

CONGRESS PASSES MAJOR TAX LEGISLATION

On May 26, 2001, the House and Senate approved the Tax Relief Act of 2001 which has been subsequently signed into law by President Bush.

The tax cut will provide reductions to most personal income tax rates, tax relief for married couples and parents of young children, and a repeal of the estate tax. Some of the tax cuts will be retroactive. Millions of refund checks for 2001 taxes will be mailed to taxpayers this summer as a result of these tax cuts. The Treasury Department will begin sending checks in the third week of July and hopes to have them all distributed by early October. Single taxpayers will receive up to \$300 each, while heads of household will get up to \$500, and married couples will receive up to \$600.

According to President Bush the plan “cuts income taxes for everyone who pays them.”

Many parts of the plan do not become effective for years. The entire package is to terminate after just nine years leaving it to a future Congress and President to consider reinstatement or modification of these provisions.

The key provisions of the tax cut bill are as follows:

Reduction in personal income tax rates – Most income tax rates will drop by about three percentage points by 2006. This drop will occur in three phases. The first reduction will include reductions from 39.6% to 38.6%, from 36% to 35%, from 31% to 30% and from 28% to 27%. The 15% rate will remain unchanged. Creation of a new 10% bracket (on the first \$6,000 of taxable income for singles, \$10,000 for heads of household, and \$12,000 for married couples). The rates will continue to decrease through 2006 to 35%, 33%, 28% and 25%.

Child credits – The \$500 per child credit will increase to \$600 in 2001 and then continue to increase up to \$1,000 by 2010.

Marriage Penalty – Starting in 2005 and to be completed in 2009, the standard deduction for joint filers will increase to double that of single filers. This will be gradually phased in over 5 years.

Repeal of Estate Tax – Gradually, the estate exemption will increase and the rates will be lowered for estate taxes. The exemption currently is \$675,000 and will rise to \$1 million in 2002 and eventually to \$3.5 million in 2009. The top tax rate will drop from the current 55% to 45% by 2007. The estate tax will be repealed in 2010, though gift taxes will remain in effect.

Education and retirement breaks – Contributions to IRA's will increase from the current \$2,000 limit to \$5,000 in 2008, and contributions to 401(k) plans will climb from \$10,500 currently allowed, to \$15,000 in 2006. As much as \$5,000 in college tuition will become deductible, although this expires in 2005. The five year term limits on student loan interest deductions is repealed. We will also see an increase to \$2,000 from \$500 in annual limits on contributions to education IRA's.

Alternative Minimum Tax – Exemptions to alternative minimum tax will rise, but then revert back to current amounts in 2005. However, the alternative minimum tax will significantly reduce the size of certain tax breaks for many individual taxpayers. The tax cut provisions listed above will sharply increase the number of taxpayers subject to AMT because it will reduce their income tax liability below the point at which the surcharge kicks in.

As always, we would be glad to discuss these issues with you and assist in interpreting how any of the above changes may impact your tax planning for 2001 and future years. ■

It's August 10th, Let's Go Shopping

By now many of us have heard about Maryland's 2001 Tax-Free Week. The idea behind this special one-week event is to encourage Maryland shoppers to shop in state for back-to-school and fall fashions. In an effort to make Tax-Free Week a success, the Comptroller's office worked with Maryland's retailers and drew upon the experience of other states that have instituted similar events. Before you head out to the mall, here are some of the highlights of the program that both consumers and retailers should be aware of:

When is Tax-Free Week?

Friday, August 10 through Thursday, August 16, 2001

What's tax-exempt?

Clothing and footwear priced at \$99.99 or less. As long as each item is less than \$100 it doesn't matter how many items are sold at the same time. Articles of clothing or footwear that cost \$100 or more are taxable on the entire amount; the first \$99.99 is not tax-free.

What's Taxable?

Accessories, such as jewelry, watches, ties, scarves, and handkerchiefs, will all be taxable. In addition, special protective gear like football pads will be taxed. Items used to make clothing (fabric, buttons, zippers, etc.) will also be taxable. Alteration charges will be taxed as well, even if the article being altered is tax-free.

What about coupons?

Discounts or coupons that bring the selling price of an item below \$100 will generally qualify the article for the exemption. Manufacturers coupons, however, won't lower the price for tax purposes because a third party will reimburse the retailer. "Buy one, get one free" promotions also present problems since the prices can't be averaged to qualify for the exemption. (If a dress sells for \$140 and the second dress is free, neither dress will be tax-free.)

