CERTIFIED PUBLIC ACCOUNTANTS
DEMONTE & FALGOUST, LLC

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

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Dear Clients and Friends:

We hope this holiday season finds you all in good health and optimistic about the future.

Last Year's Survey. We had a good response from a client survey we sent out last year. Several clients asked that we offer **investment advisory services** to make us a "one-stop" shop front for their investment and tax planning needs. We are evaluating various methods of providing this service, while maintaining our ethical standards but for now we are referring out this service to a local investment advisory firm. Thanks to all who took the time to respond.

Market Returns. With the 50+% downturn in NASDAQ since March and even more in some tech stocks, the speculative **bubble has finally burst** and rational investing programs may begin again. Dividends, price earnings ratios and earnings growth suddenly seem to matter again. The markets have a way of regulating excess on their own and it seems to have taken place again. The long haul typically provides an 8-12% return, year in and year out. Those returns will double your investments every 6-9 years. Larger returns than this contain unacceptable risks or are unsustainable.

Tax Changes. Look for the new President to put forth his across the board **tax relief early next year**. Death taxes will likely be phased out over a ten-year period and top income tax rates will be scaled back to 33%. Estate planning will still be important considering the existing tax will likely hang around for many years as it's phased out. They probably won't do the simple and best fix, which is just raising the exemption from $675,000 to say $10 million. Phase-outs complicate and increase the cost of compliance but allow Congress take credit while still hanging on to money. Don't commit to any irrevocable estate plans until the dust settles next year.

Technology Update. Our office is now "semi" **paperless** with the new scanning and image retrieval system recently installed. We would be happy to demonstrate its wonders to any of our clients who feel paper and filing chores are becoming unmanageable in their business. We have redundant offsite back up of these records to allow us to sleep at night. Periodically we will burn CD's to permanently archive the documents. The best feature is that everyone can immediately access client files from any computer in the office. We also offer PC Anywhere support over the Internet that provides authorized users **remote access** to scanned files or any application from any computer, anywhere with no connect charges.

Capital Gains. A **new wrinkle** in capital gains taxation takes effect next year. Long-term gains on stocks that would qualify for a 10% tax (low income taxpayers) will be taxed at 8%. Income splitting by use of gifts of appreciated stock to children makes even more sense under this change. Other long-term gains will remain taxed at 20% unless they are "excessive". Then, the Alternate Minimum Tax forces a 26% rate. An 18% capital gains rate (for upper income taxpayers) will be available for all stocks purchased beginning next year if held for 5 years. It is unlikely that the current tax law for this break will be in effect in five years.

Louisiana Tax Changes. This year those who itemize will **lose 50% of their deductions** when computing their Louisiana taxable income. The on again, off again **$25 educational credit** for children in grades K-12 is **now off** again. Third and possibly most significant, Louisiana is apparently getting serious about collecting **use(sales) tax on out of state purchases**. Last year, they had a silly worksheet attached to their tax booklet that asked taxpayers to report their purchases on a voluntary basis. Of course it was totally ignored. This year we understand the question now appears on the front of the return. This ups the stakes considerably. Now both of us will have to sign off "under penalties, to the best of our knowledge and belief" that the return is accurate and complete. 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%.

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Louisiana Refund Policy. This is embarrassing to report but **Louisiana will no longer provide refunds** in cases where the payment was in error, unless it is a mathematical error on the face of the return or arises from an amendment of your U.S. return. If you write a check for the wrong amount and the error is not obvious from the return itself, forget it. The story behind this new rule is involved but essentially arises from a $50 million refund Amoco is entitled to from an agreed but erroneous severance tax overpayment they made. Because the State can't afford to the refund, they won't pay it, nor pay anyone else with similar circumstances. It does not seem to matter that **Louisiana's position essentially is the same as a thief** who won't give back money that you accidentally put in his hands. The only solution is Legislative change, so be prepared to write your Legislator. We will post a copy of the policy on our Web site soon.

