reviews to give you practical information – such as the best hotels for kids and how to get to and from the airport using public transportation. There are also links to other websites that contain more information related to both your chosen destination and to traveling in general. In addition, there is a message board where you can post questions and get answers from other travelers.

Before you make travel plans this summer, check out **Fodors.com**. Don't leave home without it!



Q&A: Mortgage Interest Expense Deduction

Generally, home mortgage interest is any interest you pay on a loan secured by your home (whether main or second home), and is deductible if you itemize. The same holds true for real estate taxes for your home. However, there are some situations that may leave you questioning what is deductible. Below are some of the common questions regarding the deductions for the home mortgage interest expense and real estate taxes.

Q: Is the mortgage interest and property tax on a second residence deductible?

A: Yes. The mortgage interest and real estate taxes paid on your primary and second residence are usually deductible. Deductible real estate taxes include any state, local, or foreign taxes on real property levied for the general public welfare. They generally do not include taxes charged for local benefits and improvements that increase the value of the property.

A second residence is one that you choose to treat as a home. Generally,

**Donating to Charity –
Alternatives to Cash****By Arnold L. Haskell, CPA**

Current United States tax laws provide corporations, individuals, estates and trusts with an incentive to support charitable endeavors: a tax deduction for donations to a qualified charitable; religious; educational; literary; or scientific organization, or an organization whose purpose is the prevention of cruelty to animals. But those who think the only way to make a gift to charity is in the form of cash are in for a pleasant surprise.

In addition to cash, charitable contributions can be made in the form of an outright gift of property. The tax deduction for contributions of property is generally fair market value, with exceptions for ordinary income property and tangible personal property not used by the organization for its exempt function. No gain is recognized on these types of gifts so you will get a larger donation than if the property were sold and the remaining after tax cash was contributed. Alternatively, no loss is recognized on the donation of property that has depreciated in value, consequently, depreciated property should be sold and the cash contributed.

Usually, in order to be tax deductible, gifts of property must be of the donor's entire interest in the donated property. Exceptions to this rule are for "split interest" gifts, whereby an asset is divided into two parts – an income (or current) interest and a remainder (or future) interest. Either the income or remainder interest is gifted to the charitable organization, with the other interest retained by the donor. Just as with outright gifts, no gain is recognized on the appreciation inherent in the property when contributed. The use of split interest gifts can provide numerous income, estate and financial planning opportunities for the donor. Examples of split interest gifts are charitable remainder trusts, charitable lead trusts, and pooled income funds.

Charitable Remainder Trust

This is a special trust that must meet certain stringent requirements as set forth in the Internal Revenue code. The

charitable remainder trust must pay out a specified amount, at least annually, to one or more persons (at least one being a taxable non-charitable beneficiary) over the lives of the individual beneficiaries, or for a term not to exceed 20 years. The specified payment to the donor, or someone else designated by the donor, either can be determined based upon the value at the inception of the trust (annuity) or revalued and adjusted annually (unitrust). The donor receives a current income, estate or gift tax deduction equal to the present value of the remainder interest. Upon the death of the income beneficiary, the charitable organization receives the remaining principal of the trust.

Charitable remainder trusts can be formed during the lifetime of the donor, or can be created at the time of the donor's death. For example, the trust can be named the beneficiary of a donor's Individual Retirement Account or appreciated stock can be contributed to the trust during the donor's life. In the case of the IRA, if not left to a charity, the combined income and estate tax rate is almost 70%. With a charitable remainder trust as beneficiary, the taxes can be significantly reduced and at the same time provide an income stream to the donor's heirs. In the case of a lifetime donation of appreciated stock, the donor can obtain investment diversity, a greater return and a current income tax deduction.

Pooled Income Fund

This is similar to a charitable remainder trust except that the pooled income fund is set up by the charity to receive and hold and the assets donated by two or more individual donors. Just like the charitable remainder trust, income interest is paid out for life. However, the amount paid out is based upon the actual earnings of the assets in the fund.

Charitable Lead Trust

This is the antithesis of the charitable remainder trust in that the charity receives the income interest and the donor, or his/her heirs, receives the remainder interest. The trust must pay to the charity a specified amount paid out at least annually over the term of the trust. Like the charitable remainder trust, the annual payment to the charity can either be determined based upon the value of the assets at the inception of the trust

**Bequeathing
Frequent Flier Miles**

It is something you might not have ever considered.