Are Internet, Phone & Mail Orders eligible?

If a qualified article is both ordered and paid for during Tax-Free Week and immediate shipment is requested it will be eligible for the exemption even if it is not actually received until after the Tax-Free Week. Shipping and handling charges are not included in the sale price of an otherwise qualified item as long as the charges are separately stated.

Many retailers and consumers may still have questions as Tax-Free Week approaches. Please feel free to call our office or check out the Maryland Comptroller's website at www.marylandtaxes.com which can also be accessed through our website at www.bormel-grice.com. ■

Advance Income Tax Refunds: The Check's in the Mail!

The Economic Growth and Tax Relief Reconciliation Act of 2001 was recently passed by Congress and signed into law by President Bush. One of the items from the new tax law that is receiving everyone's attention is the advance income tax refund. Everyone wants to know what they have to do to get the refund and when they will get such a refund.

The advance tax refund is a direct result of the new lower 10 percent (originally 15 percent was the lowest rate) income tax rate. The new 10 percent rate technically starts January 1, 2002. Congress decided instead of waiting to apply the five percent rate reduction when we file our 2001 income tax returns next year, the IRS would issue credits that will be paid in the form of advance refund checks. Taxpayers will not have to complete any tax forms or call the IRS for their rebates. The rationale for the advance refunds

is to help stimulate the economy now by giving the taxpayers additional money to spend sooner instead of later.

The maximum refund to be received will be \$600 for joint filers, \$500 for head of household and \$300 for single filers. The filing status will be based upon the year 2000 tax return. Those who did not file a return or filed after April 16, 2001 will need to wait to claim the credit on their 2001 tax return.

For those who have filed year 2000 tax returns, the checks will be issued between late July and early October. Generally, the last two digits of the taxpayer's social security number will determine when the 2001 rebates are to be mailed. The lower the last two digits of the social security number are the sooner you will receive your check. ■

Tax Due Date Calendar

JULY 16TH

Last day for filing 2000 Form 1041 for trusts that obtained an automatic three-month filing extension.

Last day for filing 2000 Form 1065 for partnerships that obtained an automatic three-month filing extension.

JULY 31ST

Second quarter 2001 payroll tax returns due.

DC Annual Personal Property Tax Return due date.

Due date for Annual Return/Report of Employee Benefit Plan (Form 5500).

AUGUST 15TH

Last day for filing 2000 income tax return by calendar-year individuals who obtained automatic four-month filing extensions.

AUGUST 31ST

Due date for Heavy Vehicle Use Tax Return (Form 2290).

SEPTEMBER 17TH

Calendar-year corporations must pay third installment of 2001 estimated tax.

Payment of third installment of 2001 estimated tax by individuals, trusts and estates.

Last day for filing 2000 income tax return by calendar-year corporations that obtained automatic six-month filing extensions.

OCTOBER 15TH

Last day for filing 2000 individual income tax returns for those who obtained an additional two-month filing extension.

Last day for filing 2000 Annual Return/Report of Employee Benefit Plan (Form 5500) for those who obtained a two and one half month filing extension.

OCTOBER 31ST

Third quarter 2001 payroll tax returns due.

DECEMBER 17TH

Calendar-year corporations must pay fourth installment of 2001 estimated tax.

OFFICE SPACE AVAILABLE

Call 301-953-3259
for more information

5,499 Sq. Ft., Available July 2001,
Overlooking Golf Course,
Lots of Opening Windows, Deck

14409 Greenview Drive, Laurel

Distribution from Retirement Accounts Made Easier

The IRS has recently changed regulations regarding distributions from retirement accounts. These changes are retroactive to January 1, 2001. The focus is on simplification of retirement distribution decisions. No longer will we have to struggle with "single life vs. joint life" and "recalculation vs. term certain" decisions in order to make expectancy elections for calculating Required Minimum Distributions (RMD's). All eight of the former options have been reduced to a single life expectancy standard and one IRS table. What is most significant is that this new table was actually the most generous table under the old rules. This new table should reduce the level of Required Minimum Distributions for most

individuals. Even more appealing to investors is that the elections and beneficiary designations are no longer irrevocable as of your Required Beginning Date. While you still must begin taking distributions at age 70^{1/2}, you may now change your planning decisions at any time. As a result of the new elections and designations flexibility, it may be advantageous to review your decisions annually based on tax planning and any changes in circumstances.

Short term there are several planning opportunities to benefit you.

