LARRY A. JAFFE, P.C.
CERTIFIED PUBLIC ACCOUNTANT

Green Sheet Number 8 August 1, 2003

Again this year, we'll remind you all that the "Second Tax Season" is almost over. August 15 is the deadline for filing federal and state individual income tax returns that were extended at April 15. Please contact our office if you expect your returns to be prepared by August 15 but have not yet heard from us.

NEW FEDERAL TAX LAW - AGAIN

By now, most of you have heard about the new tax law: the Jobs and Growth Tax Relief Reconciliation Act of 2003. The Act is a hodgepodge of changes to tax rates, credits, capital gains and business depreciation. To effect some budgeting sleight of hand, many provisions are only temporary and will expire in the future unless extended by new law. Some of the highlights:

♦ **Individual Tax Rates.** The 27, 30, 35 and 38.6 percent rates are lowered to 25, 28, 33 and 35 percent, retroactive to January 1, 2003. . .new withholding tables have been issued which is why many of you are already getting larger paychecks

♦ **Child Tax Credit.** The child tax credit has been raised for 2003 to $1,000 per child. . .the hike is temporary, through 2004. . .most eligible taxpayers will receive in the mail a check for $400 in the next several weeks. . .the $400 represents the increase from the old credit amount; the $600 remainder of the 2003 credit must be claimed on the 2003 tax return

♦ **Capital Gains**. The tax rates have been lowered further, from 20 and 10 percent to 15 and 5 percent for capital gains on assets held more than one year. . .effective for sales and installment collections after May 5, 2003 and scheduled to sunset on December 31, 2008. . .most dividends, formerly taxed as ordinary income, will now be taxed at lower capital gain rates

♦ **Business Equipment.** Businesses can now write off up to $100,000 of equipment rather than deduct the costs over several years. . .taxpayers not eligible for immediate expensing can still write off up to 50 percent of the cost of most new assets purchased after May 5, 2003 and before December 31, 2004. . .so-called "luxury auto" limitations have been relaxed

Working stiffs will see limited relief from these changes. High-income investors, whose dividends will be taxed at 15 percent instead of 35 or 38 percent, will reap the real windfalls.

ELECTRONIC FILING – THE NEW STANDARD

There's no question that electronically filing tax returns is rapidly becoming the preferred method. The IRS reports a steady increase in individual returns filed electronically: from 35 million in 2000, to 40 million in 2001 to over 47 million in 2002. Last year, we offered electronic filing as an option; we're considering making it standard for 2003 individual tax returns.

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

♦ **Why file electronically?** Filing electronically offers several taxpayer advantages, as we've pointed out before (Green Sheet #6). . .since E-filed returns are not re-keyed by the IRS, there's less chance of human error. . .unlike paper returns, IRS confirms receipt and acceptance of E-filed returns. . .refunds arrive much faster, especially with direct deposit option

♦ **What if I owe tax?** Several methods exist for paying any amount due with an electronically filed return. . .authorization can be given to IRS to withdraw funds from your checking or savings account. . .payment may be made by credit card (Beware! The "convenience fee" often assessed on these transactions can far outweigh any advantage). . .or a paper check may be mailed separately from the return

♦ **What else should I know?** According to the IRS, electronic filing does not affect the chance of an audit. . .Oregon returns can also be electronically filed; most procedures mirror those of federal electronic returns

STARTING A BIZ – WHERE TO BEGIN

When considering starting a business, one of the first issues to ponder is "choice of entity." The question is critical and can have significant tax consequences for the life of the business. Several alternatives exist for most people; we've outlined some of the more important attributes of the most common tax entities below:

♦ **Sole Proprietorship.** One owner, who is ultimately liable for all business debts and obligations. . .business income is taxed to the owner on the 1040 return. . .losses are fully deductible against other income. . .net income is subject to self-employment tax in addition to income tax

♦ **Partnership.** Unlimited number of owners. . .general partners are liable for business obligations, limited partners are not. . .business income is allocated to owners and taxed on their 1040 returns. . .losses may or may not be deductible. . .self-employment tax is levied on income allocated to general partners but not to limited partners

♦ **Corporation.** Unlimited number of owners. . .limited liability for owners. . .the corporation pays its own income taxes. . .graduated tax rate from 15 to 39 percent. . .current year losses can offset prior or future tax liabilities

♦ **Other Tax Entities.** S corporations are legal corporations electing special tax status. . .S corp shareholders report their share of taxable corporate income on their individual income tax returns. . .limited liability companies are hybrids for tax purposes. . .LLCs combine many of the tax attributes of partnerships with limited liability similar to that afforded corporate shareholders

In connection with an increased focus on electronic tax filing, our office is striving to do more of everything electronically. Our motivation is reducing paper and increasing efficiency. More about that in a future Green Sheet.

Enough about taxes. There's still lots of summer left. Here's hoping you're enjoying yours!