

December 31, 2001

Dear Clients and Friends:

We hope this holiday season finds you all in good health. The tragic events of September 11 forever changed our country. However, one day we may look back and see that this event saved our society for many more generations because it reinforced and reminded us how precious our freedoms are.

Market Returns. Continued carnage in the stock market in 2001 has presented opportunities to invest at more reasonable prices versus the inflated prices of the 1998-1999 bubble. Most diversified portfolios will be down less than 20% this year, which means a 25% increase next year will get you back where you were two years ago. Be careful about trying to get higher yields on bonds by going out more than 5 years. When the current historically low interest rates return to more normal levels, the market value of long-term bonds will decrease in step. Stay short term to take advantage of an inevitable increase in interest rates.

Tax Rebates. The tax reduction passed last June had little effect on this year's liability; except for the \$300-600 rebates everyone should have received by now. If your rebate was an odd number, the IRS has likely offset some small prior year balance. Let us know if you didn't receive your rebate or if it was for an odd amount.

Estate Taxes. The estate tax exemption increases to \$1.0 million in 2002 and \$1.5 million in 2004. After that, Congress will revisit the abomination they enacted this year and hopefully settle on \$5-10 million as the final exemption amount. Louisiana continues to phase out its inheritance tax, but the gift tax of 3% in excess of the lifetime and annual exclusion remains unchanged. The U.S. gift tax annual exclusion increases from \$10,000 to \$11,000 in 2002.

IRA Rules. The annual IRA contribution amount increases up to \$3,000 next year. Those 50 and older can contribute \$3,500 annually. An additional similar amount can be contributed for a non-working spouse. We still recommend Roth IRAs for those who qualify. Review your beneficiary forms to make sure that real people (not trusts or your estate) are named as beneficiaries.

Retirement Plans. New limits in 2002 for 401(k) plans are \$11,000 per employee and \$40,000 for corporate plans. Self-employed workers can now deduct 25% of their net income by contributing to a retirement plan, compared to only 15% last year. This works out to the same \$40,000 limit as those covered by corporate plans.

Life Insurance Planning. On the subject of beneficiaries, please review with your agent any policies on your life in which the owner is not the beneficiary. This is usually a tax disaster because the proceeds may be included in your estate when you die, an avoidable consequence with proper structuring of policy details.

Social Security Wage Limits. Next year the wage cut off for the OASDI (6.2%) portion of FICA is \$84,900 up from \$80,400 in 2001 and \$51,300 in 1990, almost twice the inflation rate for the same period. The Medicare tax continues at 1.45% on all wages. The wage limit for those under 65 was \$10,680 for 2001.

Unclaimed Property. The state of Louisiana has more than \$200,000,000 in unclaimed money. Your name could be on this list. When you meet with us to discuss your taxes for 2001, we can look your name up on the most recent list. If you cannot wait that long, a list can be found at www.treasury.state.la.us/ucp/claim/simplesearch.asp or by calling 888-925-4127. One in six people have unclaimed property with the state.

Educational Tax Incentives. The new tax law is filled with tax incentives to assist most families in saving for college. Section 529 plans are designed for wealthier taxpayers (usually grandparents) who are comfortable with gifting up to \$100,000 per year on behalf of a potential college student. The earnings (and of course the original gift) can be withdrawn tax-free for state schools (and private after 2003) if used for allowed college expenses. See www.savingforcollege.com for a good analysis of various state plans. Louisiana state officials, not brokerage firms or mutual fund managers, manage Louisiana's plan opening the door to potential political influence. Another problem with 529 plans in general is that most parents don't have the necessary liquid assets lying around to fund one of these plans. More realistic for the average taxpayer is the Educational IRA (now called the Coverdale Educational Savings Account), which allows a \$2,000 annual non-deductible contribution to be made by most taxpayers on behalf of a student. Earnings grow tax free and can be used for elementary and secondary educational expenses beginning in 2004.

Louisiana Tax Changes. Implementation of the rule that charges penalties for underpayment of estimated taxes was scheduled to go into effect for 2001. We now understand that the Department of Revenue has been unable to implement the program in time for this filing season, but "hopes" to get it set up for 2002.

Louisiana Refund Policy. Louisiana will now honor refund claims after the political uproar of last year's no refund policy forced the Legislature to act. It now seems refunds will be granted for mistakes or omissions on returns, a perfectly reasonable outcome at last.

Deducting Cars as a Business Expense. Next year the reimbursement rate increases to 36.5¢ per mile, reflecting higher gas prices. We still advise our clients to buy the car personally, submit a mileage report to the company and get a tax-free reimbursement.

Privacy Policy. A recent law change requires us to disclose our Privacy Policy to you. We only use the information supplied by you to prepare your financial statements, income tax returns, and to provide various tax and financial planning services for you at your request. We do not disclose personal information about our clients or former clients to anyone without specific authorization.

Web Page. Our web site, www.dfcpa.com, is finally up and is almost complete. Please take a look at it next time you are on the web, and be sure to leave us your feedback in the comment section.

Office Update. We recently renovated our office to provide more space for client meetings. All of our offices are now upstairs, while downstairs has been converted into a reception area and two conference rooms. These facilities will provide more comfort and privacy for our clients.

Staff Changes. We added another member to our staff this year, Trisha Small. Trisha was the comptroller for a local printing company before joining our firm. Trisha's knowledge and experience in the accounting field are a welcomed enhancement to our firm. Janet moved to South Carolina in August, but we have not lost the consummate bookkeeper. She is now a virtual employee. With our "paperless office" and with the assistance of the internet, Janet still works as if she were right here in our office.

We all wish you a happy and prosperous New Year!