

## 2003 Tax Legislation – General Highlights of Provisions

The “Jobs and Growth Tax Relief Reconciliation Act of 2003” (“JGTRRA ’03”) was passed by Congress just before Memorial Day and gives immediate tax relief for both individuals and small businesses. Since the majority of tax breaks are retroactive to January 1, 2003, and marginal tax rates have been lowered across the board, it will mean extra disposable income for all taxpayers in 2003. In addition, the law lightens the tax burden on investors by lowering the tax rates on earnings from investments (including stock dividends). It also provides significant tax incentives designed to help businesses grow and thrive.

Some of the major highlights in what is being called the third largest tax cut in U.S. history are:

✳ **Lower individual marginal tax rates** of 10, 15, 25, 28, 33, and 35 percent.

✳ **Lower taxes paid on both capital gains and dividends.** The tax rate on capital gains drops from 20 to 15 percent for all taxpayers except those in the lowest brackets. The 15 percent rate applies to transactions occurring on or after May 6, 2003, and remains in effect only through December 31, 2008. Dividends paid on stock, which had been taxed at the same rate as ordinary income, will be taxed at 15 percent for most taxpayers effective January 1, 2003. This rate remains in effect until December 31, 2008. However, not all corporate distributions are entitled to tax-reduced dividend treatment, creating a new web of complex rules for both shareholders and corporations alike.

✳ **Increase in the child tax credit** to \$1,000, with a rebate check in the amount of the increase (\$400 per child) being sent to most taxpayers with children last summer.

✳ **Marriage penalty relief.** JGTRRA ’03 immediately raises the standard deduction for married couples filing jointly to twice the standard deduction for single taxpayers for 2003 and 2004. The income range has also been doubled in the 15 percent tax bracket for couples filing joint returns.

✳ **Alternative minimum tax (AMT) relief** for 2003 and 2004. JGTRRA ’03 provides additional relief from the alternative minimum tax by increasing the AMT exemption for married couples filing jointly and surviving spouses to \$58,000 and for single filers to \$40,250. Nevertheless, the principal reason for this relief is to balance out the tax benefits in JGTRRA ’03 that otherwise would subject many more taxpayers to the AMT. It does not solve the underlying problem that pushes a greater number of middle

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## Congratulations to BG&H’s Fifteen Years Club!



**Marlene Collins** - Marlene has kept us on the straight-and-narrow road with the rubber-side down for the past **FIFTEEN** years; without her we wouldn't know which way to turn.

**Bette Anne Sanders** - Bette Anne has repeatedly taken a gamble on us for the past **FIFTEEN** years; may our luck hold for many more years to come.

**Brenda Cummings** - Brenda has been our “Star” for the past **FIFTEEN** years; may she keep shining just as bright into the light years ahead.

HAPPY HOLIDAYS AND OUR BEST WISHES FOR A PROSPEROUS NEW YEAR  
FROM THE PARTNERS AND STAFF OF BORMEL, GRICE & HUYETT, P.A.

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and upper-middle class taxpayers into the AMT each year. The immediate solution continues to lie in careful tax planning.

✳ **Increased sec. 179 expense deduction.** The amount small businesses can elect to expense for the purchase of “qualified property” has increased from \$25,000 to \$100,000.

✳ **Increased bonus depreciation.** First year “bonus” depreciation that businesses can take for assets acquired after May 5, 2003 has increased from 30% to 50%.

This is a *very brief* description of the tax cuts in the new law. It does not cover all the tax benefits and the planning opportunities that apply to your specific business and personal situation. Careful planning will have to be exercised to make the most of the tax relief in JGTRRA '03. This is especially true because of the retroactive effective dates and the temporary duration of many of the provisions.

We need to look at transactions that are already in the works and those you planned for this year

to see how the new law affects them – and how they might be quickly revised. In addition, there may be new personal and/or business projects or investments that the new law will enable you to undertake, which were not possible before its passage.

