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If you haven't already done so there's something you can do between now and November 5 that can have a dramatic impact on your tax situation for years to come: vote. Among the statewide ballot measures one stands out; Measure 23 would create the Oregon Comprehensive Health Care Finance Plan. The plan would pay for medically necessary services for all Oregon residents and would be funded with tax increases. Individual income taxes would be hiked by zero to eight percent of income; employer payroll taxes would be increased by three to 11.5 percent. If passed, Measure 23 would change the health care and tax landscapes in Oregon for the foreseeable future. Be sure to vote!

YEAR END INDIVIDUAL TAX PLANNING TIPS

♦ **Dump the Losers.** Consider selling stocks, mutual funds or other investments that have lost value. . .up to $3,000 of capital losses can be used to reduce other taxable income. . .you can sell and repurchase the same investment after 30 days without penalty

♦ **Prepay State Tax.** State taxes are generally deductible on federal returns. . .paying by 12/31 any state tax due next year accelerates this deduction from 2003 to 2002

♦ **Clean Out the Garage**. Non-cash contributions (old clothing, appliances, furniture, etc.) made by 12/31 are usually deductible. . .the amount of the deduction is limited to fair value of property. . .make a trip to Goodwill before New Year's Eve and remember to get a receipt

♦ **Buy That Computer Now.** Purchases of business equipment can often be written off immediately. . .as much as $24,000 per year. . .an additional deduction of 30 percent of any remaining cost may also be available

♦ **Oregon College Savings Plan.** This plan allows earnings on certain college savings accounts to escape federal and state income tax. . .contributions of up to $2,000 are deductible on Oregon returns. . .taxpayers contributing full $2,000 will typically save $180 each year in state income tax

♦ **Oregon Political Credit**. Reduce your state income tax one dollar for every dollar contributed to candidates, parties or political committees (up to $100 for joint filers)

♦ **IRA Contributions**. Contributions to traditional IRAs don't have to be made until April, 2003 to be deducted on 2002 tax returns. . .contributing earlier means tax deferral on earnings starts sooner

Many clients find it helpful to have our office prepare personal year-end tax projections. . .these can identify problems and present solutions. . .please contact us if you're interested

SOME NEW WRINKLES

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Several tax law changes will mean new or changed items on 2002 tax returns. Among the more important are these:

♦ **Higher Ed Deduction.** New Code Section 222 allows individuals to deduct up to $3,000 for tuition and fees at post-secondary education institutions. . .taxpayers cannot simultaneously claim the deduction and the Hope or Lifetime Learning Credit. . .deduction evaporates at $65,000 of income ($130,000 for married couples)

♦ **Educator Deduction for Classroom Expenses.** Eligible educators are allowed an "above-the-line" deduction of up to $250 for books, supplies, etc. . .provides some relief for teachers who shell out hundreds each year for paints, crayons, books and other materials. . .only teachers of grades K – 12 are eligible

♦ **Miscellaneous Provisions.** 70% of self-employed health insurance premiums are deductible in 2002; increases to 100% next year. . .allowable IRA contribution increases to $3,000 plus $500 "catch-up" contribution for individuals over 50. . .small employers starting SEP or SIMPLE retirement plans may qualify for a credit of up to $500

HOME OFFICE DEDUCTION – THE GOOD, THE BAD, THE UGLY

Every year, many of our clients ask about taking a home office deduction. I've never been a big fan of this deduction; the benefits are often minimal and can create significant traps.

♦ **The Good.** Business use of home can convert non-deductible expenditures into deductible ones. . .utilities, insurance and maintenance are a few examples. . .depreciation expense may also be allowable. . .

♦ **The Bad.** Rules are strict: office must generally be used exclusively and regularly as taxpayer's principal place of business. . .deduction is disallowed in loss years. . .deduction amount is limited to business use percentage. . .additional recordkeeping is required

♦ **The Ugly.** Sale of home with a home office can trigger tax liabilities in excess of prior benefits. . .sale of home office is treated as sale of business property rather than tax-protected sale of principal residence. . .depreciation deductions may become taxable and, worse yet, appreciation may be subject to tax

As always, thank you to all our clients for your continuing support and trust. Best wishes to all for a safe and happy holiday season and prosperous 2003!