People

It's tax time!

Accountant offers helpful tax tips

By CHARLOT M. DENMON
Staff Correspondent

Gerald Bernstein, CPA partner in J.H. Williams & Co., Certified Public Accountants, Kingston, has been a self-practicing certified public accountant for the past 21 years. A resident of the Back Mountain for the last 20 years, Bernstein had always had his office in Kingston.

Married with three children, a working daughter and two sons, high school students and members of Lake-Lehman's International Award-winning Band, he insists that his daughter do her own income tax return. He admits, however, that he does check it for her when it is completed.

"It's not getting any easier for the individual to prepare his tax return," said Bernstein. "To do it properly, the taxpayer should accumulate all of his 1984 records now, not wait until late March or early April. It is important to keep adequate records."

Bernstein said he finds it ironic that people will spend more time shopping for a 10 or 15 percent discount on curtains or appliances than worrying about their taxes, the largest bill they will have. They should all known and be apprised of the importance of keeping good records, said Bernstein.

TAX REFORM ACT

Bernstein explained that July 18, 1984, the 1984 Tax Reform Act was signed into law. The Act has been referred to as perhaps the most complex and voluminous ever and it affects virtually every type taxpayer.

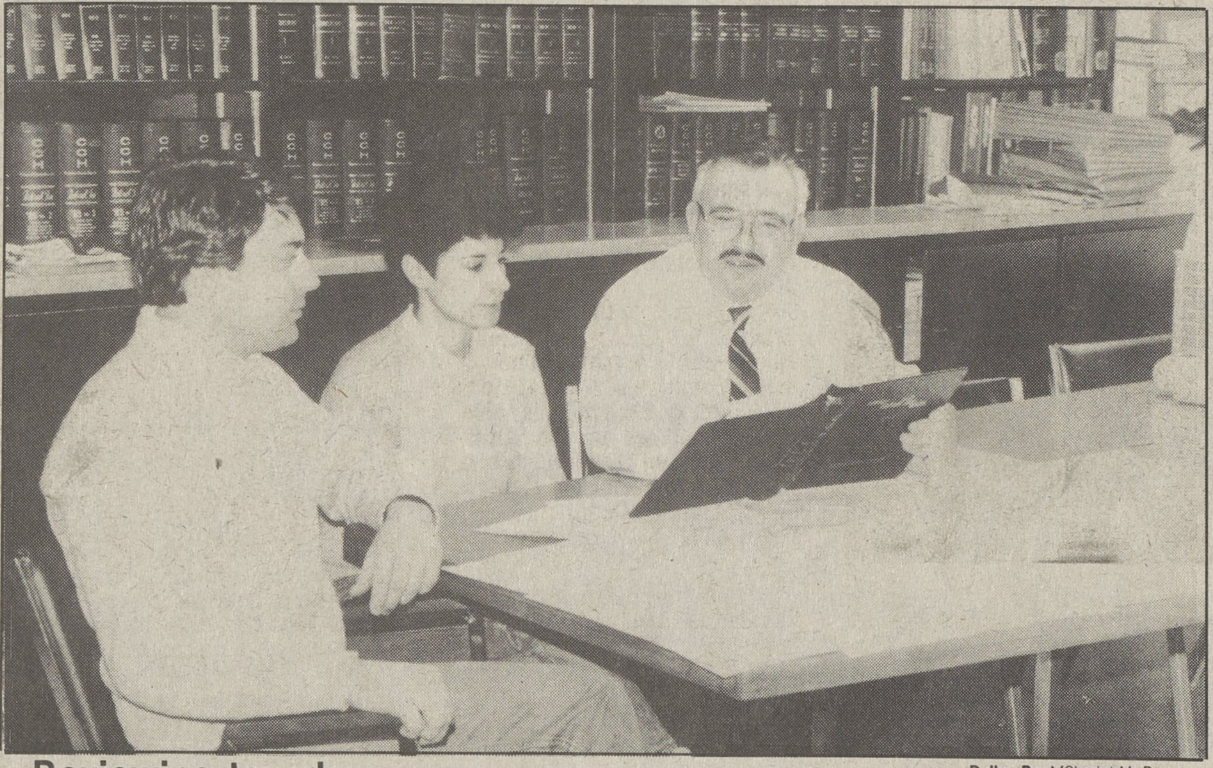
The act was designed to raise $50 billion in the government's tax revenues by delaying or repealing certain tax provisions passed in recent years. By closing various loopholes and by enforcing taxpayers to conform to additional reporting requirements, the government hoped to achieve this.