Call us today so we can map your tax strategy to take best advantage of the new provisions. ■

## Like-Kind Exchanges – Property Owners Tax Planning

When it comes to saving taxes, like-kind exchanges allow people with rental, business, investment and some personal property to defer taxes on the transfer of that property. The IRS allows two types of “deferred exchanges” which permit the exchange of many types of properties. A person can sell property they currently own and buy another one that they found on the open market within a certain time frame. In fact, a person can buy a property first and then sell an existing property and use the like-kind exchange tax deferred treatment. These types of transactions require the trade to be administered by an agent known as a “qualified intermediary,” usually an attorney. The taxpayer cannot touch the proceeds of the sale or it invalidates the transaction. The proceeds of the sale are held in an escrow account until new property is acquired. The deferred taxes become due when the property is sold without doing another exchange.

A like-kind exchange is not complicated to arrange; in fact, the steps necessary are not significantly different than selling one property and buying another.

There are many reasons why someone may want to exchange properties. A person who owns business or rental property in one state may wish to relocate to another state. A like-kind exchange would be an effective way to move the business or investment property. One taxpayer may want to exchange appreciated rental property in a high growth area for property that provides high rental income in a different area. Another taxpayer may wish to consolidate several rental properties into one large rental property for ease of management. Whatever the reason, this section of the tax code is well worth considering especially when a potentially large taxable gain is involved.

The key to successful property exchanges is in structuring the transaction to meet IRS requirements and satisfying specific timeframes in which the deal must be completed. The two properties can be in different states but not different countries. There are also exchanges allowed for personal property used in a business or held for investment. Another great advantage of this exchange treatment for real property (land or buildings) is that they do not have to be exactly alike. One can trade a parcel of land held for rental purposes for a rental building or condo. There are more stringent requirements for personal rental or investment property.

Obviously, there are many reasons to consider like-kind exchanges. If you would like further information, please contact our office for advice on your specific situation. ■

## Payroll Changes for 2004

For 2004, the Social Security Administration has announced increases in the maximum amount of earnings subject to Social Security and self-employment taxes. The Social Security rates will remain at 6.2% each for employers and employees on earnings up to the new wage limit of \$87,900 paid in 2004. The maximum withholding for Social Security will be \$5,449.80. The Medicare rates will remain at 1.45% each for employers and employees; all earnings will continue to carry no ceiling on maximum taxable earnings.

IRS limits the amount employees can deposit to a 401(k) plan each year. A participant's maximum pre-tax contribution for 2004 will be \$13,000 (an

additional \$3,000 can be contributed for individuals who will be at least age 50 by the end of the year). This limit applies to all 401(k) plans the person participated in during the year. It is the employee's responsibility to keep track of total contributions if they participated in the 401(k) plans of more than one employer during the same year.

The Maryland Unemployment Insurance tax rate for employers based in Maryland will range from .3 to 7.5 percent, with an additional tax in the form of a new 1.1 percent surcharge, effective in 2004. Employers will be notified of their rate in late December or early January.

The new 2004 Maryland employer withholding guide and tables were mailed in November 2003. Changes have been made to various county withholding rates, a new accelerated filing category will be implemented and new withholding due dates will take effect in 2004.

The standard mileage rate for business use of an automobile in 2004 will increase to 37.5 cents per mile and to 14 cents per mile for use for medical or moving purposes. The rate for the charitable use of an automobile remains at 14 cents per mile.

Should you need any assistance with these items, please feel free to call our office. ■

# Depreciation Changes for 2003

Congress passed a new tax relief package in Spring 2003 that has significant tax breaks for businesses. While the media has focused on the tax breaks for families and investors in the *Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA)*, the new law contains important business tax breaks. The new laws all have sunset provisions, so this is a time for strategic planning for business owners. Businesses need to act within the time parameters set by the new laws.

## SECTION 179

The amount that a small business can expense under Section 179 has increased from \$25,000 to \$100,000 for property placed in service in 2003, 2004 and 2005. For purposes of the phase-out of the deductible amount, the current \$200,000 ceiling has increased to \$400,000.

The following example of the procurement of a \$400,000 piece of equipment on September 1, 2003 will demonstrate the Federal tax savings.

	OLD RULE	NEW RULE
Section 179	\$ -0-	\$ 100,000
Bonus Depreciation	\$ 120,000 (\$400,000 X 30%)	\$ 150,000 (\$300,000 X 50%)
MACRS Depreciation	\$ 56,000 (\$280,000 X 20%)	\$ 30,000 (\$150,000 X 20%)
Total Deduction	\$ 176,000	\$ 280,000
	(44%)	(70%)

Note: The state of Maryland did **not** go along with the increased deduction and limits the deduction to \$25,000.