Deducting Cars as a Business Expense. Next year the reimbursement rate goes up to 34.5¢ per mile, reflecting higher gas prices. We still advise our clients to **buy the car personally** and submit a mileage report to the company and get this **tax-free** reimbursement. Using a closely held Corporation to own an essentially personal asset like an automobile drives the IRS nuts so they require massive administrative rules to allocate and tax the personal use. Who needs that kind of hassle (and related CPA fees) when if the truth is told, most "business" vehicles are used very little for business after commuting, vacations and weekend uses are factored in?

E-Commerce. We still recommend the **PriceScan.com** search engine, which locates the lowest prices from around the country and even graphs the price history on many items. **Buy.com** has provided good service at near lowest prices on our computer related supplies. We use **Quill.com** for office supplies. Their service is excellent and prices are usually better than available locally. Remember the use tax implications on such purchases.

Workers' Compensation Insurance. Our business clients might not be aware that officers of closely held corporations may opt out of **workers' compensation** coverage and that if insured, only the first $39,000 in salary is subject to the premium calculation. Also look into **uninsured motorist coverage** on your auto insurance. Check with your agent and learn why you need this coverage. We recommend **eliminating workers' compensation coverage for officers** altogether. We also no longer carry uninsured motorist coverage on our cars.

Social Security Wage Limits. Next year the wage cut off for the OASDI (6.2%) portion of FICA is $80,400 up from $76,200 in 2000 and $51,300 in 1990, almost **twice the inflation rate** for the same period. The Medicare tax continues at 1.45% on all wages. Seniors over 65 can now receive benefits without earnings limits beginning in 2000. Prior to 2000, workers under 70 lost benefits if they made too much. What a dumb rule that was. The wage limit for those under 65 was $10,080 for 2000. In 2001 it will be $10,680. Remember, all those born between 1943 and 1954 will have to **wait until age 66** to get full benefits. Those same persons will be entitled to only 75% (compared to 80% for those born before 1937) of full benefit if they start at age 62. The ultimate reform to "save" Social Security will likely come in one of two alternate plans. The Republicans will push for privatization of the system and the Democrats will push for means testing, where if you don't need it, you won't get it.

Tax Refund Number. The toll free number for taxpayers inquiring about their refunds is **1-800-829-4477**. We will be piloting a few returns with E-filing this year. The IRS continues to shout their commitment to paperless filing system except that the 80% compliance goal keeps shifting and is now 2007. We are yet to be convinced the costs of **E-filing** for our mix of clients **outweigh the benefits**. It's all about the IRS saving money by pushing the processing costs down to the preparer and ultimately the taxpayers.

Retirement Plans. New limits in 2001 for 401(k) plans are $10,500 per employee and $35,000 for corporate plans. This roller coaster stock market has caused many to question whether retirement plans still make sense in light of the possibility of declines in value. **Stay in the plans**. There are at least four good reasons why: 1) Contributions are made with pre-tax dollars 2) Earnings compound tax-free 3) Employer contributions increase the value of the plan and 4) Recent market declines now allow you to buy at much lower prices. Use no load funds to diversify and get professional management. Use ***Money Magazine***, ***Forbes*** and ***Morningstar.com*** to filter the best funds from the rest.

IRA Taxation. Get out your **beneficiary forms** and be sure they're not blank and reflect your current wishes. If you can't find them, **request new ones** from your account custodian. Call us to help you select the beneficiary options. There are many wealth creating tools in this area as well as some tax disasters. One typical tax blunder we see is making your estate the beneficiary rather than a spouse or relative

Shameless Plug. Dave and his brother in law, Paul, now own and operate the G. A. Lotz Company, 540 North Cortez Street, a restaurant supply and kitchen equipment wholesaler. Give Lotz a call at 486-6076 if you are looking for **commercial grade appliances** or restaurant quality china or would like to roam through a big warehouse of kitchen toys.

We all wish you a happy and prosperous New Year!

Dave John