In addition to the 1984 Tax Act, there are also changes which were passed in prior years which were not repealed or changed by the Act and become effective for 1984 returns.

Individuals and businesses trying to prepare 1984 returns should be aware of changes repealed or "frozen," changes which take effect due to the 1984 Tax Act and those previously enacted which take effect in 1984. Taxpayers should also be aware of changes which take place in future years in order to properly tax plan. Making things more complex is the fact that many changes applying to specific types of transactions are dated within the tax year for application purposes and taxpayers must keep these dates in mind when assembling information necessary to prepare their returns.

LOTS OF CHANGES

As noted, there are hundreds of changes but the following is a summary of the more significant changes which should be of interest to individuals. Also there are some changes with respect to businesses which may be of itnerest to the general public. However, these will make only a small dent in the overall number of business changes.



Dallas Post/Charlot M. Denmon

Reviewing tax changes
Gerald Bernstein, CPA, J.H. Williams Co., explained the significant changes in the 1984 Tax Reform Act and how it will affect most taxpayers in a recent interview. Bernstein a Back Mountain resident, above, discusses the dozens of forms needed by various individuals and businesses in filing their returns. Left to right, discussing some of the most recent, are Robert Brown, CPA, partner in J.H. Williams Co., Michele Kraynoski, staff accountant with the company; and Bernstein, CPA, partner in J.H. Williams Co.

INDIVIDUALS

Capital Gains, the holding period to determine long term capital gain is reduced to "more than six months" from the former holding period of "more than 12 months" for assrets acquired after June 22, 1984 and before 1988.

Social Security and Tier I Railroad Retirement Benefits, a portion of these benefits may be required to be subject to federal tax depending upon the taxpayer's income level. Generally, computation is based on $32.000 for married filing jointly, $0 for taxpapers filing separately and living with their spouse and $25,000 for all other taxpayers. To arrive at the taxable amount, the taxpayer must determine his adjusted gross income, tax exempt interest and total Social Security benefits and or Tier I Railroad Retirement benefits. If the sum of the adjusted gross income, tax exempt interest and half of Social Security or retirement benefits does not exceed the base amount then no part of the Social Security or Railorad Retirement is taxable. If it does exceed the base amount, the taxpayer must pay tax on the lesser of half of the excess of the base amount or half of the Social Security or Railroad Retirement.

"Taxing Social Security Benefits is a travesty," said Bernstein. "Fortunately, it will not affect too many of Social Security taxpayers yet."

MEDICAL EXPENSES

Medical Expenses, only the amounts paid for prescription drugs, medicines and insulin will be allowed on drug and medicine expense. For 1984, the taxpayer may deduct as a medical expense, the cost of lodging as a medical expense if not provided by the health care facility. It is limited to $50 per day and meals are not deductible.

Income Averaging, savings provided by this has been curtailed for 1984. For this year 140 percent of base period income for three preceding years is to be used instead of prior law of 120 percent for four preceding years.

Disability income exclusion has been eliminated and replaced with a new 15 percent tax credit. The new credit also is revised and includes elderly, permanently and totally disabled persons.

IRAs

IRAs, the taxpayer must not make their IRA payment for 1984 no later than April 15, 1985, to be allowed a deduction for 1984. Prior law allowed payment to be made later if a taxpayer had a valid extension of time to file which is now no longer allowed.

Contributions, a taxpayer not itemizing deductions for 1984 may deduct 25 percent of his first $300 charitable contributions (25 percent of his first $300 charitable contributions (25 percent of first $150 if married couples filing separately).

Installment Sales, depreciation recapture income is fully recognized as taxable income in the year the sale is made. The change affects the treatment of installment sales of depreciable property. The recapture of depreciation as income is recognized in full even though no principal payments have been received. The effective date is for installment sales made after June 6, 1984. The new rules will not apply if a contract was binding on March 22, 1984.

Alimony and children of divorced parents, tax treatment of alimony has been simplified as well as problems in determining deductibility of exemptions for children of divorced parents.

