
LARRY A. JAFFE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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It's that special time of year when everyone around here gets to feel really, really needed. By now, most of you should have received the 2004 tax organizers that were mailed out in mid January. (Please let us know if you expected one but failed to receive it.) Completely and accurately filling out the tax organizer is the best way to reduce your tax preparation fee. If you'd like to meet with us when you drop off your organizer just call our office and schedule an appointment.

LEGISLATIVE UPDATE-AMERICAN JOBS CREATION ACT OF 2004

We touched on this briefly in Green Sheet #13. Here's some expanded discussion of some of the more important tax items included in federal legislation signed into law last October.

◆ **Deduction for Production Activities.** For tax years 2005 and 2006 a deduction of 3% of production activity income is available. . .deduction may be taken for broadly defined manufacturing, construction, or agriculture activities, but not restaurants. . .available for all entities: corps, partnerships and individuals. . . the deduction is limited to taxable income and 50% of W-2 wages paid out

◆ **Depreciation and Amortization Items.** Maximum annual limit for deducting equipment costs in the year of purchase remains at \$100,000 (indexed for inflation). . .this cap is lowered to \$25,000 for most vehicles over 6,000 pounds (vehicles below 6,000 pounds are subject to stricter limits). . .heavy pickups may still qualify for higher write-offs. . .taxpayers may immediately deduct up to \$5,000 of costs associated with forming a corporation or partnership. . .ditto for costs incurred prior to the start date for a new business

◆ **Other Issues.** Effective January 1, 2005 the deduction for donated vehicles is limited to the amount received by the charity when it sells the vehicle. . .taxpayers can elect to deduct sales taxes rather than income taxes (a non-issue for most of us since there's no sales tax in Oregon). . .certain legal fees may now be deducted directly from settlement proceeds

HOW (NOT) TO ATTRACT THE ATTENTION OF THE IRS

According to a report in the most recent Oregon CPA magazine, the IRS has identified several areas of intended focus:

◆ **Strategic Plan: 2005-2009.** Long term plans include modernization, improving taxpayer services and enhancing enforcement. . .among the enforcement objectives are identifying and discouraging non-compliance by corporations and high-income individuals. . .high income is defined as more than \$100,000 of adjusted gross income

◆ **Small Business and Self-employed Division.** Major areas of non-compliance include unreported taxable income and employment taxes. . .IRS estimates the "tax gap" in this area approaches \$300

1600 VALLEY RIVER DRIVE • SUITE 380 • EUGENE, OREGON 97401
(541) 485-0045 • FAX (541) 485-1005

billion for underpaid federal tax. . .more audits are being aimed at pass-through entities (partnerships and S corporations)

◆ **Electronic Filing.** Stated goal of IRS is to have 80% of returns filed electronically. . .the Service expects half the 133 million taxpayers will file electronically this year. . .Larry A. Jaffe, P.C. is one of more than 50,000 firms e filing 100 or more returns. . .(we prefer e filing because it's more accurate, less wasteful, results in quicker refunds and receives IRS acknowledgement of filing)

PERSONAL FINANCIAL PLANNING - ACTION TIPS

Enough about taxes. They are, after all, just one part of your overall financial picture. Here are three non-tax financial issues you might want to mull over

◆ **Free Credit Report.** Oregon residents are among the first eligible for obtaining free credit reports. . .go to www.annualcreditreport.com. . .accessing the site allows you to order a free credit report from each of the three major credit reporting companies. . .review the report for accuracy - your financial credibility is at risk and mistakes are not uncommon (think "identity theft")

◆ **Interest Rates - Going Up.** The Fed has raised overnight rates by 1.25% in the last nine months; long-term rates may follow. . .it's a good time to review mortgages, car loans, credit cards, savings accounts. . .eliminate high-rate, non-deductible interest (credit cards) first. . .consider home equity loans as alternatives to higher interest financing

◆ **Review Your Portfolio.** If it's been more than a year since you did this, it's probably time. . .start by identifying your current investments. . .consider whether today's mix of stocks and bonds is consistent with the goals you had when you started. . .Completely lost? We can refer you to some professionals who might be able to help

CLIENT CORNER - Mike Gansen Construction

Rd.

Mike Gansen Construction Company has been in business for more than 20 years. A member of the Earth Advantage program, the company focuses on building superior quality, energy-efficient homes. Owner Mike Gansen's efforts are complemented by Mike Dotson and Traci Dunlap in the front office and a team of about 25 employees and subcontractors. "We try to work closely with each client," owner Mike Gansen says. "We try to insure that the expectations of each client are not just met but exceeded."

We'll be catching up soon to those clients we only get to see and talk to once a year. To you and also to those clients with whom we interact throughout the year we extend our traditional tax season greeting: Many Happy Returns!