

(continued from page 1)

Although credit card numbers are already used in Internet transactions for payment, they are not reliable enough as a form of identification to authenticate a legally binding agreement between two parties. In all probability, some future Internet transactions will require both a credit card number and an electronic signature.

While ramifications of the new legislation are as yet unknown, the legal acceptance of the electronic signature is an important step in the transformation of business from a paper to a virtual environment. For more information about your rights and obligations under contracts that are documented electronically, consult your legal advisor. For your other questions related to electronic commerce and business transformation, we're here to help.

For more information on Digital Signature technology and news, visit the following websites:

<http://www.wolfenet.com/~dhillis/digsiglaw/index.htm>
<http://www.ss.ca.gov/digsig/regulations.htm>



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FINANCIAL NOTES

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Inside this Issue:

Signing on the Digital Line

Staff News

Brown Armstrong CPE Day

Social Security Penalty Removed

Mid-Year Review of Tax Payments

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Signing on the Digital Line

Imagine transacting all your business - buying, selling, investing, borrowing money, and more -- without paperwork or having to sign your name. Recent federal legislation giving "electronic signatures" the same legal status as handwritten signatures is expected to become effective October 1, 2000. As part of the same legislation, electronic records would generally satisfy federal record retention requirements starting on March 1, 2001.

The legislation is expected to save time and money for businesses and consumers alike and to boost both consumer and business-to-business Internet commerce by eliminating signature-related delays and unnecessary records in paper format. Individuals will be able to use digital signatures on the Internet to open a brokerage account, secure a mortgage, buy insurance, and complete other transactions that typically require a written, signed contract.

Specific Exceptions

Under the new legislation, certain documents, including wills and divorce filings, will continue to require handwritten signatures. Also, certain legal notices, such as utility cancellations, mortgage

foreclosures, court orders, and terminations of health insurance, must continue to be recorded on paper. The new legislation accommodates individuals who do not have Internet access or who prefer traditional documentation by requiring that consumers be given the option of documenting their business either electronically or on paper.

Evolving Technology

What is an "electronic signature"? The legislation vaguely defines the term as "an electronic sound, symbol, or process, attached to or logically associated with a contract or other record and executed or adopted by a person with the intent to sign the record." Despite such ambiguity, various sophisticated electronic signature methods are currently under development, including a digital certificate (perhaps in card form) based on complex mathematical coding, a device with software that digitally copies a handwritten signature, and various thumbprint, retinal, voice, and DNA recognition systems.

Developing practical electronic signature technology -- and equipping the market with necessary hardware -- will take some time. Businesses that are anxious to use electronic signatures are likely to employ existing encryption technology for their web-based transactions, possibly as early as October 2000.

(Continued on page 6)

Social Security Penalty Removed for Working 65 to 69 Year Olds

The good news: Recently passed legislation repeals the current earnings limit for Social Security recipients ages 65 to 69. The new seniors' unlimited earnings law scraps a long-standing government rule that cuts Social Security benefits by \$1 for every \$3 a recipient aged 65 through 69 makes in wages over a certain threshold (\$17,000 in 2000). Workers 70 or older have long been exempt from any earnings limit.

The bottom line: you no longer have to wait until age 70 to get back to work. Start on your 65th birthday.

The bad news: No change to the existing penalty for workers aged 62 to 64, who lose \$1 in benefits for every \$2 they earn beyond \$10,080 a year. No change to the income tax law: as much as 85% of Social Security benefits is taxable, depending on overall income.

The change is retroactive to January 1, 2000. This means that the government will have to issue refunds for 800,000 Americans with reduced benefits because they work or are dependents of workers. Another 100,000 people will receive retirement benefits from Social Security for the first time

Mid-Year Review of Tax Payments

Although you'd probably prefer to forget about taxes at this time of year, you certainly don't want to pay underpayment penalties next April. But that's what could happen if you don't set aside some time to check your tax withholding and/or estimated tax payments. A mid-year review of your 2000 tax situation will show you whether your current tax withholding or payments are sufficient to avoid penalties.

Estimating Your Income

Federal income taxes are generally withheld from wages by employers, who transmit the withheld taxes to the IRS throughout the year. But if you have nonwage income — such as interest, dividends, capital gains, alimony, rental, or self-employment income — from which taxes are not withheld, you may owe estimated taxes on those earnings.

In addition, certain strategies such as converting a traditional IRA to a Roth IRA, may result in substantial taxes on previously tax-deferred amounts. If you convert your IRA in 2000, make sure you adjust your tax payments accordingly.

The recent repeal of the Social Security earnings test brought

because they never filed claims for benefits because of the earnings tests. These people will receive Social Security payments under the new law when they file claims for benefits.

The Social Security Administration (SSA) is working feverishly send notices to all potential affected beneficiaries. SSA expects to mail checks for retroactive payments as early as May 2000 and adjust monthly benefit payments to reflect the new law by June 2000. The retroactive payment checks are expected to average about \$3,500. For most of our clients, these payments will be taxable. Please call us for tax planning if you are concerned about tax on your social security benefits.