If you are a member of either airline or hotel frequent traveler programs, you should clearly designate in your will a beneficiary for your accumulated miles and points. This clears up any ambiguity about where your miles will be assigned, after your death. In many instances involving probate, many people come forward to stake claim to the miles or points based on past receivership. This could cause confusion for the airlines and hotels and delay the transfer.

Generally, frequent traveler programs will need to receive a copy of the will and death certificate. At that time they typically will transfer those miles and/or points to the beneficiary's account (if they have one already set up), or simply name the beneficiary to the same account.



(annuity) or the assets can be revalued annually and the payment adjusted accordingly (unitrust). The donor receives a tax deduction currently for the payments to be made in the future.

A charitable lead trust can be an effective income and estate tax planning tool. From an income tax perspective, the lead trust can, if properly planned, provide the donor with an accelerated income tax deduction in a high tax year or conversely avoid the loss of deductions in low income tax years due to adjusted gross income deduction limitations. From an estate and gift tax perspective, unless the donor is also the remainder beneficiary, all future appreciation is sheltered from the estate tax.

The most appropriate method of charitable giving will depend upon the makeup and extent of your assets, your income requirements, your age, your family situation and other considerations based upon your particular needs and desires. To help decide which charitable giving options are right for you, please contact Partner Arnie Haskell at 631-752-7400 x-390, or AHaskell@hrcpa.com.



(continued from page 1)

Suffolk Sales Tax Increase - Contractors Entitled to Credit

If a contract falls within those prerequisites, the contractor must pay the additional sales tax imposed on all purchases of materials and supplies delivered after the effective date (June 1, 2001) of the rate change. However, the contractor will be allowed a credit or a refund on all such purchases used solely in the performance of that contract.

If you have entered into any contract that is covered by these transitional rules prior to May 8, 2001 (date of enactment), you are entitled to a credit or refund of any sales tax paid on purchases of materials and supplies delivered after June 1, 2001. Credit for the additional quarter-percent sales tax can be claimed on the contractor's sales tax returns.

Questions? Call HR Tax Manager Richard Margaroli at 631-752-7400 x-263.

Mum's the Word! - Federal Privacy Disclosure Rules

The Federal Trade Commission has issued a privacy rule that implements the privacy protection provisions of the Gramm-Leach-Bliley Act of 1999. It requires that all CPAs who prepare federal and state personal tax returns, or provide tax or financial planning, notify each of their individual clients of the firm's privacy policies and practices. These notices will be issued prior to July 1, 2001.

The firm's policies on confidentiality are strictly upheld. Access to our client's personal information is restricted to those employees who need to know such information in order to provide products or services. We have procedural safeguards that comply with Federal standards to guard client personal information.

IRS Grants Relief to Certain Taxpayers Claiming Refunds on Delinquent Tax Returns

The Internal Revenue Service has granted relief to certain taxpayers claiming refunds on delinquent tax returns. The IRS modified its position regarding the relationship between two statutory provisions – the mailbox rule and the statute of limitations on filing refund claims.

Under the mailbox rule, a tax return or other document is deemed to be timely filed if it is postmarked on or before its due date, even if the IRS receives it after the due date. A taxpayer must file a refund claim by the later of three years from the time the return was filed or two years from the time the tax was paid. If the claim is filed under the three-year rule, the amount of the claim is limited to the amount paid within three years, plus any extension that was granted to file the return. If the claim is filed under the two-

year rule, the amount of the claim is limited to the tax paid within the two years preceding the claim.

The IRS previously had contended that the mailbox rule does not apply to delinquent returns. Under this approach, if a taxpayer postmarked his 1996 personal income tax return (original due date April 15, 1997) on April 15, 2000, but the IRS did not receive the return until April 18, 2000, the IRS would deny the refund claim. Several courts upheld the IRS' position.

However, after losing a case in the Second Circuit (the Circuit that includes New York), the IRS surrendered its earlier victories and issued regulations that concede that the mailbox rule applies to late filed returns.

Notwithstanding this new window of opportunity, taxpayers who are entitled to refund claims should file timely returns to obtain their refunds as soon as possible.

