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# HOLTZ RUBENSTEIN

## adviser



NOVEMBER, 2001

### Year-End Tax Strategy – Investment Timing Decisions

December 31<sup>st</sup> is just around the corner. If you haven't considered your 2001 tax situation, it's not too late to start. Year-end tax planning activities often result in substantial tax savings.

Capital gains and losses are great areas for planning because you have more control over when the income is realized than you do over any of your other income, because you decide when to sell. However, you should know the rules with respect to the deductibility of capital losses. Net capital losses are allowed to

offset net capital gains. Only \$3,000 (\$1,500 if married filing separately) of any excess capital loss may be applied against ordinary income. The remaining loss gets carried forward indefinitely. Knowing these rules, here are a few strategies to minimize your tax liability:

- If you already have capital losses which exceed your current capital gains plus \$3,000 (\$1,500 if married filing separately), consider selling capital gain property before the end of 2001 to utilize the benefit of the capital loss this year.
- If you have an excess of capital gains over capital losses, sell capital loss property before the end of the year to offset the excess capital gain and eliminate the tax on the gain.

To hear additional strategies, contact Tax Manager Sid Leibowitz at 631-752-7400 x-265 or [SLeibowitz@hrcpa.com](mailto:SLeibowitz@hrcpa.com).

### Tax Filing and Payment Relief Following Terrorist Attacks

In last month's issue, we noted that the IRS and the New York State Department of Taxation and Finance both granted tax relief following the terrorist attacks of September 11. However, we also pointed out that the relief offered by the IRS was more encompassing than the relief provided by New York State.

The IRS provides longer extension periods and covered more taxpayers, putting many taxpayers in the peculiar position of having their New York State tax return due prior to their Federal tax return.

New York State since has issued additional guidance stating that taxpayers who file their tax returns on the due date of their Federal return rather than the earlier New York State due date will be deemed to have reasonable cause for filing late.

### Notable and Quotable

Partner **Gary Carpenter** has been named Man of the Year by the Long Island chapter of the Multiple Sclerosis Society.

In addition, Gary was a featured speaker at the New York State Society of Health Care Providers seminar, discussing Mergers and Acquisitions in the Health Care Industry.

Partner **Gordon Siess** spoke at the 13<sup>th</sup> annual Keys for the Homeless Conference, on not-for-profit financial techniques.

Gordon also has been named to the Business Advisory Council of the North Shore Child and Family Guidance Center.

Senior Tax Partner **Alan E. Weiner** spoke at a Suffolk County Bar Association seminar in a discussion entitled, "Practical Aspects of Representing a Limited Liability Company/Partnership."

In addition, Alan was featured in an article in the national magazine *Bloomberg Personal Finance* on maximizing your charitable deductions.

Holtz Rubenstein continues its growth and expansion, welcoming new staff to the firm:

**Gianni Iaboni** joins us as a staff accountant, after earning a B.B.A. degree from Hofstra University.

**Kimberly Finnegan** is a staff accountant who attended Hofstra, graduating with a B.B.A. degree in accounting.

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As a result, late filing and late payment penalties that accrue between the due date of the New York return and the Federal return will be waived.

However, note that interest will not be waived and will continue to accrue on any unpaid balance until the payment date.

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## Deductible Expenses for Your Business

Many business owners don't take the time to do some basic tax planning. A few steps taken – even in the last few months of the year – can make a difference in a business's tax bill.

### Putting business property into service

There are substantial tax advantages associated with buying business property during the last half of the year. Tax law generally allows you to claim six months' worth of depreciation in the year you put the property into service, regardless of how late in the year you make the purchase. However, if you place too much equipment in service at year-end, you may trigger a special tax rule. Specifically, if the cost of business assets placed in service during the last quarter of 2001 exceeds 40% of the cost of all business assets put in service during the year, your depreciation deductions for all assets placed in service during the year are figured under the mid-quarter convention, significantly reducing your annual depreciation deduction. (See our article on this page, "Mid-Quarter Convention Depreciation Relief," for more information.)