Did you know?

You can have income tax withheld from your social security check.

Looking forward to retirement?

The average annual Social Security benefit for all retired workers is \$9,648 in 2000. The maximum Social Security benefit in 2000 for someone who turned 65 in 1999 or 2000 is \$17,196.

unexpected income to many working seniors (ages 65 to 69). If you are one of the 900,000 Americans who was affected by this change, your Social Security benefits can be taxed if either of the following situations applies to you:

- (1) The total of one half of your benefits and all your other income is more than \$34,000 (\$44,000 if you are married filing jointly) or
- (2) You are married filing separately and lived with your spouse at any time during 2000.

If your Social Security benefits are taxable, you may need to increase your tax withholding or estimated taxes. You may ask the government to withhold federal income taxes from your Social Security benefits at the rate of 7%, 15%, 28%, or 31% by completing Form W-4V, Voluntary Withholding Request.

Alternatively, you may request additional withholding from other income or increase your last two estimated tax payments.

When and How Much

To avoid penalties, you must pay your taxes as regular withholdings from your income or according to the government's quarterly schedule for estimated payments. If you are making quarterly payments, you

(Mid Year Review Cont.)

must generally pay 25% of the required annual payment on or before April 17, June 15, September 15, and January 15 (2001).

If your income is seasonal — or you receive a large sum of taxable income all at once — you may be able to avoid the penalty even though you vary your quarterly payments according to your quarterly income. This means that you can make smaller tax payments in the quarters in which you received the lowest income and larger tax payments in the quarters in which you received the highest income. However, this method requires regular monitoring of your quarterly taxable income.

Avoiding underpayment penalties is practically foolproof if you base your withholdings and/or estimates on the total tax you paid in 1999. If your 1999 adjusted gross income was \$150,000 or under (\$75,000 or under for married filing separately), paying 100% of the tax shown on your 1999 return through regular withholding and/or timely quarterly estimated payments will eliminate underpayment penalties for 2000.

If your adjusted gross income is more than \$150,000/\$75,000, paying 108.6% of your 1999 tax obligation according to the quarterly schedule will avoid the penalty. (For 2001, this figure will rise to 110% of your 2000 tax obligation.)

Another way to avoid underpayment penalties is to estimate your 2000 taxes and pay 90% of that estimate. You also won't have to pay an underpayment penalty if the tax shown on your return after withholdings is less than \$1,000. If you expect your 2000 taxes to be substantially less than your 1999 taxes, you may want to consider either of these two options.

Example: Tony's federal income tax for 2000 is \$10,000. During 2000, his employer withheld \$9,001 from his pay. Therefore, Tony owes \$999 when he files his return. Since that's less than \$1,000, Tony won't have to pay an underpayment penalty.

We can help you determine whether your 2000 withholding and estimated tax payments meet IRS requirements. You may even be pleasantly surprised: You may have been paying too much! Call us today for an appointment.

Brown Armstrong CPE Day 2000

On July 28, 2000 Burt Armstrong, CPA and firm principal, kicked off the 2nd annual continuing professional education day. Clients, staff and interested organizations joined the firm for an 8 hour session. Burt first introduced Chris Hine, Esq. Chris is an attorney with the Law Offices of Terrance Werdel &



Associates. He led an interesting discussion on Sexual Harassment and how it can affect the work place.

Topics in the morning session were GASB 3 & 10, which was presented by Andy Paulden, CPA and firm principal, and the most talked about GASB 34, where Benjamin Reyes, CPA and firm principal and Joan Anderson, CPA and firm Senior Accountant discussed how it will be effecting governmental entites along with implementation issues.

Later the audience was entertained with the charismatic speech delivery of Joel Heinrich from

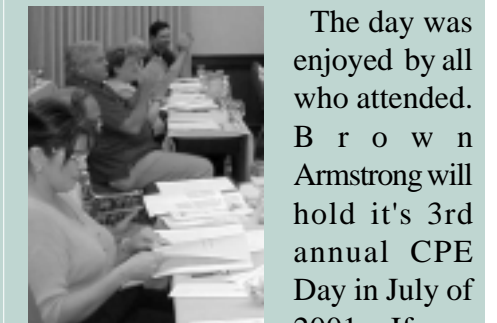


eGov Edge, Inc. Joel discussed how

his new company was going to streamline many of the application processes of government forms on the internet. His company is in the development stages and expects to launch their new website early in 2001.

Steve Starbuck, CPA and firm Principal-In-Training, gave an informative talk on the CAFR - GFOA Award process and how governmental entities could go about achieving the award of excellence.

Following Starbuck was the technology session starting with Bobby Thomas, MBA and firm accountant who gave a hands on Excel and ACL software training session ending with Internet Research Tools which was presented by Thomas Young, CPA and Eric Xin, M B A , CPA both firm Senior accountants.



The day was enjoyed by all who attended. Brown Armstrong will hold it's 3rd annual CPE Day in July of 2001. If you

attended the CPE day and know of topics you would like see discussed, please let Deanna Blaise know by calling 324-4971.