PROPERTY CHANGES

There have been significant changes in the treatment of property distribution in divorce plus many other changes. Most significant is the tax free treatment of transfers of property between spouses incident to divorce or separation.

Personal casualty gains and losses will now be netted against each other after reducing each loss by $100 floor amount. If there is a net gain, it is a capital gain. If there is a net loss then the loss is allowed as an ordinary loss if it exceeds 10 percent of taxpayer's adjusted gross income.

Market discount on bonds acquired after July 18, 1984, the gain on disposition is ordinary income to extent of "accrued market discount". Taxpayers should review such investments with their investment counselor.

The cost of group term life insurance coverage paid by a former employer as continued retirement coverage in excess of $50,000 is taxable income to the retiree.

Interest free or below market loans between parties in ecess of $10,000 are now a problem if they are interest fre or at less than market rates and should be given thorough attention by a counselor.

ESTIMATED TAXES

Estimated tax payments must not include the alternative minimum tax. Exceptions for avoiding penalties are current years estimated tax paid in must be equal to or exceed the prior year's tax liability as long as there was a prior year liability and at least 80 percent of the current year's tax is paid in by estimated payments.

Business changes include depreciation on Real property. The recovery period was increased from 15 to 18 years for property put into service after March 15, 1984. The change does not affect low income housing which retains the 15 year life as in the prior law. Also deductions and credits for business luxury cars and other items. Passenger cars placed in service or leased after June 18, 1984, are subject to new special limitations with respect to deductions and tax credits. Investment tax credits are generally limited to $1,000 and depreciation is limited to $4,000 for the first year and $6,000 per year thereafter. Lower depreciation deductions and loss of investment tax credits apply if the vehicle is not used more than 50 percent for business purposes. Vehicles covered are less than 6,000 pounds. The new provision puts similar provisions on computers and other transportation assets.

Most significant and troublesome provision in the new tax axt applies to record keeping for automobile, other travel, entertainment and business gifts. The required record keeping has been strictly outlined beginning 1985 and failure to keep what is referred to as detailed contemporaneous records will automatically cause complete loss of any tax deductions or credits claimed. Supporting records in a daily log showing that expenditures or events are recorded accurately, with business purpose in chronological order must be maintained.

Major postponements in prior law which were to be in effect are the special expense deduction for depreciable personal expense will stay at $5,000 until 1988-89 when it will increase to $7.500 and $10,000 starting 1990. Used property limit of $125,000 for investment credit purposes will stay at that limit and will now change to $150,000 after 1987 and the 15 percent interest exclusion which was to take effect for 1984 is now totally repealed.

These are just a few of the more significant change in the new tax laws. A volume of hundreds of pages list all of the changes or additions to the Tax Act of 1984. In addition hundreds of volumes relative to the Income Tax laws line the J.E. Williams library shelves.

KEEP RECORDS

Bernstein reminds the taxpayer that although it is most troublesome to keep sales records and receipts, it is important. Cancelled checks are not sufficient for tax deductions in the event of an audit.

Before investing in an IRA, older citizens should investigate the possible loss of benefits under the 10-year averaging system. Paying the tax on 65 retirment benefits at the age of 65 instead of 10-year averaging may save thousands of dollars.

Do not assume by hearsay or rumor in preparing a tax return. Get good tax advice and, above all, keep good records throughout the year. If you are not aware of changes, or in doubt, send for the informational brochures listed in your income tax return form.

Bernstein attends annual seminars and workshops for updating on the tax laws. Their company now uses computers to prepare returns and all taxpayers are stored in the computers.

J.H. williams, Co. CPA, services more than 1800 clients annually-individuals, partnerships, corporations, multi-states and other tax returns. The company, started in the 1920's by the late Joseph H. Williams, merged in 1977 as a company with three partners, Bernstein, Robert Brown and Clarence Givens, but they retained Williams' name.

The company has eight employees and services clients all over Northeastern Pennsylvania and eight states. J.H. Williams Co. is a member of American Institute of CPA's, Pennsylvania CPA's and constantly updates its library with materials from the Commerce Clearing House.

There are many good, qualified tax preparers around," said Bernstein. "It's important to be consistent with one, so he knows you and your company and you know and trust him (or her)," added Bernstein.

New look
Shown here is the newly-designed income tax check that many people will be receiving in the near future.

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