(continued from page 1)

Notable & Quotable

is also the Treasurer of DFK International/USA, the American affiliate of the worldwide association of independent accounting and business advisory firms.

"I'm just thrilled by this honor. I enjoy offering my time and efforts to this wonderful organization and it's further gratification to be acknowledged," says Partner **Dan Segal** after being honored recently as YMCA of Long Island's "Adult Volunteer of the Year."

Dan is Treasurer and Chairman of the Finance Committee of the YMCA of Long Island, and previously has been voted "Associate Member of the Year" of the Long Island Builders Institute,

where he is a life director and a past associate vice president. Dan also has participated in activities with the Epilepsy Foundation, American Cancer Society, and United Way.

Holtz Rubenstein & Co., LLP is pleased to welcome two accomplished women to its audit staff, on the senior level. **Tracy Clark** has over 7 years experience in accounting, after getting her B.A. degree in accounting from Adelphi University. She is a member of the NYSSCPA and the American Institute of CPAs.

Her new colleague is **Linda M. Haas**, who has her Master of Business Administration from Adelphi University and a B.A. degree from Molloy College. She has worked in accounting for seven years and is a member in the Institute of Internal Auditors.

DFK Website of the Month

DFK International is the worldwide association of independent accounting and business advisory firms in which Holtz Rubenstein is actively involved. Through our affiliation we are able to provide enhanced services to you, and to other clients throughout the United States and the world.

This month we spotlight one of the founding members of DFK USA **Holtz Rubenstein & Co., LLP!** The look of our website has changed. Please visit us at www.hrcpa.com.

This publication is designed to present matters of general interest relating to accounting, taxation and business management. It is not intended to constitute accounting or tax advice. Articles were written by the staff of Holtz Rubenstein & Co., LLP and the American Institute of Certified Public Accountants. Please consult your HR & Co. adviser before taking any specific actions.

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The **Economic Growth and Tax Relief Reconciliation Act of 2001**, signed into law on June 7, 2001, is a \$1.35 trillion, 10-year tax-cut package. It is fraught with confusion. Over the next few months, the *HR Adviser* will include information on the Act and, to the extent you can take advantage of it, we will advise you.

This month we are giving you mere “sound bites” about the Act, and we have, for the most part, limited ourselves to the changes effective in 2001 and 2002. If you have questions about how the changes affect you, please contact HR Marketing Director Flo Federman at FFederman@hrcpa.com. We will include questions, with answers, in upcoming editions of the *HR Adviser*.

Changes in Individual Income Tax Rates

The following table summarizes changes to individual income tax rates:

	Taxable income up to: *				
Single	26,250	63,550	132,600	288,350	over 288,350
Head of Household	31,150	90,800	147,050	288,350	over 288,350
Married, Joint Return	43,850	105,950	161,450	288,350	over 288,350
Year:	Tax Rate:				
2000	15.0%	28.0%	31.0%	36.0%	39.6%
2001	refund up to \$300 (single), \$500 (head of household), \$600 (joint)				
2001	15.0%	27.5%	30.5%	35.5%	39.1%
2002	10.0%	27.0%	30.0%	35.0%	38.6%

* These amounts are based on the tax rate schedules for 2000. Under existing law, the schedules are adjusted each year for inflation.

Of all the tax provisions in the new law, the one that has captured the attention of the public the most is the “summer refund.” This refund, which will be based upon the data on taxpayers’ 2000 income tax returns, will be confirmed to individuals by way of a letter to be sent around July 12. The Treasury Department intends to begin mailing approximately 11 million checks per week in late July. For taxpayers who did not file their returns by April 16, 2001, refunds will not be mailed until later.

Tip: In view of the nominal change in the rates for the current year, we do not recommend that taxpayers reduce their 2001 estimated tax payments.

Child Tax Credit

The child tax credit, presently \$500 for each dependent child under the age of 17, will increase to \$600 for each such child in 2001 through 2004, and ultimately increase to \$1,000 per qualifying child in 2010. The credit will be allowable against the alternative minimum tax.

Year	Child credit amount
2000	\$500
2001-2004	\$600

Interest on Student Loans

Effective in 2002, the deduction for student loan interest is allowed without regard to the 60 month limitation under prior law, even if you do not itemize your deductions. The adjusted gross income threshold for the phase-out of this deduction is increased from \$40,000 (\$60,000 in the case of a joint return) to \$50,000 (\$100,000 in the case of a joint return).

