

The new, less-taxable you

Is the IRS cleaning your clock again on the 16th? According to 10 of Baltimore's most tax-wise men, some of it's your own darn fault. By Ken Iglehart

So do you remember exactly what was in those three giant bags you gave to the Salvation Army a year ago? It must have been old kitchen rags, because you only claimed \$50 for the donation. And if you had calculated what the discarded Tommy Hilfiger outfits and designer shoes would sell for, it probably would have totaled \$600 or more.

That's one of the most common mistakes made by individual taxpayers, but not the only one, says CPA Allan C. Alperstein of Towson.

He's one of the 10 local tax gurus we consulted to find out how you can save yourself some money on taxes next April.

Can't quite justify the cost of a tax planner? Then pay close attention, because the pros offered us lots of advice at a price that's right—for free.

The stealth tax

A mistake that threatens much more dollar damage than the undervalued bag of clothes concerns the AMT, or Alternative Minimum Tax. This provision requires a taxpayer to fork over a minimum tax no matter how many legitimate deductions they have, says estate lawyer Richard Levine, 50, of Miles & Stockbridge.

"It's really a stealth tax and it often gets them if they're selling a business or a large portion of their portfolio," says Levine.

CPA Larry Kamanitz of Grant Thornton agrees. "For taxpayers with a lot of deduc-

tions, you can get in a situation where you lose the benefit of your deductions. It used to affect only high-income people, but now it can affect moderate-income clients, too—both those on salary and small-business owners. If you don't do projections prior to the end of the year, you could fall into a trap."

And what about that mileage claim?

"Business travel expenses are another area where they underestimate, and wind

up shortchanging themselves," says Kamanitz. "Especially if it's a one-person business, there's a tendency to only claim the mileage it took to visit a client, when in fact the daily trips to the bank, or the post office, or to Staples was for business, too, and it really adds up."

But, of course, it's not enough to just claim the mileage, points out Towson CPA Vinod Thankappan. You have to have the mileage records to support those claims, too.

For older clients, Cockeysville CPA Alan Friedland says a common mistake is not deducting long-term-care insurance premiums. "And for people working at home, there's the office and home deduction which is often overlooked or miscalculated," he adds.

Plan to sell some stock in 2001? Another blunder is not calculating to your best advantage the cost basis of assets sold, especially for mutual funds where you're reinvesting the dividends, says Friedland.

More pitfalls and costly goofs listed by our experts: incorrectly claiming dependents, insufficient withholdings by earners with rising incomes (those insidious brackets can mean stiff penalties for underwithholding), and incomplete records to support business-entertainment expenses.

Changes for 2001

When you go shopping for a tax pro, you can impress him or her with a few buzz

Dentists more fun than 1040s

Just how much do Americans dislike preparing their income taxes? They would rather clean their house, speak in public, interview for a job, or even balance their checkbook, according to a national survey.

The survey, conducted earlier this year by financial-services firm WingspanBank.com, also revealed:

- For men, preparing taxes is even worse than a visit to the dentist.
- More than 15 million Americans will wait until the last possible day to file their tax returns.
- More than 18 million Americans plan to file online.

words from the 2001 tax code. Or you could be honest and tell him you're clueless. If you opt for a little statute-dropping, here's a quick cheat sheet.

On the state level, the big news is that you can finally pay with credit cards for year 2000 balances and later, says Alperstein. But you can leave home without

little changes made by tax agencies without Congress saying "boo," you'll be pleased to know you won't stop paying Social Security taxes until your earnings hit \$80,400, up from \$76,200 last year, says Alperstein.

For those thinking about wills and estates, the unified tax credit—the lifetime amount

before April 16 (this year's deadline, a Monday) and makes them retroactive to January 1, it could very soon change the rules, says Alperstein.

Alperstein, like many, doubts the Bush administration can get the votes in Congress to repeal estate taxes, but thinks he may try instead to raise the unified tax credit quickly to \$5 million, in addition to a tax cut that would change five brackets to four—two initiatives that could radically alter some of the estate strategies of Alperstein's clients. "In some cases, I'm recommending they hold off filing their 2000 taxes until the last minute," says Alperstein. "We need to see what happens."