## BONUS DEPRECIATION

The increase in the bonus depreciation to 50 percent is an extension of JCWA's (*Job Creation and Worker Assistance Act of 2002*) 30 percent first year depreciation bonus. The 50 percent bonus applies to property placed in service on or after May 6, 2003 and before January 1, 2005. The 50 percent bonus is in addition to the regular first year depreciation. Property does not qualify for the 50 percent level of bonus depreciation if its acquisition was the subject of a binding written contract entered into before May 6, 2003. Taxpayers cannot take JCWA's 30 percent and JGTRRA's 50 percent bonus on the same property at the same time. The new law also allows taxpayers to "elect out" of bonus depreciation.

## LUXURY AUTOS

JGTRRA also increased the depreciation limits allowed for passenger autos, which are defined as any four-wheeled vehicle which is manufactured primarily for use on public streets, roads and highways and which is rated at 6,000 pounds unloaded gross vehicle weight or less. Many full-size pickups, vans and SUV's have a GVW (loaded weight) of more than 6,000 pounds and are, therefore, exempt from luxury auto depreciation limits. Smaller vans, pickups and SUV's do not have a GVW of more than 6,000 pounds and are subject to the luxury auto depreciation limitations.

The 2003 Act increases the luxury auto depreciation limits for qualified property acquired **after** May 5, 2003 and before January 1, 2005. The additional first year depreciation limitation is increased to \$7,660, bringing the 2003 depreciation limit for qualifying luxury autos to \$10,710.

Trucks or vans placed in service after July 6, 2003 may be exempt from luxury auto depreciation limitations, even if the GVW is not more than 6,000 pounds, if they qualify as non-personal use vehicles. A pickup truck is a qualified non-personal use vehicle if it is marked with permanently affixed decals or special painting and is equipped with work related equipment; or it is marked with permanently affixed decals or special painting and is used primarily for transporting a particular type of load other than over the public highway in connection with construction, manufacturing, or similar operations and has been specially designed for such use. To qualify as a non-personal use vehicle, a van must be marked with permanently affixed decals or special painting, have a seat only for the driver and one other person, and have permanent shelving or constantly carry merchandise. ■

## DEPRECIATION LIMITS FOR AUTOS PLACED IN SERVICE IN 2003

	First Year	Second Year	Third Year	Subsequent Years
Auto (no bonus)	\$3,030	\$4,900	\$2,950	\$1,775
Auto (30% bonus)	\$7,660	\$4,900	\$2,950	\$1,775
Auto (50% bonus)	\$10,710	\$4,900	\$2,950	\$1,775
Trucks & Vans*	\$3,360	\$5,400	\$3,250	\$1,975
Trucks & Vans (30%)	\$7,960	\$5,400	\$3,250	\$1,975
Trucks & Vans (50%)	\$11,010	\$5,400	\$3,250	\$1,975

\* Depreciation limits for trucks and vans placed in service in 2003 and after are adjusted using the new trucks CPI component rather than the new cars component. This results in a slightly higher depreciation rate for trucks and vans.

## Client Profile:

### Bormel, Grice & Huyett, P.A. is proud to feature our client **Meyers, Rodbell & Rosenbaum, P.A.**



Congratulations to **Meyers, Rodbell & Rosenbaum, P.A.** ("MRR") as they approach their 29th anniversary of providing quality legal services to their clients.

Founded in 1975 in Prince George's County, MRR has grown and now has 20 attorneys serving not only Prince George's but Anne Arundel, Montgomery, and, most recently, St. Mary's as well. In addition to providing traditional legal services, MRR has often advised county and state leaders regarding election law and ethical issues; assisted in the organization of financial institutions; and is one of the few suburban firms listed as bond counsel in "The Bond Buyer's Municipal Marketplace."

MRR's clients vary in size and character and include Fortune 500 companies as well as small and medium-sized businesses. The firm also represents many individual clients whose problems range from personal injury to estate

planning/administration and probate matters.

MRR has experienced attorneys who are knowledgeable in their respective fields which are: Land Use Planning and Development; Administrative Law; Real Estate Transactions; General Business, Corporate, Partnership and Banking Law; Municipal Finance Law; Health Care Law; Litigation (Civil and Criminal); Bankruptcy and Creditor's Rights; Alcoholic Beverage Licensing; Wills, Estate Planning and Administration; and Governmental Relations.

