

December 31, 2003

Dear Clients and Friends:

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

*Tax Changes.* For the third straight year we have seen changes to the tax code. Tax rates for 2003 for individuals are 10%, 15%, 25%, 28%, 33% and 35%. The tax act accelerated the reduction in rates that already were scheduled to occur in later years. These rates are scheduled to remain the same through 2010. The reduction in higher rates has become a prime target for Democratic presidential candidates and members of Congress. The next round of elections may reverse the tax reductions. The dividend tax reduction to 15% is one of the most significant changes our clients will enjoy.

*Estate Taxes.* The estate tax exemption increases to \$1.5 million in 2004 and will remain at that level in 2005. The U.S. gift tax annual exclusion for 2004 remains at \$11,000.

*IRA Rules.* The annual IRA contribution for both regular and Roth IRAs remains at \$3,000. Those 50 and older can contribute \$3,500 annually; non-working spouses can still contribute \$3,500. Review your beneficiary forms to make sure that actual people, not a trust or your estate, are named as beneficiaries.

*Retirement Plans.* The limit in 2004 for 401(k) plans is \$13,000 and \$41,000 for corporate plans. Business owners may want to assess their company plans. 401(k) plans that allow discretionary employer profit sharing contributions can allow business owners to increase their contributions above the \$13,000 limit. If your company has an SEP IRA, your plan needs a new plan document. You should contact the plan sponsor for a Form 5305.

*Social Security Wage Limits.* The wage cut off for the OASDI (6.2%) portion of FICA is \$87,900, up from \$87,000, which is one of the smallest increases in years. 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 2004 is \$11,640.

*Real Estate.* Anyone owning commercial real estate should consider transferring the ownership into an LLC. The set up costs for this transaction are small in relationship to the liability protection afforded by the LLC. There are no additional tax preparation costs, and only one-time attorney fees and a recordation fee. If you are considering selling such real estate, please contact us first. There are many tax-free exchange options available.

*Business Vehicles.* It's time to record your odometer reading. This will document your total miles for 2003. The tax-free mileage reimbursement rate increases to 37.5¢ per mile in 2004. The 6,000 pound vehicles loophole, which allows accelerated depreciation on vehicles used 50% or more in business, still exists. Congress is now debating raising the level to 14,000 pounds. If you are in the market for a 6,000 pound SUV, you may want to purchase the vehicle sooner rather than latter. Remember, if you use the accelerated depreciation tax benefit, you will be required to keep actual auto expenses instead of the cents per mile method.

For an updated list of vehicles that satisfy the 6,000 pound weight requirement, see <http://www.kiplinger.com/php/tools/trucktax/>.

Insurance. In today's increasingly litigious world, you should consider raising your umbrella liability insurance to a minimum of \$3 million. The additional coverage is not that expensive compared to the peace of mind and protection it will afford.

U.S. Estimated Tax Payments. The IRS has made it easier to pay your estimated taxes. The service is called Electronic Federal Tax Payment System (EFTPS). This on-line web site allows you to schedule all four of your payments at once. The payments are drafted on the day that they are due, not sooner. You can also view a 16 month history of your payments. If you would like to enroll in this service, please contact us.

U.S. Tax Refunds. In 2004, the IRS web site ([www.irs.gov](http://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 2003. The web application should be fully functional for the 2003 filing season. If you prefer to call, the number is 800-829-1954.

Louisiana Tax Changes. Louisiana is apparently getting serious about collecting use (sales) tax on out of state purchases. Accordingly, we will be asking all our clients to give us an estimate of such purchases to include on the return. The tax rate is 8%.

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.

Staff Update. We recently hired two new staff members, Annie d'Hemecourt and Nicole Dubois. Annie is a CPA who has worked for Arthur Andersen and Ernst & Young in their tax compliance areas. Nicole recently graduated from LSU with a B.S. in accounting. Their talents, paired with Janet's, will enable us to continue to provide you the high level of service you have come to expect.

We all wish you a happy and prosperous New Year!