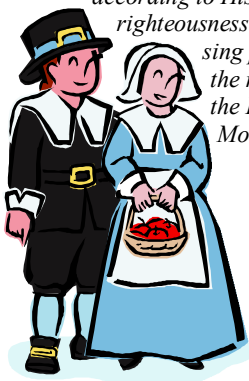


# STEFFEN GROUP

November 23, 2002

## Happy Thanksgiving!

*I will give thanks to the LORD according to His righteousness And will sing praise to the name of the LORD Most High.*



Psalm 7:17

Find a piece of Thanksgiving history on page 2



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## 'TIS THE SEASON... for year-end tax planning

Here's a surefire way to get out of holiday shopping: **"Honey, someone needs to stay home to do year-end tax planning."** What better reason for bowing out of holiday chores than tending to household profitability and slashing your tax bill come April 15, 2003.

- Start by estimating this year's income. Itemizers with lower-than-usual incomes (due to the downtrodden stock market or sagging economy) might suddenly find they can deduct medical expenses and miscellaneous items, which must exceed 7.5 percent and 2 percent, respectively, of adjusted gross income. If you can beat those thresholds, pay outstanding medical bills before year's end or miscellaneous deductions such as job-hunting expenses (mileage to look for work, long-distance phone calls to potential employers) and fees for estate planning, financial planning or investment advice.
- Make sure you won't fall prey to alternative minimum tax, which adds to your tax bill. (Americans are actually subject to two tax systems: regular and the alternative minimum. You pay the higher of the two.)
- Miscellaneous itemizations, as well as state income tax and property tax, are nondeductible under alternative minimum; medical deductions may be taken only if they are more than

10 percent of income. So if you're an AMT victim, pay those items including fourth-quarter Oregon estimated tax in a year when alternative minimum won't apply.

- As you are cleaning house for holiday company (we didn't promise the tax-planning project would exempt you from that), gather goods for charity to get a deduction. Charitable deductions aren't curtailed by AMT.

### New Deductions for 2002

Get these without itemizing :

- Folks who pay college tuition and have adjusted gross income of no more than \$65,000 (\$130,000 if married and filing jointly) may deduct up to \$3,000 without itemizing. But if you earn a dollar more, the deduction is zero.
- The college-tuition deduction is reduced by tax-free withdrawals from a Coverdell education savings account or Section 529 prepaid-tuition plan, and by non-taxable scholarships and Pell grants. For complete details, see Internal Revenue Service Publication 553 at [www.irs.gov](http://www.irs.gov).
- Thanks to a 2002 tax act, kindergarten through 12th-grade teachers, principals, counselors and aides working at least 900 hours during the academic year in a public or private school may deduct \$250 of unreimbursed costs for books, supplies, soft



## 2002 Tax Planning

Continued from page 1

ware, computer equipment and other items used in the classroom. Gather receipts now. For more information, see IRS Publication 3991.

### Depreciation Change:

- A new deduction for 30 percent of new property's cost is targeted primarily at business-owners, including sole proprietors. Yet so-called "bonus depreciation" is also available to landlords buying appliances for or making certain improvements to rental properties. Employees with unreimbursed expenses for a computer or car used more than 50 percent for work can take bonus depreciation, too. The 30 percent bonus is in addition to regular depreciation and the Section 179 deduction (first-year write-off, up to \$24,000), so tremendous tax savings are possible when purchasing qualifying income-producing property (see page 3 for details).
- The bonus is deductible under AMT. But only buy assets you need. You don't come out ahead spending a dollar to get a 30-cent deduction.

### New IRA Rules:

- In April, the IRS issued final regulations regarding required distributions from IRAs after age 70. The new rules, which include updated life-expectancy tables that let retirement-account owners withdraw less, may be used for your 2002 required distribution. Or you may use the proposed regulations issued in 2001 or the original rules from 1987.

- IRA owners who have taken their 2002 distributions within the last 60 days without relying on the new regulations can roll back the amount in excess of the new, lower minimum.

### Take Losses

- If your stocks have taken a beating and portfolio rearrangement seems prudent, consider selling losers, which triggers a tax deduction. (Caution: Losses incurred in IRAs, 401(k)s and other tax-deferred retirement plans aren't deductible.)
- Taxes shouldn't be the primary objective. You must focus on finding investments that you like over the long term and remember that it will cost you commissions to sell. Nevertheless, you may be able to deduct as much as \$3,000.
- Here's how the IRS's capital-loss deduction works: All short-term gains (including year-end mutual-fund distributions) and losses are combined with each other, as are long-term gains and losses. Then combine the

short-term and long-term figures to determine overall gain or loss. Any loss greater than \$3,000 is carried forward to deduct in the future.

### Help Family

- Under current federal rules, any individual whose net worth exceeds \$1 million at death is subject to estate tax—a tax levied on wealth when you die (The threshold for Oregon's inheritance tax is \$600,000). To reduce your estate, make gifts to family members during your lifetime, when you can gift a total of \$1 million without triggering gift tax.
- In addition, you may gift \$11,000 a recipient per year gift-tax-free. A husband and wife can each give that amount to the same individual. Therefore, a married couple can give \$22,000 to an adult child and another \$22,000 to the child's spouse. That should make up for any seasonal presents that were lacking because you stayed home to save taxes.