- Anyone past the Required Beginning Date should act now to correct improper decisions.

- During 2001, anyone past the Required Beginning Date has a choice between the old and new regulations for calculating Required Minimum Distributions.

- Anyone that has inherited a distribution stream from an IRA since 1/1/2000, has an opportunity this year to amend the life expectancy elections the owner made before death.

If you would like to discuss your own retirement plan in more detail, feel free to contact us so that we can provide the clarification and resources you need to make effective decisions. ■

Retention of Business Records

Do you have control of your business records? Control requires establishment of a system that: (1) makes filing easy and efficient; (2) provides for quick retrieval; (3) offers adequate protection of records against theft, loss or destruction; (4) establishes clear parameters between current files and inactive records; and (5) establishes specific deadlines and procedures for records destruction. Since excess record retention is extremely costly, it's particularly important to focus on the last point. One of the best sources for determining appropriate records retention periods is the *Guide to Record Retention Requirements in the Code of Federal Regulations* published by the National Archives and Records Administration. Following is a partial listing:

Audit reports; capital stock and bond records; cash books; charts of accounts; vital checks; contracts in effect; legal and important correspondence; deeds; mortgages and bills of sale; depreciation schedules; financial statements; general/private ledgers and year-end trial balances; insurance records; journals; corporate minutes; patent records; independent property appraisals, property records; retirement and pension records; tax returns; trademark and copyright registrations; union agreements

Suggested Retention Period: Permanent

Settled accident reports and claims; accounts payable and accounts receivable ledgers and schedules; canceled checks (general); expired contracts, mortgages, notes and leases; expense analysis and distribution schedules; garnishments; inventories; customer and vendor invoices; notes receivable ledgers and schedules; payroll records and summaries; personnel files (terminated); plant cost ledgers; purchase orders; sales records; scrap and salvage records; canceled stock and bond certificates; subsidiary ledgers; time records; voucher registers and schedules, and payment vouchers, withholding tax statements

Suggested Retention Period: 7 Years

Bank statements; employment applications; expired insurance policies; internal audit reports, petty cash vouchers; physical inventory tags; sales commission reports

Suggested Retention Period: 3 Years

Bank reconciliations; general correspondence, duplicate bank deposit slips

Suggested Retention Period: 2 Years

Magnetic tape and tab cards; purchase orders (except purchase department copy); receiving records; requisitions; stenographers' notebooks, stock-room withdrawal records

Suggested Retention Period: 1 Year

Copies of the government's *Guide* can be obtained from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402-0325. Assistance with development of sound and efficient filing systems is available from us. ■

Payroll Withholding Alert

The Internal Revenue Service has mailed the new withholding Tables for 2001 that applies to all wages paid after June 30, 2001.

There are many ways to use this booklet to determine the correct withholding that corresponds to filing status and pay schedules. The Wage Bracket Method tables found on pages 5-24 are the tables that are the most commonly used by payroll preparers. The new withholding tables on pages 38-57 of the booklet combine income tax, employee social security tax, and employee medicare tax.

Please feel free to contact your Bormel, Grice & Huyett representative with any questions you may have concerning this matter. ■

Client Profile:

Maryland's Top Horse Trainers: Grover "Bud" Delp and Ferris Allen

Bormel, Grice & Huyett, P.A. is proud to include as clients many professional athletes over our 30 plus years in business. Our roster of sports personalities has included athletes from major league baseball, an Olympic Gold Medal winner, horse racing trainers and jockeys who have won the Kentucky Derby and the Preakness Stakes and others who have participated in diverse endeavors within the sports world.

We are pleased to feature two of our most successful clients within the horse racing industry, who have appeared frequently in the Baltimore and Washington sports pages this year.



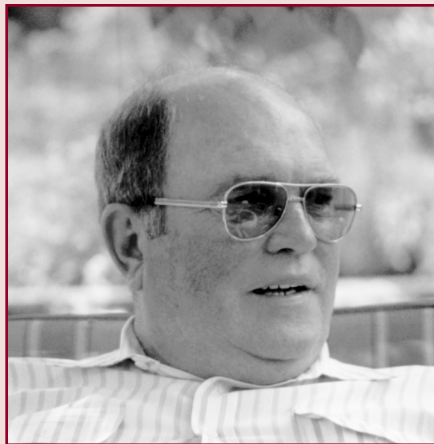
A. FERRIS ALLEN III

Ferris Allen has been training horses since he left a school teaching career on a whim in 1976. He has been a mainstay on the Maryland Circuit since 1979.

