

# Tax Tidbits

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We are pleased to provide you with *Tax Tidbits* regarding information that may have an impact on your 2004 tax returns. The following articles may stimulate some interest and questions about your taxes for this year. We still have the time before the end of the year to complete your tax planning.

Many of our investment clients have requested that we review their Portfolios on a continuous basis, specifically looking for opportunities to reduce taxes. As a result, it has been requested that we do income tax returns. Answering these requests, we have assembled our Tax Team, which is comprised of two CPAs and a Tax Preparer with many years experience. They are available to answer your questions and help you solve specific problems.

Your Portfolio Managers review your accounts continuously for your goals and objectives, income tax planning, estate planning, and rebalance your Portfolio at least quarterly. We will network with your tax preparer and/or CPA to accomplish your individual goals.

Our Operations Team will provide our 1099 Reconciliation Summary for each of your accounts by February 5, 2005. This summary includes a complete list of interest, dividends, contributions, and withdrawals for the full year. The sales in the Portfolio will be summarized in the format known as the Capital Gains and Losses report or Schedule D. Many of your withdrawals may be deemed deductible by the IRS or are estimated tax

## Your Tax Team



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payments to the Federal government or the state. This report should be compared by you or your tax preparer to the 1099s you receive.

Unfortunately, every year the Internal Revenue Service makes changes to the tax laws. We see a clear direction on the horizon to require electronic filing. We anticipate that when our Tax Team prepares your return, it will be filed electronically if you

are eligible. There is a complete article in this publication about the advantages of e-filing.

Just another reminder, there is still time to make charitable contributions or plan for specific deductions. If these items are not done prior to December 31, 2004, you will run out of time to claim those deductions.

The earlier we receive your information, the better we can serve you. Please make your appointments early.



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## Inside This Issue:

<i>Working Families Tax Relief</i>	2
<i>E-filing</i>	2-3
<i>Casualty Losses</i>	3-4
<i>Charitable Contributions</i>	4
<i>More Tidbits</i>	4

## **The Working Families Tax Relief Act of 2004**

It all began with the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). EGTRRA set in motion a series of tax breaks for individuals and corporations that were scheduled to be phased in over a ten-year period. Then there was the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). JGTRRA accelerated many of the EGTRRA benefits into 2003 and 2004. Taxpayers enjoyed lower overall tax rates, an extended 10% tax bracket, marriage penalty relief, increased exemptions for Alternative Minimum Tax (AMT), and lower rates on long-term capital gains and dividends. Many of the JGTRRA tax breaks were scheduled to diminish or expire completely after 2004 and it was intended that EGTRRA would pick up where it left off, phasing in benefits over the next ten years.

Fortunately for us, lawmakers passed the Working Families Tax Relief Act of 2004 (Working Families Act), which

serves to extend these expiring provisions and essentially fully phase in the



benefits called for in EGTRRA. The following individual tax breaks have been extended

through 2010:

- The expanded 10% tax bracket
- Marriage penalty relief in the 15% tax bracket and the standard deduction, giving married taxpayers double that of singles
- \$1,000 per-child tax credit

In addition, the higher AMT exemptions and the teacher's classroom expense deduction were extended through 2005.

Other tax breaks were not affected by the Working Families Act. The reduction in regular tax rates to 10%, 15%, 25%, 28%, 33%, and 35% will remain in effect until 2011, at which time rates will revert to

the pre-2001 rates of 10%, 15%, 28%, 31%, 36%, and 39.6%, respectively. The lower long-term capital gains and dividend tax rates of 5% and 15% will remain in effect through December 31, 2008. After that, the law reverts to the old capital gain rates of 10% and 20%, and dividends will once again be taxed at ordinary income rates. Efforts are already underway to make the 5% and 15% rates for capital gains and dividends permanent.

There are no revenue enhancements to offset this \$146 billion tax cut, but many economists forecast that the cost of the cuts will be paid for by the public through less spending for social services and/or increased taxes later. With this being an election year, anything could happen and depending on who is elected, the size and extent of these tax cuts could change. So, let's hold onto our wallets and enjoy the relief while we can!

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## **E-Filing: The Way of the Future**

Electronic filing, a.k.a. "e-filing" is the electronic submission of a tax return to the taxing authority using the Internet. As of July 2004, more than 60 million individual tax returns for the 2003 tax year have been filed electronically. Since 99% of tax forms are eligible for e-filing, the result is most often a paperless tax return. There is no need to mail your W-

2s or 1099s to the IRS or state because all of the necessary information on these forms is entered into the computer and transmitted electronically.

E-filing is the fastest and most convenient way to file your tax return. The most common reasons people have for not e-filing are lack of knowledge about how to e-file and concerns about security. According to the

IRS, more than 400 million tax returns have been filed electronically since 1986 with no security incidents. Taxpayers who e-file choose a Personal Identification Number (PIN), which acts as their electronic signature and identifies them specifically for tax return purposes.