## HOLTZ RUBENSTEIN BECOMES ITS OWN LANDLORD

Together with an investment group led by Holtz Rubenstein, we have purchased the building that houses our Melville offices, at 125 Baylis Road, a 100,000-sq. foot class A office building in Melville.

"Our roots are on Long Island. This is a further indication of our commitment to our community," says Managing Partner Frank Candia.



This purchase will not affect the firm's New York City office, a leased office space in the Hippodrome Building on Avenue of the Americas in Manhattan.

This caps off a year in which the firm was named 2001 Huntington

Town Business of the Year and for the fifth straight year named one of the best-managed accounting firms in America, by Bowman's Accounting Report.

### Business property expensing deduction

As an alternative to depreciating business property, businesses may elect to expense up to \$24,000 of the cost of qualifying property placed in service by the end of 2001. The immediate expensing deduction is limited to personal property that is used in the taxpayer's business. Be aware that the expensing deduction begins to be reduced dollar-for-dollar to the extent that total qualifying business property purchases exceed \$200,000 for the year.

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### Mid-Quarter Convention Depreciation Relief

For taxpayers who may have had difficulty completing the acquisition of property and placing it in service, due to the events related to the terrorist attacks of September 11, 2001, relief is available.

The IRS has announced its intention to issue regulations allowing taxpayers to elect not to apply the mid-quarter convention contained in depreciation rules pertaining to property (except residential and nonresidential real property) placed in service in the tax year. This regulation applies if their third quarter includes September 11, 2001. The mid-quarter convention can limit a taxpayer's depreciation deduction if more than 40% of their depreciable property (except residential and nonresidential real property) is acquired during the fourth quarter of their taxable year.

If the third quarter of a taxpayer's 2001 tax year includes September 11, 2001, the taxpayer may elect to apply the half-year convention to property placed in service during the taxpayer's 2001 tax year. The half-year convention treats property as placed in service in the middle of the year. In order to make this election, the taxpayer must write "Election Pursuant to Notice 2001-70" across the top of Form 4562, Depreciation and Amortization, for the tax year that includes September 11, 2001.

Taxpayers may rely on this notice until the regulations have been changed to include this guidance.

## CyberNotes – Online Shopping

With the holiday season quickly approaching, consider online shopping as a way to avoid the crowded stores and shopping malls. In addition to the convenience, the Internet can be a terrific source for merchandise not available in a typical shopping mall.

However, when shopping online you should take certain precautions. The following is a list of online shopping tips from the Consumer Protection website of the Federal Trade Commission:

- Use a secure browser – Your browser should comply with industry security standards that encrypt or scramble the purchase information sent over the Internet.
- Shop with companies you know – Determine the company's refund and return policies before you place your order.
- Keep your passwords private – Avoid telephone numbers, birth dates and Social Security numbers.
- Pay by credit card - Credit card transactions are protected by the Fair Credit Billing Act, which gives consumers the right to dispute charges and withhold payment while the transaction is being investigated.
- Keep a record – always print a copy of your purchase order and confirmation number.

For additional tips on shopping online, as well as other consumer protection issues, visit [www.ftc.gov/ftc/consumer.htm](http://www.ftc.gov/ftc/consumer.htm).

## THE ADVISER CORNER

### Answering the “How To” Questions about Employee Benefits

In times of a temperamental economy, employers and business owners have many questions. Among them is... *how to control the rising costs of employee benefits*, particularly medical insurance. And... *how to make changes but keep employees happy*. Here are some answers to those “How To” questions.

In the current climate of managed care, rates are rising sharply – nearly 20% for 2002. Plan design changes and cost shifting can help offset the annual increases, but that’s just a temporary fix. Add to this the dramatic increases in prescription drug costs and the result is soaring medical rates. Cost shifting via higher copays and deductibles simply cannot keep up with these kinds of increasing costs.

