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adviser



JULY, 2001

The Check is (Almost) in the Mail

Soon, millions of taxpayers will receive "advance payment" checks of up to \$600 under the provision of the 2001 Tax Act that is probably the most widely noticed and will have the most immediate impact.

These payments will not be subject to federal income tax. (Certain states, none of which are in the Northeast, allow taxpayers to deduct their federal tax payments in calculating their state tax liability. For taxpayers in these states, the advance payment will result in an increased state tax liability.)

Each taxpayer's advance payment will be based upon his/her income and filing status for 2000. However, the actual amount that each taxpayer is entitled to is based upon his/her income and filing status for 2001.

In a rare "heads I win, tails you lose" position for taxpayers, if the refund exceeds the amount ultimately calculated on the taxpayer's 2001 tax return, the taxpayer gets to keep the excess payment. If the amount that the taxpayer is entitled to based on his/her 2001 return exceeds the advance payment previously issued (or if the taxpayer did not receive any advance refund, as discussed below), this excess can be claimed as a credit on the 2001 tax return, and will reduce the balance due or increase the overpayment reported on that return.

In order to receive an advance payment, a person must have filed a 2000 tax return and could not have been eligible to be claimed as a dependent on another taxpayer's return. Eligible taxpayers will receive checks of five percent of their 2000 tax liability up to the limits shown in the following table:

Filing status:	Maximum advance payment:
Single	\$300
Head of household	\$500
Married filing joint return	\$600

The payment will be reduced by any outstanding government debt, such as back taxes, delinquent student loans or past-due child support obligations.

Although Form 1040 allows a taxpayer to elect to have a refund deposited directly to his/her bank account, this alternative is not available for the advance payments, which will be made only by check.

Eligible taxpayers do not have to do anything to receive this payment. The

Notable and Quotable

Audit Partner **Howard Weiner** was asked to address fellow accountants at the Accounting and Auditing Update of 2001 Annual Leadership Conference of the New York State Society of Certified Public Accountants (NYSSCPA), held in Pennsylvania. The NYSSCPA is the oldest state accounting organization in the nation, representing nearly 30,000 CPAs.



Every day, key employees are being lured to join the competition and Long Island businesses lose management and sales staff (along with key customers, pricing information, and all kinds of strategic information). How do employers prevent this? That question was answered at a recent Holtz Rubenstein seminar, "How to Protect Your Company and Keep Employees," co-sponsored by the law firm Rivkin Radler, LLP. Tax Partner

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Treasury Department is sending letters this month to taxpayers whose 2000 returns already have been processed, advising them of the amount of the advance payment check or explaining why they are not eligible to receive a check. Taxpayers are advised to retain this letter.

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Visit our website: www.hrcpa.com

Did you get our SPECIAL BRIEFING INSERT about the 2001 Tax Act in the June issue of the *HR Adviser*?

If you'd like another copy, e-mail FFederman@hrcpa.com.

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The Check is (Almost) in the Mail

Both the letter and the subsequent check will be sent to the address contained on the taxpayer's 2000 return. Taxpayers who have changed their address since filing this return should file Form 8822 with the Internal Revenue Service to notify them of the new address. Taxpayers also should file a change of address form with the U.S. Postal Service.

Checks will be mailed out in numerical sequence based on the last two digits of the taxpayer's Social Security number. In the case of a joint return, the first Social Security number listed will determine the mailing sequence. Taxpayers who filed their returns by the original April 16, 2001 due date (April 17 for taxpayers who file in Andover, MA) can expect to receive their checks based on the following table:

Last two digits of Social Security Number:	Check received during week of:
00-09	July 23
10-19	July 30
20-29	August 6
30-39	August 13
40-49	August 20
50-59	August 27
60-69	September 3
70-79	September 10
80-89	September 17
90-99	September 24

Notwithstanding the schedule, the IRS will not be able to follow up with taxpayers asking about the status of their advance payment checks prior to October 5, 2001. Taxpayers who have not received their checks by that date may call **800-829-1040** for information.

The law prohibits the Treasury Department from mailing any advance payment checks after December 31, 2001. Taxpayers who do not file their 2000 tax returns in time to receive the advance payment may claim a credit to the extent they qualify for it on their 2001 tax return. However, taxpayers who have not yet filed their 2000 tax return may not take the advance payment into account to reduce any payment required with that return.

New York State Sales Tax: Charges for Travel Expenses

An issue raised in a recent Advisory Opinion is whether charges made by a company for travel expenses incurred in the performance of its services are subject to New York State sales tax. The company submitted an invoice showing two separate charges, one for the services performed and one for the total of all associated travel expenses paid by the company.

The New York State Department of Taxation and Finance ruled that the charge to the company's client for reimbursed travel items is part of the receipt from the sale of services, and is subject to sales tax provided that the receipt from sale of services is subject to tax. It should be noted that if the company makes a nontaxable sale, the amount charged to its client, including such reimbursed expenses, is not subject to tax.

