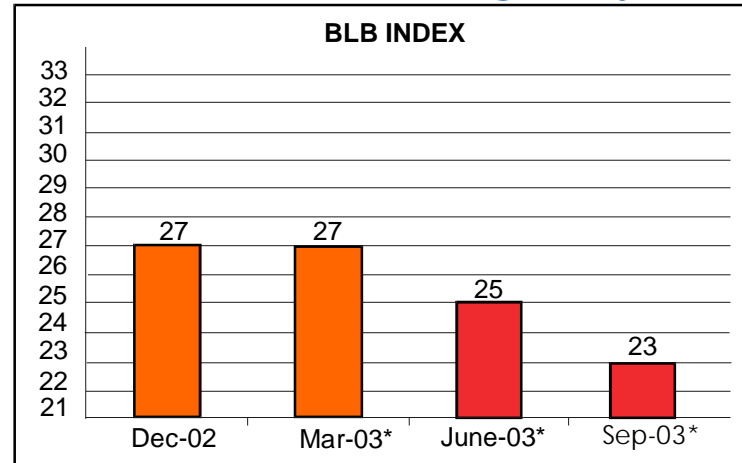


**Q.:** If I ask for an extension for filing my tax return, will I have to pay an additional amount for the extension?

**A.:** Getting an extension for filing your tax return does not cost you anything. A few of my clients have thought there was some kind of fee or additional tax for requesting an extension, but there is not.

Be aware, however, that when you receive an extension you must pay 100 percent of the tax that is owed by your return's due date.

### "Willingness of Banks to Lend to Businesses"



The lending environment has gotten even tighter. The philosophy it seems in many banks is to have a perfect loan with no risk. A review of many banks loss ratio on commercial loans indicates a very low bad debt ratio. Further, I would venture to say that right now it is the lowest loss ratio ever. Rumor has it that BB&T bank known for high fees and low service, who's market share has collapsed in Maryland, may start actively lending to salvage its market position. \* = Forecasted.

Score	Lending	Color Zone	Description
76-100	Jackpot	Green	Here's the Money! We will do the paperwork later.
51-75	OK	Yellow	Let's see what we can do.
26-50	Tight	Orange	I would lend you the money, but underwriting is killing most of my deals now.
0-25	Very Tight	Red	I know you have 100% cash pledged for the loan, but we don't have the money.

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# MONEY TALKS

Spring 2003

## News to Use From Gregory A. Barford, CPA

### "Slots" Issue Dead for This Legislative Session

After passing the Senate Floor by a vote of 25-21 on March 22, Senate Bill 322 could not make it out of the House Ways and Means Committee. The innocuously titled "Public Education Bridge to Excellence - Funding - Video Lottery Terminals" Bill received an unfavorable report from Ways and Means on April 3 by a vote of 16-5. It is now dead until the January 2004 session when it will have to be brought back as entirely new legislation.



This Bill had been sponsored by the President of the Senate "at the request of the Administration" - read Governor Robert L. Ehrlich, Jr. Our Republican Governor (who is beginning to sound like a liberal Democrat to me) lost this contest in which he appeared to be a strange advocate, since he is supposed to be a fiscal conservative -

someone who spends our money wisely and who believes that spending is out of control in the State of Maryland. His support of slot machines did nothing to address the overspending issue at all.



Overspending is still the major problem for the State's fiscal health. Installing slot machines at Maryland's racetracks may provide some additional revenue, but it does nothing to check rampant spending. Tax increases would still be necessary in the future because the revenue from slot machines could not possibly cover the budget shortfall.

Let us be thankful for the fiscal watchdogs in Maryland's House Ways and Means Committee!

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### CareFirst Merger

The Maryland State Legislature and the Insurance Commissioner also got it right when they turned down the merger of CareFirst and WellCare (a California-based, for-profit provider of health insurance). The merger would have raised the cost of health insurance for everyone in the State.

This merger would have been similar to a bank merger and would have had similar negative effects: a rise in the costs of health insurance for everyone in the State, a decline in service, and approximately 2,000 lost jobs in Maryland. Another consideration that killed this deal was that the bonuses to key officers in CareFirst at one point reached \$25 million -- a purely self-serving piece of thievery that they were not allowed to get away with.

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**“Be Careful When Choosing an Internet Connection Method”**

An Internet Service Provider (ISP) is the company that you use to connect to the Internet. Many ISPs provide more than one way to connect to the Internet, so in addition to choosing your provider you must choose your connection method.

Most ISP companies provide a dial-up connection that uses a phone line to connect to the Internet. This type of connection is slower than a "broadband" connection (see below), subject to many phone system variables, and requires you either not to have use of your existing phone when you are online or to get a new phone line. Dial-up is, however, sufficiently efficient and inexpensive for most of my clients since broadband connections are more expensive than dial-up and have serious inherent security problems.