The Pilgrims landed in Plymouth in December 1620 and faced a bitter winter without adequate shelter or food. Only 55 of the 102 immigrants survived to see the spring. The following autumn, an ample harvest assured the settlers that they would have food for the winter months. Edward Winslow, in a letter dated Dec. 22, 1621, describes the Pilgrims' three-day celebration feast.

*Our corn did prove well, and God be praised, we had a good increase of Indian corn, and our barley ... our harvest being gotten in, our governor sent four men on fowling, that so we might after a special manner rejoice together after we had gathered the fruit of our labors. They four in one day killed as much fowl as, with a little help beside, served the company almost a week. At which time, amongst other recreations, we exercised our arms, many of the Indians coming amongst us, and among the rest their greatest King Massasoit, with some ninety men, whom for three days we entertained and feasted, and they went out and killed five deer, which they brought to the plantation and bestowed on our governor, and upon the captain and others. And although it be not always so plentiful as it was at this time with us, yet by the goodness of God, we are so far from want that we often wish you partakers of our plenty.*



## 2002 Tax Planning

### The Biggest Best Gift

You can save a bundle with this last minute Christmas strategy. You can even do it on December 31<sup>st</sup>.

You can get a tax benefit for acquiring a depreciable business asset and placing it in service by the end of the year.

Suppose, for example, you have your own business and you go to the Gateway Store (those are fabulously neat stores) and you buy the latest Gateway Computer setup for \$2,000 and you place it in service, that is use it by December 31, 2002. You can get a tax benefit for that cost in 2002.

"Placing it in service" means using it in the business. That is easy enough to do with a computer. This also applies to acquiring business vehicles (those weighing less than 6000# have additional rules) or other equipment before the end of the year.

The cost of assets acquired which will benefit a period of years is usually recovered by deducting a portion of the cost over several years. This concept of depreciation, under the Internal Revenue Code, is called (usually) the Modified Accelerated Cost Recovery System (MACRS). The cost of computer equipment, for example, is recovered over a 5 year period; other assets have 7, 10, or 15 year lives.

However there is a faster way of recovering the cost of assets. Under Internal Revenue Code

Section 179, up to \$24,000 of the cost of all assets placed in service in 2002 can be deducted in 2002. If the total cost of assets exceeds \$24,000, the balance will be written off using the MACRS method above.

And there is more. Congress wanted to encourage investment in America after the tragedy of September 11, 2001. So they made a bonus, 30% depreciation available. Of course there are restrictions and rules, but here is a quick example.

On December 21, 2002, the business acquires an asset with a cost of \$75,000 and places the asset in service by December 31, 2002. The \$75,000 can provide the following benefit:

Section 179 Deduction-maximum of \$24,000

Remaining cost of the asset of \$75,000 - Section 179 deduction of \$24,000 equals \$51,000

Bonus depreciation of 30% on remaining basis of \$51,000 for depreciation of \$15,300

Remaining basis of \$35,700 (that's 51,000 - 15,300) times MACRS rate of 20% for first year of depreciation (5 year property covers computers and other technology assets) for depreciation of \$7,140.

Total depreciation allowed is \$24,000 plus \$15,300 plus \$7,140 for a grand total of \$46,440.

If you placed the asset in service by December 31, 2002, you would have a deduction of

\$46,440. With a combined federal and state tax bracket of, say, 35%, you would save \$16,254 on the 2002 tax return.

If you waited a week later and placed it in service January 7, 2003, you would not get the savings until a year later, on the 2003 tax return.

And, the best part of it is, you don't have to wait for St. Nick to arrive. You merely need to acquire the business asset and place it in service yourself. Remember, this only works for business assets. If you think this scenario would work in your business call my office and let us help you work out the specific details for your situation.

**"Trust me, I work for the IRS..."**

**A report from the Treasury Inspector General for Tax Administration (2002-04-113) reveals that in seventy three anonymous visits to 37 IRS centers questions were answered correctly only 55% of the time. Of the IRS centers visited, the worst provided incorrect answers to 42% of the questions.**

*Source: Practical Accounting 9-2002*



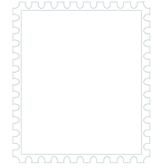
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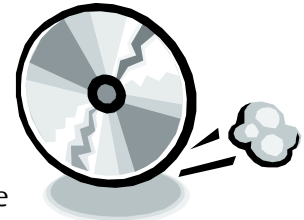
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## GET READY

### Five ways to prepare for tax time now:

- 1 Review stock and mutual fund holdings. Remember that net capital losses of \$3,000 can be deducted from any other income.
- 2 Review total withholding and estimated payments to be sure you have enough to avoid penalties.
- 3 Make charitable contributions so they can be deducted if you itemize.
- 4 If you intend to make gifts, do so before the end of the year to maximize the \$11,000 annual exclusion.
- 5 Review plans for contributions or withdrawals involving IRAs and other retirement accounts.

## Software Updates:



You probably have received invitations to update your accounting software to the newest versions. Issuing changes each year seems to be the norm for making profits on software. Intuit® has upgraded its QuickBooks® programs for 2003 and added several new "specialized" applications such as *QuickBooks Premier: Contractor Edition 2003* and *QuickBooks Enterprise Solutions 2.0*. While it is not necessary to upgrade your software every year, the ongoing changes do justify buying the upgrade every 2-3 years. If you wish more information contact the office, we may be able to provide a better price than retail.