Ferris was Maryland's leading trainer in 1999, and early in the year 2000 he surpassed 1,000 career wins. In addition to his local accomplishments, Ferris has been Virginia's Colonial Downs leading trainer every year since racing began in Virginia in 1997.

His best horses have been Miracle Wood, who won over \$498,000 including a 5th place finish in the 1986 Preakness, Passeggiata, winner of the Grade II, Barbara Fritchie and other stars such as Palette Knife, Muskrat Love, Sheaphin, Night Spirit and the current top sprinter, Trounce.

Ferris has continued his success in 2001 and consistently trains many of the top race horses in Maryland. Ferris' family includes a daughter and son who are very proud of their dad's accomplishments.



GROVER GREER DELP

Grover G. "Bud" Delp's career as a head trainer began with seven horses in the fall of 1962 at Laurel. By the summer of 1963 he won his first leading trainer title at Delaware Park, and held that crown for ten consecutive years. In 1964, a fire destroyed his barn at Laurel, and he lost 30 horses with only three surviving.

Establishing himself as a trainer of minor stakes horses, Delp began receiving well-bred fillies from the prestigious Windfields Farm. In addition, Mr. Harry Meyerhoff and Mr. Robert Meyerhoff began purchasing yearlings at the Keeneland Fall Sale. These horses were chosen on the owners' part by pedigree and the confirmation approval by Mr. Delp. This has remained a winning combination for the owners for over 30 years. In 1977, the Meyerhoffs purchased Spectacular Bid for \$37,000. The horse went on to become a champion every year he raced, culminating in Eclipse Awards for horse and trainer, and a hefty syndication of \$22,000,000.

In a career spanning 39 years, Mr. Delp has traveled to the winners circle over 3,500 times. Only nine other trainers in the history of North American Racing have accomplished that feat. He has won training titles at 11 tracks, in six different states. His victories in graded stakes races include: Kentucky Derby, Preakness, Massachusetts Handicap (twice), Black Eyed Susan (twice), Ashland, Arlington Lassie, Washington Park Handicap, Woodward, NYRA Mile, Ben Ali (twice), John B. Campbell, Hawthorne Gold Cup, Champagne, Kentucky Oaks, Haskell, Santa Anita Handicap, Pimlico Special, New Orleans Handicap, Test, and the Fairgrounds Oaks to name a few.

What possibly separates Bud Delp from his contemporaries is focus and attention to detail.

Each horse under his care is treated as an individual. His goal is to find the key that will enable each occupant of a stall to perform their best, regardless of their breeding or value. Presently, Mr. Delp is enjoying a successful season with "Include," which is owned by Robert Meyerhoff, and is rated one of the top handicap horses in the country. Fortunately, for Bud, his family also shares his obsession with the species. Three sons, one daughter and his wife are extremely proud of his management and success with the horses under his care. ■

BG&A NEWS

We are pleased to welcome **Rodney (Rod) Burr** to our accounting staff. Recently, Rod's experience includes several years with a public accounting firm in Catonsville. Rod specializes in the auditing of not-for-profit organizations. Prior to becoming a CPA he worked as a senior buyer, which included contract negotiations, bid preparation and compliance of contracts. Rod has two daughters, one who graduated this June from high school.

The Bormel, Grice & Huyett, P.A. \$1,000 Annual Business Scholarship was awarded this year to **Emily Slutsky**, a graduating senior of Atholton High School. The Bormel, Grice & Huyett, P.A. Scholarship Fund provides the resources to award an annual college scholarship to an area high school senior who expresses a desire to pursue a business related degree in college. Tax-deductible contributions to the Bormel, Grice & Huyett, P.A. Scholarship Fund can be made payable to the BWCC Foundation, who maintains and administers the fund.

Katherine A. Grice has recently been elected Treasurer of the Executive Committee of the Baltimore Washington Corridor Chamber of Commerce.

BG&A and Laurel Marketing & Design recently went on their annual bike trip to the Patuxent Wildlife Refuge.

The BG&A UPDATE is published for our clients, staff and professional contacts. Copies will be provided to other business people upon written request. Any action based on information contained herein should be taken only after a detailed review of the specific situation.

The following members of our firm have contributed to this edition: **Larry Bormel, Katherine Grice, Mike Myers, Bette Anne Sanders, Edie Manney, Sally Johnson, Gary Wainio and Marlene Collins.**