

IN THE BLACK

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BRUCE A. RUKKILA, CPA, PC

CERTIFIED PUBLIC ACCOUNTANTS

A Full Service Accounting Firm for the Western Upper Peninsula

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Welcome to "IN THE BLACK"

With the end of the tax year quickly approaching, we thought it appropriate to fill the December issue with tax related articles to help you in preparing your information.

The goal of our Newsletter is to share information and tips that are relevant to you and your business.

If you have questions, comments, or suggestions for future newsletter items, E-mail us at bruce@brucerrukkila.com

ELECTRONIC FILING IS BACK!

We are pleased to announce that our office will once again be offering electronic filing for our clients who wish to E-file their 2001 Federal and State of Michigan individual income tax returns.

Electronic filing significantly reduces the time it takes to get your refund (about 8 days from the usual 4-6 weeks). With E-filing there is also no risk of the IRS losing your return as they will verify receipt of your return when it is

transmitted to them.

The IRS reported that as of April 20, 2001, more than 39.4 million returns out of 109.5 total returns were submitted using electronic filing. That compares with the 34.9 million returns filed electronically in the previous year.

If you would like to have your 2001 individual returns filed electronically, please stop by and see us.

DEDUCTIONS FOR HOLIDAY GIFTS

During this season of giving, employers and business owners should be aware of the deductions that they are allowed to take for gifts to customers and employees.

The IRS limits the allowable deduction for gifts to customers, suppliers, etc. to \$25 per recipient. For this purpose, a husband and wife are treated as one recipient.



As for gifts to employees, certain small gifts are treated as de minimis fringe benefits and, therefore, are excludable from the employee's gross income and are deductible by the employer. Such gifts include items such as traditional holiday gifts of property with a low fair-market value, but do not include cash gifts. Cash gifts are always treated as includable income without regard to the amount of the gift. All other holiday bonuses, especially those based on a percentage of the employee's usual salary or wages, are includable in the employee's gross income.

SCHEDULE FOR TAX RELIEF

As most of you may be aware, a new tax bill was signed into law in 2001 which provides the largest individual income tax cut since 1981. What many people may not know however is that a great many of the benefits of the new law do not take effect immediately but rather will be phased in over a number of years.

Following is a schedule of the major tax law changes and when they are scheduled to take effect:

<i>Description of Change</i>	<i>Effective Date</i>
T Individual income tax rates reduced	2001 - 2006
T Marriage penalties eliminated	2005 - 2009
T Child tax credits increased	2001 - 2010
T Alternative minimum tax exemption increased	2001 - 2005
T Itemized deduction limitations repealed	2006 - 2010
T Personal exemption phase-out repealed	2006 - 2010
T Dependant care credit expanded	2003
T Educational IRA limitation increased	2002
T Student loan interest deduction liberalized	2002
T New "above the line" deduction for educational expenses	2002 - 2005
T Increase in IRA contribution limits	2002 - 2008
T Increase in IRA contributions for persons over 50	2002 - 2006
T Estate tax phase out and repeal	2002 - 2010

It is important to note that the provisions of the new tax law will expire at the end of 2010 unless congress votes to extend it.



BECKY STROM Staff Accountant

*"Treating clients as individuals
is the key to being successful."*

Becky joined the firm in 1999 after graduating from Michigan Tech with a Bachelor of Science in Business Administration, Public Accounting concentration. Becky is currently working toward obtaining her CPA license.

Becky offers services in the following areas: nonprofit and governmental auditing; individual, business, and nonprofit tax preparation; and personal property tax statements.

Becky resides in Calumet with her husband, Casey. Recently, they have become guardians to her thirteen year-old nephew. Most of her time is spent with her family, including her rottweiler, cocker spaniel, and cat.

She also enjoys outdoor activities, playing and watching sports, and is active in the Copper Country Women's Softball League.

CAN YOUR HOBBY PROVIDE YOU WITH A TAX BREAK?

Hobbies provide a great way to relax from the daily grind. For many people, they also offer a way to make extra spending money. Be aware, however, when your hobby produces income, you owe tax on it.

If you find your hobby is regularly making money, it might be to your tax advantage to turn the sideline into a business. It's not as difficult as you might think. If you operate as a sole proprietor, you report the income on your 1040 tax return and you have more options when it comes to deducting your expenses.