To understand what can be done for different employer groups, first you must understand how the insurance companies categorize and rate a business. There are three basic classes of groups:

- 1) Groups with less than 50 employees are always **community rated** in New York
- 2) Groups with 50-100 employees are **manually rated**
- 3) Groups with more than 100 employees usually are **experience rated**

Depending on which category you fall into, there are different strategies on how to set up your benefit packages. The best programs offer enough choices to employees to maximize the rates available, as well as give employees enough options so they can pick the one that best meets their individual needs.

When a group is **community rated**, the rates are fixed without regard to the employer or employees. But not all insurance companies offer the same plans, types of plans, or even tier structures. So by offering multiple insurance companies to the employees, they can choose between HMO (health maintenance organization), POS (point of

service) and/or PPO (preferred provider organization), with or without a gatekeeper, and choose between tiers.

Tiers are simply different ways of classifying and billing dependents. An example will best explain how tiers work. For the exact same benefits plan, rates are as follows:

	2 Tier	3 Tier	4 Tier
Employee only	\$284.50	\$284.50	\$284.50
Employee + 1	-	\$554.78	\$569.00
Employee + Children	-	-	\$512.10
Employee + Family	\$739.70	\$825.05	\$853.50

Traditionally, an employer selects one insurance company and gets only one set of rates (either in 2, 3 or 4 tier form). Across a large selection of employees it shouldn’t matter what tier is selected, due to averaging. However, when employees can select which tier they want – an employee and spouse, for example – they will get a lower rate on the 3 tier plan than on a 2 or 4 tier plan. Note that this can only be accomplished through a mix of different insurance companies, and there are some participation requirements that must be considered. But if done correctly, the savings can be tremendous.

In the second category, groups are **manually rated**. This means rates are determined by the group’s overall demographics and the type of industry they are in. However, their individual claims experience has no relevance when determining rates. A younger group in a favorable industry will have lower rates than an older group in a less favorable industry.

There are some alternative options for those groups who would normally fall into these higher rate categories. Again, offering choices is one. By adding a community rated HMO plan alongside another plan, employees are empowered to enroll in whichever plan is best for them (HMOs are community rated regardless of the size of the employer group). Additionally, the employer is not wasting money on benefits that employees don’t need, want, or use – like out of network plans for those employees who prefer to stay in network. For companies that offer just one plan, most everyone compromises (employer, employees)

except, perhaps, the insurance companies. One size does not always fit all!

To further save the company money, the employer can base its contributions on the lower priced plan offered, and then offer the employees the chance to “buy up” to a richer option, and pay the difference.

Finally, for groups that are large enough to be **experience rated**, their rates are determined not only by demographics and industry, but also claims history. They can apply most of the same strategies as those that are manually rated, though by using claims experience they can more accurately determine the best strategy for their company.

Overall, there is a greater likelihood of saving money *and* increasing employee satisfaction by offering a broad array of properly matched options. The point to remember about employee benefits is that each situation is different. The trick is knowing when to apply which strategy.

For more information, contact Mark Senders, President of Holtz Rubenstein Benefits Consulting, at 631-752-7400 x-355 or [MSenders@HoltzBenefits.com](mailto:MSenders@HoltzBenefits.com).

### TAX TRAP

#### Year-End Purchase of Mutual Funds

Be careful before purchasing mutual funds for taxable accounts between now and the end of the year.

Fund companies usually distribute all their capital gains and dividends at year-end, and you could be taxed on the payout without enjoying any increase in the value of your investment.

Before investing, call the fund and ask about its payout dates. If a large distribution is coming soon, consider waiting until after the record date to invest for taxable accounts.

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## Deductible Expenses for Your Business

### Retirement plan contributions

Retirement plans are one of the most valuable tax breaks available to business owners. Business owners can personally deduct contributions to their own qualified plan, and the company can deduct contributions made on behalf of its employees. The government has a number of retirement plan alternatives in place for small business owners. SEPs, Keoghs, and SIMPLE plans all offer significant tax advantages.

