CERTIFIED PUBLIC ACCOUNTANTS
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MEMBER FIRM:
NATIONAL CONFERENCE OF
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SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2002

Dear Clients and Friends:

We hope this holiday season finds you all in good health. Here are our thoughts on some of the current issues, which may affect you and your taxes next year.

Market Returns. The market indices have recorded their third straight decline, unprecedented since the period 1929-32. We are seeing a classic regression to the mean, a theory that markets cannot stray from their long-range trends indefinitely without a sustained pull back to return to the historical growth curve. Depending upon the expert, this historically is about 8% in the equity markets annually over the last century. Ten years ago the S&P index was 443. Assuming an 8% growth rate had occurred over the last 10 years, it would be 950 today. As this is being written, the index is hovering around 900. Conclusion-The S&P is not overvalued today based on its 10-year performance since 1992. Can historical trends predict future results? Not as a rule, but it does provide some comfort to believe the worst is over.

Tax Changes on the Horizon. The individual income tax rates are scheduled to remain unchanged in 2003, although there is talk, now with the Republican Congress, there may be an acceleration of the scheduled rate reductions into 2003. The Democrats are talking about a payroll tax holiday, which is easy to endorse, but difficult to implement on short notice. The Republicans and even Senator Kerry (D-MA) are endorsing various plans to end the double taxation of corporate dividends. It is an economically sound idea, but if enacted at the corporate level (by making them deductible), it would be very costly to the Treasury. Excluding dividends from individual taxation is cheaper (half of dividends go to non-profits and retirement accounts and are not taxed anyway), but politically tougher to sell as another giveaway to the rich.

Estate Taxes. The estate tax exemption remains at $1.0 million in 2003 and goes to $1.5 million in 2004. The U.S. gift tax annual exclusion remains at $11,000 in 2003. The Administration wants to make the temporary repeal in 2010 permanent, but it will require expending a large amount of political capital.

IRA Rules. The annual IRA contribution limit for both regular and Roth IRAs is $3,000, which is unchanged from 2002. Those 50 and older can contribute $3,500 annually. An additional $3,500 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. The minimum distribution rules were relaxed slightly again this year. The minimum distribution divisor for most plans in their first year (beneficiary age of 70-1/2) is now 27.4 years.

Retirement Plans. The limits in 2003 for 401(k) plans are $12,000 per employee and $40,000 for corporate plans.

Social Security Wage Limits. Next year the wage cut off for the OASDI (6.2%) portion of FICA is $87,000 up from $84,900 in 2002 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 to avoid giving back some of the benefits in 2003 is $11,520.

Educational Tax Incentives. Beginning in 2002, college tuition is deductible (up to $3,000) to students or parents with an income of less than $65,000 for single taxpayers, or $130,000 for married. This deduction cannot be used in addition to the Hope or Lifetime Learning credits, so its ultimate tax benefit may be trumped by these credits that are generally better than deductions. Be sure to let us know your tuition expenses if you or your tax paying dependents qualify under the income limits. Married taxpayers with incomes below $190,000 can set up non-deductible Educational IRAs (now called the Coverdell Educational Savings Account), which allows a $2,000 annual contribution on behalf of a student. Earnings grow tax-free and can be used for elementary and secondary educational expenses beginning in 2002. With today's low interest rates, the expected near-term tax benefit of these plans has been significantly reduced.

U.S. Tax Refunds. In 2003, the IRS web site (www. irs.gov) will allow you to trace the status of your refund. All you will need will be your Social Security Number, filing status and refund amount. There was a pilot program in place for 2002 and it worked very well.

Louisiana Tax Changes. The latest word on implementing penalties for underpayment of estimated tax is that unless 90% of this year's tax or 100% of last year's tax is not paid in by January 15, 2003, you will be penalized interest at a 12% annual rate. Louisiana will mail penalty notices to the affected taxpayers next October. In what has become typical of Louisiana tax administration, they have no form to calculate the penalty, so that you cannot pay the penalty when filing your return.

Louisiana Tax Changes-Stelly Plan. To the surprise of even its strongest supporters, the Stelly plan was passed by a constitutional amendment in November. It lowers sales taxes on food and utilities, but increases Louisiana income tax on all taxpayers who itemize on their Federal returns. In addition, Federal excess itemized deductions will no longer reduce Louisiana taxable income beginning in 2003. Furthermore, the 6% top Louisiana bracket will begin at $50,000 for a married couple (down from $100,000). This is another example of the power of the less wealthy majority in our society to vote money from the pockets of the better off minority.

Deducting Cars as a Business Expense. Next year the tax-free mileage reimbursement rate decreases to 36.0¢ per mile, reflecting (lower?) gas prices. We still advise our clients to personally buy their cars, and submit a mileage report to the company to get a tax-free reimbursement. The Wall Street Journal recently ran an expose on the 6,000 pound loophole in depreciating heavy vehicles, noting that most gas guzzling SUV's qualify as trucks and are thus entitled to large depreciation deductions in the early years as long as driven more than 50% for business. That kind of publicity usually dooms this type of tax break. The tax code is full of special deductions for various types of vehicles such as: electrical, hybrid and "clean fuel". One onerous tax that disappears next year is the 3% excise tax on a vehicle's purchase price in excess of $40,000.

Privacy Policy. We again wish to remind you the information you supply us to prepare your financial statements, income tax returns, and to provide various tax and financial planning services is held in the strictest confidence. We do not disclose personal information about our clients or former clients to anyone for any reason without specific authorization.

We all wish you all a happy and prosperous New Year!

Dave John