New Federal Tax Withholding Tables
Effective July 1, 2001

The IRS recently released new tax withholding tables reflecting the new law's lower rates. Employers should begin using these tables for wages paid after June 30; however, taxpayers (who want a bigger refund or less of a balance due) may elect to keep their withholding as per the old tables.

CyberNotes – Virus Hoaxes

A hoax is a message, typically distributed via e-mail that is written to deliberately spread fear, uncertainty and doubt. Hoaxes prey on the goodwill and lack of technical knowledge of all who receive a hoax. Generally, hoaxes are warnings about threats to your computer that don't actually exist.

Most of the hoaxes (not all) are just variations of the same basic idea: they warn that if you read a certain e-mail, a virus will destroy your data or equipment.

Another common characteristic of a hoax is that it asks you to forward the warning onto as many people as possible. This is how the hoax "spreads" itself. The best advice is not to forward unconfirmed warnings, or anything that tells you to forward it onto others (unless you check its accuracy).

Ask your company's computer department to verify any warnings that you receive. If you have questions, please contact IT Director Mike Kalish at 631-752-7400 x-232 or MKalish@hrca.com.

OUR WEBSITE HAD A FACELIFT! Check it out at www.hrca.com.

IRS to Initiate K-1 Matching Program

This year the IRS plans to initiate a document-matching program for Schedule K-1s. Currently, the IRS annually matches W-2s and 1099s to individual tax returns to ensure that taxpayers report all income. However, passthrough income (reportable on Schedule K-1) from trusts, partnerships, limited liability companies and S Corporations has largely gone unchecked.

According to IRS Commissioner Charles Rossotti, more than 350 full-time employees are to be detailed specifically to the K-1 matching program's essential data entry process. This work will be done by the agency's new Small Business/Self-Employed Division.

The State of Manufacturing on Long Island

By Barry H. Garfield, CPA

It has been over 10 years since the recession on Long Island caused, in part, by the downsizing of defense manufacturing. While manufacturing in the defense industry has all but disappeared, manufacturing has remained a powerful sector in the Long Island business community, during the economic rebound.

However, as the whiplash changes in the once-hot technology sector prove, the business community must be vigilant in monitoring how their operations compare to the rest of the marketplace. It is imperative to assess many aspects of an operation:

- Efficiency of operations
- Productivity of workers
- Method of retaining workers in a competitive marketplace
- Effectiveness of company websites
- Successful use of technology

It is for this purpose that Holtz Rubenstein and Hofstra University's School of Business created the 2001 Survey of Manufacturing on Long Island. Our objective is to assess the manufacturing industry and report the resulting trends.

We sent the survey to a representative sample of the manufacturers on Long Island and compiled the results of their answers. The resulting report gives manufacturers an accurate representation of their position in the marketplace and among competitors.

Among the respondents in this initial survey, about half report a sales volume between \$1-10 million in the last fiscal year. One-third report sales under \$1 million, about 10% are mid-to high-end companies, with sales between \$11-100 million, and 5% of respondents report sales over \$100 million per year. Each answered a variety of questions about their business:

Optimism in Business. Manufacturing on Long Island appears to have been

strong during the last 12 months. Almost half of all respondents had increased sales during the last 12 months. Despite the economic downturn of early 2001, the respondents are optimistic about sales growth over the next 12 months. Over half of all respondents believe their sales will be even higher in the next year. One-third expect no change in sales while 13% expect to have lower sales.

Customer Base. Not surprisingly, most of the respondents have Long Island customers. The survey responses indicate that 44% of their customers are located on Long Island. Over one-third (38%) of the surveyed manufacturers deal with nationwide customers and 14% have customers located worldwide.

Time in Business. The Long Island manufacturers who responded to the survey are deeply rooted in the community. Almost half have been in business more than 20 years while more than one-third have been in business 10-20 years. All of the companies with sales in excess of \$51 million have been in business at least 10 years.

Roots on Long Island, Staying on Long Island. The majority (85%) of respondents originated their business on Long Island. Of the 14% who relocated their business to Long Island, most came from New York City, an average of 20 years ago.

Of those who responded to the survey, 82% are currently not considering relocation off Long Island. Of the 16% who indicated they are considering relocating, most (58%) cite the cost of doing business as the major reason impacting their decision. Other reasons reported include lack of affordable real estate, shortage of labor, congestion, weather and general quality of life.


Payroll. Almost half of respondents indicated that they pay their employees and hourly rate over \$15. Surprisingly, in the survey very few (6%) respondents pay their workers under \$10 an hour. Both the smaller and largest companies in the survey handle payroll internally. It is the companies with sales between \$11-100 million who tend to outsource their payroll.

Union Shop. Most manufacturers responding to this survey (80%) are not union shops. Of those who are, 44% are

OOPS!

Tax Forms and Checks Missing from IRS Pittsburgh P.O. Box

The Andover IRS Service Center has discovered that a number of payments, extensions and tax returns are missing from the IRS Pittsburgh Post Office Box Address.

If you have filed a tax return (Form 1040 or 1040-ES), extension (Form 4868) or mailed a payment to the IRS Pittsburgh Post Office address, and your check has not yet cleared, please call Tax Manager Barry Nagler at 631-752-7400 x-354. 