Hobby vs. business - The Internal Revenue Service defines a hobby as an activity you pursue without expecting to make a taxable profit. Basically, you do it because you like it, regardless of the cost.

But if you demonstrate that you are involved in an activity with the expectation of making money on it, the IRS will consider it a business. As such, you'll be able to deduct expenses directly from your income. You even can deduct overall business losses in the years you don't turn a profit.

To learn more about whether you should turn your hobby into a business log on to:
<http://www.bankrate.com/brm/itax/tips/20010403a.asp>

PLANNING FOR YEAR-END PAYROLL REPORTING

It is time again to start planning for year-end payroll reporting. We have prepared the following hints to get you on your way:



January 31, 2002 is the deadline for W2s to employees, and 1099s to recipients.

W2s - Be sure to have current address information and Social Security numbers on all employees. This is especially important for those employees no longer working for you, and will be necessary for mailing their W2s.

1099s - It is also important to make sure that you have current addresses and Social Security numbers or Federal ID numbers for anyone who requires a 1099-misc Form. This form is issued to individuals to whom you have paid \$600 or more for rent, services, or other miscellaneous payments. The information is also important to have for other types of 1099s that must be filed as well. Your individual situation will determine if any, and which type, of 1099 is necessary. If you are unsure of whether you should be issuing 1099s, give our office a call. We are happy to go over the requirements in more detail with you.

In addition, remember that if you have an employee that has changed his or her exemption status during 2001, he or she must fill out a new W4 for 2002.

NEW TAX BENEFIT FOR CONTRIBUTIONS TO RETIREMENT PLANS

Effective for taxable years beginning after December 31, 2001 and before January 1, 2007, the 2001 Tax Relief Act provides a temporary non-refundable tax credit for contributions made by eligible taxpayers to qualified retirement savings. The maximum annual contribution eligible for the credit is \$2,000.

The credit rate depends on the adjusted gross income (AGI) of the taxpayer. Only joint returns with AGI of \$50,000 or less, head of household returns of \$37,500 or less, and single returns of \$25,000 or less are eligible for the credit. The AGI limits applicable to single taxpayers also apply to married taxpayers filing separate returns. The credit is in addition to any deduction or exclusion that would otherwise apply with respect to the contribution.



The credit rates based on AGI are as follows.

<i>Joint Filers</i>	<i>Head of Households</i>	<i>All Other Filers</i>	<i>Credit Rate</i>
\$0-\$30,000	\$0-\$15,000	\$0-\$22,500	50 percent
\$30,000-\$32,500	\$22,500-\$24,375	\$15,000-\$16,250	20 percent
\$32,500-\$50,000	\$24,375-\$37,500	\$16,250-\$25,000	10 percent
Over \$50,000	Over \$37,500	Over \$25,000	0 percent

In addition to meeting the AGI limitation discussed above, a taxpayer must be at least 18 years old at the end of the taxable year, may not be claimed as a dependent on another taxpayer's return, and could not be a full-time student during five or more months of the calendar year.

The qualified retirement savings credit is available for contributions to:

- < a 401(k) plan,
- < a tax-exempt organization or public school employee annuity, an eligible deferred compensation plan of a state or local government (A 457 plan),
- < a SIMPLE individual retirement account,
- < a simplified employee pension (SEP),
- < a traditional or Roth IRA, or
- < a qualified retirement plan, in the case of voluntary after-tax employee contributions.

This tax credit is in addition to the subtraction from taxable income that is already allowed for contributions to these plans.

QUICKBOOKS ACCOUNTING SOFTWARE

For the past several years Intuit has introduced a new version of QuickBooks®. The trend continues in 2002 with QuickBooks2002 and QuickBooksPro2002. Some of the improvements include auto archiving of data, improved sales tax function, enhanced Find feature and the ability to prepare multiple estimates for the same customer/job (Pro version only). In addition, Intuit has developed an enhanced version, QuickBooks Premier 2002, designed to meet the needs of in-house bookkeepers, with features including enhanced journal entry and reporting options, as well as remote access capabilities. For more information on QuickBooks® contact Jean Middleton.

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IN THE BLACK

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