

PRATT & ASSOCIATES MONTHLY UPDATES DECEMBER 1999

(1) EDUCATION CREDITS

If you didn't claim the education credits (HOPE Scholarship/Lifetime Learning/Student Loan Interest), on your original 1998 income tax return, IRS is allowing individuals to file amended tax return to receive a refund. Also, if you can claim the credit you might be able to file an amended return with your state taxing agency.

(2) STANDARD MILEAGE RATE INCREASES FOR 2000

IRS has announced that in 2000 the business mileage reimbursement will increase to 32.5¢ a mile.

For those of you who need to calculate your 1999 business mileage you will have to do so in two parts. First, miles accumulated from 1/1/99-3/31/99 must be calculated using the 32.5¢ mileage allowance; however, miles accumulated from 4/1/99-12/31/99 must be calculated using the 31¢ mileage allowance.

Please note that there are two ways to calculate your business travel expenses, either the standard mileage allowance or by actual expenses. The standard mileage allowance takes a standard rate per mile (32.5¢ in 2000) to account for all expenses incurred throughout the year. The actual expense method takes into account lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance and license and registration fees. The taxpayer should calculate their car expenses using both methods and take the one that benefits them the most.

(3) STUDENT LOAN INTEREST

Taxpayers may deduct up to \$1500 of Qualified Student Loan Interest on their 1999 tax returns. This is up from \$1000 in 1998.

(4) ROTH VS. TRADITIONAL IRA'S

Individuals, who contributed or converted a traditional IRA to a ROTH IRA or vice versa, have until December 31, 1999 to recharacterize or change their 1998 contributions or conversions. In order to make the change, the taxpayer must have timely filed his/her income tax return, and timely filed an amended if the recharacterization was not properly filed on the previously filed return.

In 1999 and beyond, taxpayers with a Modified Adjusted Gross Income under \$100,000 can choose to convert their Traditional IRA's to ROTH IRA's; however,

if they decide to do this, the entire conversion will be taxable on their current years tax return.

(5) HURRICANE FLOYD VICTIMS

Victims of Hurricane Floyd that had property destroyed can expect extra tax relief. The property that was destroyed by the storm is treated as a casualty loss and is deductible on either their 1999 return or in 1998, by filing a 1040X (federal amended return).

Once the casualty loss is established the casualty losses for individuals are deductible to the extent the combined total of all casualties in a year exceeds the sum of 10 % of Adjusted Gross Income + \$100 per casualty.

Remember a casualty loss is reported on Schedule A of your 1040 as an itemized deduction, and must total more than your regular standard deduction.

(6) CHARITABLE CONTRIBUTIONS

Remember when making your year-end charitable contributions certain evidence is needed in order to claim the deduction. We will discuss the two categories of charitable donations that are best suited to meet our clients needs, cash contributions under \$250 and non-cash contributions over \$500. The first category, cash contributions under \$250, requires either a cancelled check or a written acknowledgement from the organization. Please note that the \$250 contribution is per occurrence not an aggregate total throughout the year. So, if you give \$20.00 a week to your local church or city mission all you need is the cancelled check or written acknowledgement from the organization even if the total for the year exceeds \$250.

The second category we would like to focus on is for non-cash contributions over \$500. Taxpayers making a charitable contribution of more than \$500 must keep a written acknowledgement from the organization. Along with this acknowledgement one must include: a description of the property, the date the property was donated, how the property was acquired and the cost basis of the property. Please note that when a donation is made over \$500 IRS requires that form 8283 be filled. This form will ask for the aforementioned information and must be attached to your 1040.

REMEMBER THE TOPICS COVERED IN THIS NEWSLETTER ARE AN ABRIDGED VERSION TO THE ACTUAL TAX LAWS AND CODES COVERED BY THE IRS. THEREFORE SOME INFORMATION MAY BE SUBJECT TO CHANGE ON A CASE-BY-CASE BASIS. IF YOU HAVE ANY QUESTIONS REGARDING THE ABOVE INFORMATION PLEASE EMAIL US AT KSPNBRG@NYCAP.RR.COM