Meyers, Rodbell & Rosenbaum, P.A. proudly maintains a reputation for skill, integrity, and effectiveness in all matters involving the legal representation of its clients. Questions about the firm and its professional operation can be directed to William V. Meyers, Esq. or Robert H. Rosenbaum, Esq. at (301) 699-5800 or sent by email to [admin@mrrlaw.net](mailto:admin@mrrlaw.net). ■

## Tax Due Date Calendar

### JANUARY 15<sup>th</sup>

Final installment of 2003 individual estimated taxes due.

### FEBRUARY 2<sup>nd</sup>

Last day to receive W-2, 1099, 1098, 5498 and W-2G information statements from your employer, bank, broker, etc.;

Fourth quarter 2003 payroll tax returns due;

Annual federal unemployment tax returns due;

Individuals who owed, but did not pay, estimated tax on January 15th can file a final 2003 income tax return

and pay the tax in full to avoid late payment penalty.

### FEBRUARY 17<sup>th</sup>

Last day for filing Form W-4 by employees who wish to claim exemption from withholding of income tax for 2004.

### MARCH 1<sup>st</sup>

File Form 1096 to transmit paper Forms 1099, 1098, 5498, or W-2G series returns to the IRS to report payments to recipients who received Form(s) 1099, 1098, 5498, or W-2G on February 2nd, as indicated above;

Use Form 4804 to transmit Forms 1099, 1098, 5498, or W-2G, via

magnetic media, to the IRS;

File Form W-3 with copy a of Form(s) W-2 to the Social Security Administration.

### MARCH 15<sup>th</sup>

Corporate income tax returns for calendar year 2003 due;

Last day for requesting an automatic 6-month extension of time to file 2003 corporate income tax returns (Form 7004) for calendar year 2003.

### APRIL 15<sup>th</sup>

Individual tax returns or automatic 4-month extension requests, along with payment of any tax due for 2003;

First quarter individual estimated tax payment due for 2004;

Gift tax returns (Form 709) and payment of gift tax due for 2003;

Last day for making your 2003 IRA contribution;

Partnership returns for 2003 due;

Last day for requesting an automatic 3-month extension of time to file calendar year 2003 partnership income tax returns (Form 8736);

Fiduciary income tax returns or extension requests are due for calendar year 2003 fiduciary returns.

## BG&A NEWS

We are pleased to welcome **Sheila M. Curry**, CPA, to our staff. Sheila is a graduate of University of Maryland – College Park. Sheila and her husband Wayne make their home in Upper Marlboro along with their two children, Julian and Taylor.

The following awards were recently presented at our annual firm retreat:

Bormel, Grice & Huyett Award of Excellence – **Marlene Collins**

Thumbs Up Award – **David A. Young**

Certificate of Appreciation – **Martina Megofna**

The following employees recently celebrated milestones with our Firm:

**Bette Anne Sanders**, **Brenda L.L. Cummings**, and **Marlene M. Collins** celebrating their 15th

Anniversary; **Katherine A. Grice** and **Anna E.R. Huyett** celebrating their 20th Anniversary; and **Larry P. Bormel** celebrating his 25th Anniversary with the firm.

**Larry P. Bormel** was elected President of the Laurel Regional Hospital Foundation.

**Marlene Collins** was appointed as an alternate Board Member to the City of Laurel's Board of Ethics Commission.

If you haven't already done so, please visit our website at [www.bormel-grice.com](http://www.bormel-grice.com). Through our website you can access information about our firm and its specialty groups, the latest issue of our newsletter, and links to other sites such as tax forms and publications, Maryland Comptroller of the Treasury, Maryland Association of Certified Public Accountants, American Institute of Certified

Public Accountants, Baltimore/Washington Corridor Chamber, State Department of Assessments and Taxation, Bloomberg Financial Services, and client websites. Your comments and feedback are welcome and appreciated.

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**, **Kathy Grice**, **Bette Anne Sanders**, **Catherine Newman**, **Marlene Collins**, **Martina Megofna**, **Michael Elliano**, **Mike Myers**, **Brenda L.L. Cummings**, and **Rod Burr**.