CERTIFIED PUBLIC ACCOUNTANTS
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CERTIFIED PUBLIC ACCOUNTANTS

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Dear Clients and Friends:

We hope that 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.

2004 Stock Market. This year saw the markets return to some degree of historical normalcy with major indexes up about 10%. If your investments did not do that well, before dumping your current advisor, look at how well he did during the recent bear market, when many portfolios lost 50% or more. We have seen more wealth created in the long run through emphasis on capital preservation than by strategies that chase the highest return each year.

Tax Changes. For the fourth straight year we have seen changes to the tax code. Tax rates for 2004, however, remain unchanged with the brackets adjusted for inflation as in the past. The two tax acts passed in 2004 provide for some tax relief to individuals, but the most extensive changes were reserved for large multinational corporations. We look for Social Security taxes to increase on the upper income taxpayers as part of the 2005 tax reform promised by President Bush. He has a history of keeping his campaign promises and Social Security reform was one of his repeated priorities.

Estate Taxes. The estate tax exemption increased 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 remained at $3,000 for 2004, but increases to $4,000 in 2005. Those 50 years and older can contribute $3,500 annually for 2004 and $4,500 for 2005; non-working spouses can still contribute $3,500 for 2004 and $4,500 for 2005. Review your beneficiary forms to make sure that actual people, not a trust or your estate, are named as beneficiaries.

Retirement Plans. For 2005 the maximum individual salary deferral for a 401(k) is $14,000 and for individuals age 50 and over the catch- up limit is $4,000. The maximum annual contribution to a retirement plan for a business owner in 2005 is $42,000, which does not include the $4,000 catch-up provision. A discretionary employer profit sharing plan with a 401(k) option can allow business owners to increase their contributions above the $14,000 401(k) limit. Be sure that your pension consultant or third party administrator reviews your retirement plan every year as changes in tax laws, employee ages, and owner's compensation can affect the type of plan that works best for your business.

Social Security Wage Limits. The wage cut off for the OASDI (6.2%) portion of FICA is $90,000, up from $87,900 in 2004. This stealthy tax increase continues. The cut off was $80,400 in 2001. 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 2005 is $12,000.

Business Vehicles. It's time to record your odometer reading. This will help document your total miles for 2004. The tax-free mileage reimbursement rate increases to 40.5¢ per mile in 2005. The 6,000 pound SUV tax benefit has been curtailed. Previously, SUVs weighing more than 6,000 pounds were not subject to the limitations imposed on so-called "luxury" automobiles because their weight put them outside the limitation-triggering definition of "passenger" automobiles. The law has been changed to create a separate category for such SUVs (including those rated at a gross vehicle weight of not more than 14,000 pounds) and imposes a $25,000 limit on the deduction, down from $102,000, prior to October 22, 2004. 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.

Alternative Minimum Tax (AMT). Originally intended to ensure that wealthy taxpayers paid a minimum amount of taxes, it is estimated that by 2010 32 million taxpayers will be affected by the AMT. The majority of these taxpayers will have incomes of less than $100,000. Taxpayers with large dividend or capital gains income are victims of this tax without ever engaging in any overt tax avoidance strategy. The real grief from this tax arises when taxpayers learn many of their itemized deductions are essentially disallowed when the AMT takes effect.

Itemized Deduction for State and Local Sales Taxes. The 2004 Jobs Act allows individuals the option of claiming an itemized deduction for either general state and local sales taxes or state income taxes, but not both. Under the new rule, you can choose to deduct actual sales tax amounts paid on *all* purchases made in that year or deduct a predetermined amount from the IRS tables, increased for sales tax paid on *large* purchases for example, motor vehicles, boats, and other items to be specified by the IRS. The new deduction is only available for tax years 2004 and 2005. Please see our website at dfcpa.com for the sales tax tables released last week by the IRS.

Movie Tax Credits. In 2002, the Louisiana legislature enacted the Louisiana Motion Picture Tax Incentive Act (the "Act") in order to induce production companies to base their film and video productions (i.e., movies, television shows, commercials, music videos, etc.) in Louisiana. The Act provides a tax credit incentive for qualified, Louisiana-based productions. The state of Louisiana issues tax credits to producers who film motion pictures in our state. However, these producers are not residents of Louisiana and can't take advantage of the tax credits. As a result, they are selling the credits to Louisiana residents for pennies on the dollar to be used against Louisiana state income tax. Individuals claim their share of the credit on their individual tax returns. These credits can be purchased for 83 cents on the dollar and in lots beginning at $5,000. In the event the entire credit cannot be used in the year earned, the remaining credit may be carried forward and applied against income tax liabilities for the next ten years.

E-filing. We were recently accepted as an Authorized IRS e-file Provider in the IRS e-file Program. This program allows us to electronically file your federal and state individual income tax returns. Please let us know if you are interested in this "paperless" filing program.

Engagement Letters. Our insurance carrier is now requiring us to use engagement letters for all work performed by the Firm. The typical engagement letter will be less than a page in length and it will detail the scope and fees of the particular engagement. We will be sending the engagement letters before we begin work in 2005.

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 do not outsource any work overseas and have no plans to do so in the future.

We all wish you a happy and prosperous New Year!

Dave John