Attorney and CPA Lee Sturgill says, "If there's a radical change in either death taxes or the unified tax credit, it'll be a big boom for a short period of time for estate lawyers."

Choosing a pro: Plan for the worst

Imagine that your tax return was filed with the help of a tax professional who met your expectations. Now imagine you're going to be audited.

That troublesome scenario is probably the best one to keep in mind when choosing a tax planner.

Does the tax expert you're considering have an accounting degree, or is he/she an attorney, CPA, or enrolled agent? (Any of those are a good thing, but some tax planners have only accounting degrees.)

In addition, get references from clients, make sure they're up-front about their fee structure, and find out if they sign the return as the paid preparer.

And you probably will want someone who has many audits under their belt, and who knows how to deal with the IRS.

"You don't want to be represented by someone who's adversarial, but rather by a professional who will work with the agent," says CPA Larry Kamanitz, of Grant Thornton.

After you're satisfied that the tax expert is professional in all respects, consider his personal style, and yours: "Personality is very important," says Sturgill. "You need to be comfortable with the tax professional; these are very private, even emotional matters, and trust in the relationship is important."

Affluent taxpayers can reduce their estate's eventual tax liabilities through additional gifting: You can give \$10,000 per year to anyone you choose, with no taxes paid.

your Visa card, because that company is not participating in either federal or state programs. Try Discover, American Express, or MasterCard.

On the federal level, there's been lots of legislation that could have changed the tax code—attempts to repeal the estate tax, bills to ease the so-called marriage penalty, bills to increase 401(k) contribution limits, to name a few—but former President Clinton vetoed them. Though the Bush administration says it wants to revisit all those topics, along with a broad tax-cut, the changes for the current year are mostly minor (so far).

Among those changes already in place is a decrease in the capital gains tax rate from 20 percent to 18 percent on assets held five or more years. "On a large transaction, that could be a lot of money," says Levine.

In addition, there have been changes in pension-fund distribution limits (you can't average the taxes over five years anymore), higher deductions for student-loan interest from \$1,500 to \$2,000, and a more liberal definition of "foster child" for those seeking the Earned Income Tax Credit (EITC), says Alperstein.

Uncle Sam has also increased the amount of income you can earn and still be eligible for a write-off of your IRA contribution by \$1,000.

If you drive a lot for business, the per-mile rate has increased to 34.5 cents, up two cents. (The rate for moving or medical trips is 10 cents; 14 cents for charity.)

And if you're interested in quiet

or value of property you can give away or bequeath without taxation—stayed at \$675,000 per person. (A couple could bequeath or gift twice that amount tax-free.) If Congress does nothing, that credit will rise substantially next January 1 on its way to \$1 million in 2006, so try to hang in there.

In the meantime, affluent taxpayers can reduce their estate's eventual tax liabilities through additional gifting: You can give \$10,000 per year to anyone you choose, with no taxes paid by either you or the lucky recipient.

It's a tax cut, by George

Now that you've memorized half the tax code, think about this: If Bush pulls off any of the initiatives he's talked about

Fun IRS facts

- The top 8 percent of earners (\$100,000 plus) contribute 58.4 percent of all personal income taxes.
- The top tax bracket is 39.5 percent.
- Your chances of being audited, on the average, are about 1 in 200, but odds are better for cash businesses.

Men with sharp pencils

Here's the lowdown on the 10 tax and investment experts we consulted, along with examples of their clients:

Allan C. Alperstein, 59, CPA

Alperstein, Stelmack & Gordon, 530 E. Joppa Road, 410-321-1944

Summary: Corporate and individual tax and estate planning. Corporate clients are in medical services, manufacturing, retail, law, consulting, real estate, and nonprofit.

Hourly rate: \$65-140

References/clients: National Lumber Co. president Leonard Fruman; The Store Ltd. President Bill Steinmetz; Ruth Shaw of Ruth Shaw Inc.; interior designer Alexander Baer; money manager James Hardesty of Hardesty Capital Management.