Adoption Credit and Adoption Assistance

Effective in 2002, the amount of expenses taken into account in calculating the credit for adoption expenses is increased from \$5,000 (\$6,000 in the case of a child with special needs) to \$10,000. The limitation on the amount of income excludable by an employee for employer paid adoption expenses is increased to the same amount.

The phase-outs for both the credit and the exclusion will not begin until the taxpayer’s adjusted gross income exceeds \$150,000, compared to \$75,000 under present law. Beginning in 2002, the credit is allowed against the alternative minimum tax.

Year	Credit	Credit (child with special needs)
2000	\$5,000	\$6,000
2001	\$5,000	\$6,000
2002	\$10,000	\$10,000

Deduction for College Tuition

Beginning in 2002, up to \$3,000 is deductible for college tuition and fees, even if you do not itemize your deductions. The deduction is available to taxpayers whose adjusted gross income does not exceed \$65,000 (\$130,000 in the case of a joint return). No deduction is allowed to a married taxpayer filing a separate return or to a taxpayer who can be claimed as a dependent on another person's return. However, a parent who pays his/her child's tuition may claim the deduction. In addition, no deduction is allowed with respect to an individual's tuition if the taxpayer or another person claims either the Hope Credit or Lifetime Learning Credit with respect to the individual for the year.

Year	Maximum Deduction	Eliminated when adjusted gross income exceeds (single/joint)
2000-2001	\$0	N/A
2002-2003	\$3,000	\$65,000/\$130,000

Expansion of Qualified Tuition Programs

Under present law, qualified tuition programs, or "Section 529 plans," must be maintained by a state or an agency thereof. Under the new law, educational institutions would be eligible to maintain these plans beginning in 2002.

Beginning in 2002, distributions from these plans will be exempt from tax to the extent that the distributions are used to pay qualified higher education expenses (i.e., expenses to attend any accredited post-secondary institution), although this benefit will not apply to distributions from plans maintained by educational institutions until 2004.

Estate Tax Repeal – Myth or Reality?

Under the heading "strange, but true," barring further legislation between now and 2011, there is a pattern of increasing estate tax relief until 2010, when the estate tax is repealed for one year (2010). In 2011, all of the relief is rescinded and the estate tax goes back to where it is in 2001. Therefore, Congress will be forced to revisit this issue again under perhaps a different political environment.

Tip: *Planning with a law that begs to be rewritten is going to be very difficult. We would advise against undoing any planning that has been done in the past. Only a broad outline of the law is available at this time. The problems and opportunities will be in the details.*

Changes Affecting Retirement Savings Plans

Annual retirement plan contribution limits are increased as shown in the charts below:

Type of Plan	Individual Retirement Accounts		Internal Revenue Code section 401(k), 403(b), and 457 Plans		SIMPLE Plans	
	< 50 years old	50+ years old	< 50 years old	50+ years old	< 50 years old	50+ years old
2000	\$2,000	\$2,000	\$10,500	\$10,500	\$6,000	\$6,000
2001	\$2,000	\$2,000	\$10,500	\$10,500	\$6,500	\$6,500
2002	\$3,000	\$3,500	\$11,000	\$12,000	\$7,000	\$7,500

Type of Plan	Defined Contribution Plans - maximum annual addition to participant's account	Defined Benefit Plans - maximum annual retirement benefit	Defined Contribution and Defined Benefit Plans - combined annual per employee compensation limit	Education IRAs
2000	Lesser of 25% of compensation or \$30,000	\$135,000 maximum annual payment	\$170,000	\$500
2001	Lesser of 25% of compensation or \$35,000	\$140,000 maximum annual payment	\$170,000	\$500
2002	Lesser of 100% of compensation or \$40,000	\$160,000 maximum annual payment	\$200,000	\$2,000 *

* Contributions to Education IRAs are not tax deductible under the prior or the new law; however, under the new law, beginning in 2002, withdrawals from Education IRAs, including the income earned, are tax free AND the funds can be used for the costs of elementary and secondary schools including private or religious schools. In addition, the income phase-out levels for qualification have been increased, beginning in 2002, for married filers from \$190,000 to \$220,000 (up from \$150,000 to \$160,000).