E-filing offers many benefits to taxpayers in the electronic age. E-filed tax returns are processed faster and with fewer errors. The IRS



computers quickly and automatically check the tax return and notify the sender within 48 hours of any errors or

missing information. The tax preparer can then correct the error or provide the missing information and resend the tax return immediately. For this reason, tax returns that are e-filed provide a 99% accuracy rate, which significantly reduces your chance of getting an IRS notice letter months later. E-filing results in faster refunds. Taxpayers who e-file receive their refunds twice as fast as those who file a paper tax return.

Refunds arrive even faster for those who elect direct deposit.

Unfortunately, not everyone gets a refund. Taxpayers who owe money can e-file anytime during the tax season and delay payment until April 15.

Electronic payment options are available for taxpayers who really want to go paperless. Taxpayers can schedule an electronic funds withdrawal from either a checking or savings account or pay by credit card at any time up to and including April 15.

There are benefits to e-filing for preparers as well. Preparers who e-file more than 100 clients become eligible to use IRS e-services, which are online services available through the IRS website. These services include sending and receiving account related information electronically as well as completing and submitting Power of Attorney forms online.

All of this means faster resolution of tax issues and problems that may arise.

Valicenti Advisory Services, Inc., is registered as an electronic return originator, which means that we are authorized to submit tax returns to taxing authorities electronically. E-filing has proven to be fast and easy. Last year we successfully e-filed 46 tax returns. This year our goal is to e-file more than 100 returns in order to become eligible to participate in the e-services mentioned before. As such, we will be e-filing all of our eligible tax clients this year.

Those of you who still enjoy the confidence of paper should not dismay. Clients who e-file will still receive a paper copy of their tax return and we must also keep a copy in your tax file.

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## Casualty Losses

Mother nature has hit the eastern United States extremely hard over the past few months and as a result, many taxpayers will be claiming a casualty loss on their tax returns this year. A casualty loss arises from a sudden, unexpected event or unusual cause, such as a hurricane, flood, earthquake, fire, vandalism, or theft. Damage to an automobile or boat resulting from an accident, regardless of fault, is also considered a casualty loss.

Not everyone who has suffered a casualty loss will be

able to claim the loss on his or her tax return. Each casualty loss is subject to a \$100 floor and total losses are deductible only to the extent that they exceed 10% of the taxpayer's adjusted gross income (AGI). For example, a taxpayer with an AGI of \$50,000 and damages of \$7,500 would be able to deduct \$2,400 as an itemized deduction on Schedule A of the 1040. Individuals may not deduct personal property losses that are covered by insurance or other reimbursements.

Casualty losses are generally only deductible in the

year in which they occur. The federal government, however, makes an exception for those who live through major disasters. If a taxpayer sustains a loss in a Presidential Disaster Area, the taxpayer can elect to deduct the loss on the prior year's tax return instead of waiting until the following year to get the refund. To make this election, the



taxpayer must file an amended return for the prior year on or before the due date of the current year's tax return. Making this

election certainly results in a faster refund; however, some planning should be done to determine which option might

result in more money for the taxpayer.

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## 'Tis the Season

**T**he holidays are again upon us and many of us find ourselves in a generous mood this time of year. In keeping with that theme, now is a great time to clean out your closets, basements, and attics and donate your unused items to those less fortunate. Your donation will not only result in a feeling of good will, but a tax deduction as well!

Taxpayers can deduct charitable contributions up to 50% of their adjusted gross income (AGI), depending on the type of organization receiving the donation and the type of property donated. Cash, your old clothes, and grandma's pots and pans are all deductible up to 50% of AGI.

If you have already downsized and donated all the

clothes and household items you had to give, you may consider donating stock to a charitable organization. As a general rule, gifts of stock are deductible at fair market value on the date of the contribution. (Of course, certain exceptions apply.) Your financial advisor can help you determine which stocks in your portfolio might be best to donate depending on your personal financial situation.

Unfortunately, not all charitable gestures are deductible. For example, although your time and talents are precious gifts, the value of services provided to a charitable organization is not deductible. The purchase price of a raffle ticket is not deductible, nor is the amount paid for an admission ticket to a charitable event. However, if the taxpayer can

prove that the price paid for the ticket is more than its market value, the difference is then deductible.

It is helpful to be aware of certain IRS requirements for the charitable contribution deduction and get the information you need at the time you make your donation. Charitable contributions of \$250 or more at any one time must be substantiated by a written acknowledgement from the donee organization. The acknowledgement must include the amount of cash and a description of any personal property donated. A personal property donation that exceeds \$5,000 must be appraised and a copy of the appraisal sent with the tax return.

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## The New Look for Taxes in 2004



*Located at the northwest corner of West Church and Columbia Streets with parking in back*

**O**ur location at 350 West Church Street will become very familiar to our clients. With adequate parking in the back lot, it will make a convenient location to meet with our tax preparers to discuss tax problems and solutions.

We want to caution you that by the time you may be using

this location, Church Street will be a two-way street. The City of Elmira will be making the change shortly.

Please call our offices at (607) 734-2665 in order to set up appointments and to speak directly with one of our tax specialists.