The next step up from a dial-up connection is one of the four main types of broadband connection - Direct Subscriber Line (DSL), cable, fixed wireless, and satellite. Fixed wireless and satellite connections are not appropriate solutions for most individual users and small businesses, so we will discuss the pros and cons only of DSL and cable here.

DSL - the pros

- \* No new phone line is necessary
- \* Speedier than dialup
- \* Dedicated line
- \* Business-friendly choices of speed and payment plans
- \* 24/7 service guarantees

...and the cons

- \* Susceptibility to hacking and viruses
- \* Distance from telephone company equipment
- \* Slower upload speeds (versus download speeds)
- \* Installation problems
- \* ISP business failures

Cable - the pros

- \* Availability and speed
- \* Quick installation
- \* Less expensive than DSL

... and the cons

- \* Crowded lines
- \* Susceptibility to hacking and viruses
- \* Interference from Radio Frequency (RF) and weather
- \* Slower upload speeds (versus download speeds)

My recommendation is generally for a dial-up connection for my clients to avoid the extra expense of the service itself and the extra problems and expense of installing a secure enough firewall system and keeping your virus protection program constantly up to date.

Call my office for further explanation of any of the pros and cons. You can check service and price options from leading ISPs at this Web site: [allinternetnow.com](http://allinternetnow.com).



**“S Corporation Distributions”**

Shareholders in S corporations may receive compensation in the form of salary, loan repayment, or distributions. (Remember that distributions are not subject to FICA deductions of 15.3 percent). There is a minimum salary that has to be received, however before distributions can be taken.

S corporations that have multiple shareholders are required to apportion distributions in proportion to the interest each shareholder has in the corporation's common stock. It is important to remember that the S corporation may be terminated if distributions are not made in proportion to shareholders' stock interest.



The only class of stock that an S corporation can issue is common stock (either voting common stock or non-voting common stock). An S Corporation cannot have preferred stock, which is stock that provides preference on dividends and proceeds on liquidation. If an S corporation pays distributions based on something other than common stock ownership it is deemed to have a second class of stock - preferred stock - and this can cause problems.

There are ways, however, ways to solve this through salary adjustments or non-compete covenants. Call my office for more details.

**“Workers Compensation Coverage for Corporate Officers”**

In the State of Maryland, a close corporation or an LLC can save some money by electing not to have their officers covered for Workers Compensation. The coverage rate for officers who perform office work is 20 cents per hundred dollars; therefore, a salary of \$50,000 translates into a premium of \$100.

The law states the election not to cover officers has to be filed with the Workmen's Compensation Commission and your insurance carrier at the time the Corporation or LLC is formed. In practice, however, if a company does not file an election most insurance carriers will not force the officers to be covered. I have found that even the State of Maryland Injured Workers Insurance Fund (IWIF - the State-run Workers Compensation Insurance Company) - which is overly-aggressive in getting all of the premium dollars it can - is very flexible in this area.

Insurance companies that insist you need to cover your officers just need to be reminded that you are a close corporation and have elected that the officers not be covered (the election is verbal). Beware of insurance agents who appear not to understand this provision of the law - they may insist that your officers be covered if you cannot produce a record of the filing. I feel that these agents are more concerned with their commissions than with having you comply with the law.

Important note: Although not covering your corporate officers under Workers Compensation may save you money, if the officers do not have adequate disability or health insurance, they should consider covering themselves under the Workers Compensation program.



**“Retirement Plan Update”**

The table below summarizes the maximum allowable contributions to retirement plans for 2003 through 2008 in response to the many queries I have had from clients about how they can contribute to their retirement plans for the next few years.

	Age Under 50	Age Under 50	Age Under 50	Age Over 50	Age Over 50	Age Over 50
	IRA	Simple IRA	401K	IRA	Simple IRA	401K
2003	3,000	8,000	12,000	3,500	9,000	14,000
2004	3,000	9,000	13,000	3,500	10,500	16,000
2005	4,000	10,000	14,000	4,500	12,000	18,000
2006	4,000	10,000	15,000	5,000	12,500	20,000
2007	4,000	10,000	15,000	5,000	12,500	20,000
2008	5,000	10,000	15,000	6,000	12,500	20,000

Some important considerations:

- \* The maximum contribution for Simplified Employee Plans (SEPs), profit sharing, and other contribution plans is 25 percent as of 2002. The maximum deferral at the maximum wage base of \$200,000 is \$40,000 per employee per year.
- \* Simple IRA plans require an employer to match 3 percent of the Social Security wages up to a maximum of \$200,000. You may, under certain circumstances, elect to match a lower percentage.
- \* The level for matching 401K plans to ensure that owners are allowed full participation in the plan is 3 percent for all employees or 100 percent of the first 3 percent and 50 percent of the next 2 percent for electing employees.
- \* Contributions to Roth IRAs are limited to married taxpayers with adjusted gross incomes under \$150,000 (\$90,000 for single taxpayers).
- \* To contribute to any IRA or other retirement plan you must have actual wages for the amount you want to defer. Note that dividends, interest, capital gains, and rentals do not qualify as wages.