With a SEP (Simplified Employee Pension), you can have a written plan that allows you to make deductible contributions towards your own and your employees' retirement without getting into more complex retirement plans. A SEP can be established by the due date of your 2001 return, and your contributions to it will be deductible as long as they are made by that due date.

A SIMPLE retirement plan (Savings Incentive Match Plan for Employees) is a written salary arrangement that allows a small business (100 or fewer employees) to make elective contributions to a retirement account on behalf of each eligible employee.

Keoghs are available to individuals with any amount of self-employment income. Keoghs must be opened by December 31, 2001 for your contributions to be deductible for this year, but you can make a deductible contribution up until the due date of your tax return, including extensions.

### Transportation expenses

If you use your personal car for business, or your business owns its own vehicle, you can deduct some of the costs connected with keeping your car running. There are two methods of claiming automobile expenses. You can either keep track of and

deduct all your actual business-related car expenses, such as gas and oil, repairs and maintenance, depreciation, insurance, and tires, or you can simply take the standard mileage rate deduction. This rate is set by the IRS and is adjusted annually. For 2001, the standard mileage rate is 34.5 cents for each business mile driven. If you're not sure



which method to use, as a general rule, if you have a newer car and you use it primarily for business, the actual expense method is likely to provide a larger deduction. When you travel for business, you can deduct many expenses, including the cost of fares,

lodging, meals, telephone calls, etc.

### Bad debts

If a customer or vendor doesn't pay your invoice, that bad debt may or may not be deductible; it depends on what you're billing for. If your business sells goods, you typically can deduct the cost of goods you sell but don't get paid for. But before you can claim a bad debt write-off, the IRS requires that you take reasonable steps to collect payment. That can include giving the debtor written warnings or going to a collection agency or small-claims court. Since a bad debt deduction can only be taken in the year in which the debt becomes totally worthless, you should step up your collection efforts if you have some bad debts you want to write off this year.

Unfortunately, if your business provides a service you cannot deduct an unpaid bill as a bad debt. No tax deduction is allowed for time you devoted to a client who doesn't pay.

### Miscellaneous expenses

IRS studies show that poor records, not dishonesty, cause most small business people to lose at audits or fail to comply with their tax reporting obligations. For any expense over \$75, and for all lodging

## It's Time To Turn in Your Foreign Currency

As the U.S. dollar becomes stronger, your foreign money accumulated on vacation becomes worth less (but not necessarily worthless).

However, as the Euro countries start to use actual "touchy-feely" currency on January 1, 2002 (as compared to only the electronic Euro transactions which have been in effect since 1999), you have only until the early months of 2002 (in most cases February 28, 2002) in which to exchange your Belgian Francs, German Deutsche Marks, Spanish Pesetas, French Francs, Irish Pounds, Italian Lira, Luxembourg Francs, Dutch Guilders, Austrian Schillings, Portuguese Escudos, Finnish Markkas and Greek Drachmas, for Euros. After that time, the banks will no longer convert the legacy (old) currency into Euros, and such conversion only can be made at the central bank of each Euro country.

Note that England still has not adopted the Euro as its currency.

expenses, whatever the amount, you must have a receipt.

These notations may be made on the back of the receipt or recorded in a formal expense log.

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### Notable & Quotable

**Nadine Galvez** has her B.A. degree in accounting from Queens College and is now a staff accountant.

**Nicholas Tambakis** is a graduate of Hofstra, with a B.B.A. degree in accounting, who is now a staff accountant.

**Tiiu Weismantle** is a staff accountant with a B.B.A. degree in accounting from Hofstra.

In addition, **Joan Tomitz** joins the firm's employee benefits division, Holtz Rubenstein Benefits Consulting, as Account Assistant.

*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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### 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 our northern neighbors – Kenway Mack Slusarchuk Stewart, LLP in Canada. Visit them at [www.kmss.ca](http://www.kmss.ca).