\$1-10 million companies, 33% are \$11-50 million companies, and 22% are over \$50 million companies. None of the small manufacturers (under \$1 million in sales) surveyed were union shops.

Benefits. The majority of all companies surveyed (73%) offer medical coverage. Half of the surveyed companies with sales between \$1-10 million and 60% of the surveyed companies with sales over \$51-million offer their workers a pension plan. The majority (73%) of companies with sales over \$11-million offer 401(k) plans. In addition approximately 82% of this group of companies offers dental plans. Other benefits offered include life insurance, IRA, prescription drug plans, tuition reimbursement and profit-sharing programs.

Of the surveyed companies offering medical benefits, one-third do not require employee contribution. Approximately 35% of respondents who require contribution ask for a 25% employee contribution or less.

Inventory Supplies. Most of the companies surveyed (67%) indicated that they use nationwide sources for their supplies, 41% report using Long Island suppliers, while 43% use suppliers in the metropolitan area, and 21% use sources worldwide.

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IRS Fixes Glitch in Reversal of Installment Sale Rule

Background. In 1999, Congress passed the Ticket to Work and Work Incentives Improvement Act which barred accrual-method taxpayers from using the installment method for reporting income from sales or other dispositions occurring on or after December 17, 1999. (A sale of property is generally considered an installment sale if at least one payment is to be received after the close of the taxable year in which the sale occurred.) This adversely affected many businesses; therefore, in December 2000, Congress passed the Installment Tax Correction Act to repeal this change as if it had not been enacted.

New rule. Recently the IRS made an announcement to tie up some loose ends from the repeal. The announcement allows all accrual-basis taxpayers, who (because of the 1999 law) elected out of the installment method and filed a return that reported sale proceeds all in one year, to revoke their election. Taxpayers can go back to using the installment method without first receiving IRS consent.

Reason for the new rule. Under the tax code, the installment method doesn't apply to any sale for which the taxpayer elects out of the installment method. Therefore, if a taxpayer reports the full amount of the selling price on the tax return in which the sale occurs (as required for accrual-basis taxpayers under the 1999 Act), the taxpayer is considered to have made an effective election out of the installment method.

But the problem remained that, despite last year's change back to the original law on installment reporting, an election out of the installment method technically could be revoked only with IRS consent.

As a result, the IRS announced that it would follow the intent of the Installment Tax

New Jersey Corporation Income Tax on Large S Corporations to be Phased Out

For those of our clients and other friends who are S Corporations doing business in New Jersey, tax relief is in sight as a result of recently enacted legislation.

This recent legislation phases out the 2% corporation income tax on New Jersey S Corporations with entire net income in excess of \$100,000 over the next three years. Effective for periods beginning on or after July 1, 2001, S Corporations will see a 33% reduction in the tax rate each year, until July 1, 2003 when there will be no tax imposed, as follows:

Correction Act, and give blanket consent to revocation of an election out of the installment method to all accrual-basis taxpayers that entered into an installment sale on or after December 17, 1999, and filed a federal income tax return by April 16, 2001, reporting the full amount realized for the sale.

How the new rule works. To elect back in, a taxpayer must file an amended return for the tax year in which the installment sale occurred and for any other affected tax year, and report the gain using the installment method. The amended return must be filed within the applicable period of limitations. Thus, the IRS warns, a taxpayer may not revoke its election out of the installment method if the taxable year in which any payment on the installment obligation was received has closed (generally three years).

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Notable and Quotable

Tim Mulcahy discussed tax issues related to compensation and Holtz Rubenstein Benefits Consulting Vice President **Adam Rosenfeld** shared ways to lure executives with benefits.

For periods ending on or after July 1, 2001 but on or before June 30, 2002, the rate will be 1.33%. For periods ending on or after July 1, 2002, but on or before June 30, 2003, the rate will be .67%. For periods ending on or after July 1, 2003, the tax will be completely phased out.

In addition, the current .5% tax on small S Corporations with net income of less than \$100,000 is completely eliminated beginning July 1, 2001. However, the minimum tax on New Jersey S Corporations of \$200 remains in effect.

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The Adviser Corner: The State of Manufacturing on Long Island

Technology. Almost all of respondents (96%) indicate they use a computer at work. The larger the company, the more likely they have implemented a network infrastructure. Fully 85% of respondents use a form of the Windows platform.

Business Websites. Surprisingly, 34% of respondents do not have a website for their business (60% of those with no website are the smallest companies in the survey). Of those respondents who do have a website, 47% use it simply as brochure-ware – an extension of their written materials. Only 8% of survey respondents supply inventory information on their websites, while 23% use the website to provide database information. Only 19% of companies surveyed allow customers perform transactions on their websites.

This is a mere glance at the 2001 Survey of Manufacturing on Long Island. For a copy of the survey, or more information, contact Partner Barry Garfield at 631-752-7400 x-320 or BGarfield@hrcpa.com.

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 the members from the United Kingdom - **Chantry Vellacott, DFK**. We invite you to log onto www.cvdffk.com.