Geo Cox, 64, CPA

Richard Ferber, 65, CPA

Cox, Ferber and Associates, 4 N. Park Drive, Hunt Valley, 410-771-8033, coxferber@aol.com

Summary: The firm handles mostly high-net-worth individuals and estates and trusts.

Hourly rate: \$50-250

References/clients: Former Maryland State Bar Association President Herbert S. Garten; Kevin Nolan, VP of brokerage Tucker Anthony in Annapolis.

Alan Friedland, 41, CPA

9900 York Road, Cockeysville, 410-667-8222

Summary: Friedland specializes in tax issues for construction and retail businesses.

Hourly rate: \$100

References/clients: Nouveau Contemporary Goods; WBAL financial analyst Jonathan Murray; the Martino family of Giovanni's restaurant.

C. David Heisler, 66, estate lawyer and CPA

Heisler, Williams & Lazzaro, 102 W. Pennsylvania Avenue, Suite 200, Towson, 410-828-6823

Summary: Provides tax strategies for companies and high-net-worth individuals. Formerly retained to settle cases for the IRS.

Hourly rate: \$200-250

References/clients: Doug Dollenberg, president of Nottingham Properties; Curran Harvey, former CEO of

T. Rowe Price; California-based sports agent Edward Sewell; pro athletes Chris Dishman and Calvin Williams; Riverside Marine, makers of Bayliner boats.

Larry Kamanitz, 64, CPA

Grant Thornton, 2 Hopkins Plaza, Suite 700, 410-685-4000, www.grantthornton.com

Summary: Kamanitz has worked closely with developers like Bill Streuver and David Kornblatt. His associate, CPA Mark Brenner, is known for his knowledge of real estate and construction transactions.

Hourly rate: \$200-325

References/clients: Partners of Streuver Bros., Eccles, and Rouse; developer David Kornblatt and Co.; developer David Sachs of Sachs Investment in New York.

Richard Levine, 50, estate lawyer

Miles & Stockbridge, 10 Light Street, 410-385-3536, rlevine@milesstockbridge.com

Summary: Levine advises a number of real-estate entrepreneurs and has engineered some corporate acquisitions. A partner in the law firm of Miles & Stockbridge since 1983 (he joined in '78), he is one of only three tax experts in Baltimore to be a member of the 50-strong, invitation-only American College of Tax Counsel.

Hourly rate: \$300-400

References/clients: Developer Clark F. MacKenzie; Continental Realty's Jack Luetkemeyer; Outer Banks Shirts owner Bill Hunter; Nottingham Properties's Doug Dollenberg; former Treasury Secretary Nicholas F. Brady and family; Flag Investors Mutual Fund (of Alex. Brown Investment Management).

A. MacDonough "Mac" Plant, 63, estate lawyer

Stewart, Plant & Blumenthal, 7 St. Paul Street, Suite 910, 410-347-0506

Summary: Founding partner in the law firm of Stewart, Plant & Blumenthal, Plant has taught estate law at various local universities; authored numerous articles on wills, estates, and trusts; and has served on the boards of various professional groups.

Hourly rate: \$275

References/clients: Pension-fund manager Eddie Brown of Brown Capital Management.

Lee Sturgill, 38, CPA and lawyer

Sturgill & Associates, 135 E. Main Street, Westminster, 410-876-6111

Summary: Sturgill's second-generation practice—operating in four offices—serves mostly small businesses and individuals with incomes of more than \$100,000.

Hourly rate: \$125-150

References/clients: Westminster restaurant owner Harry Sirinakis; United Plumbing; Bowling Brook Home for Boys.

Vinod Thankappan, 50, CPA

600 Fairmount Avenue, Suite 201, Towson, 410-337-7424

Summary: Extensive experience with physicians and pension plans, as well as consulting for high-tech firms.

Hourly rate: \$60-150

References/clients: Practical Technologies; Compro Systems; Daniel Consultants; and physicians' group Charm City Medical Associates.



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