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They've changed the rules - again! This time it's the state of Oregon that passed some major tax legislation. We'll explain in a minute. Then we'll follow up on previous Green Sheet items regarding electronic filing. Finally we'll offer some year-end tax planning tips and reminders.

## NEW OREGON TAX LAW

House Bill 2152 passed by the 72<sup>nd</sup> legislative assembly balanced the state budget in part by passing a number of income tax changes. Opponents are gathering signatures now to try to overturn the measure but unless and until they're successful the new law will stand. Highlights of the act:

◆ **Individual Income Tax Surcharge.** Think of it as a tax on a tax. . .the rate of the surcharge ranges from zero to nine percent, depending on federal adjusted gross income. . .joint filers with \$100,000 of gross income, for example, will have to pay an additional six percent of their traditional state income tax. . .the surcharge is effective for 2003 and 2004 tax years and may be extended

◆ **Increased Corporate Minimum Taxes.** S corporations (like Larry A. Jaffe, P.C.) will no longer pay a uniform \$10 annual tax but will instead pay either \$250 per year if revenues are less than \$1 million, or \$500 per year for revenues exceeding \$1 million. . .C corporations will pay a minimum tax of between \$250 and \$5,000, depending on the amount of gross sales, even in years when taxable income is zero or there is a loss. . .partnerships and limited liability companies are not affected and will continue to escape taxation completely

◆ **Other Items.** Oregon seniors will have to attain age 65 (rather than 62 under current law) to deduct medical expenses below the federal threshold, and high-income taxpayers will lose part or all of the deduction. . .the immediate expensing of certain vehicles for federal tax purposes will be disallowed for state income taxes. . .the deduction enjoyed by corporations for dividends received would be halved for Oregon taxes

## ELECTRONIC FILING - 2003 RETURNS

In the last Green Sheet we reviewed the many good reasons for electronically filing income tax returns. Consistent with those reasons, e-filing will become the standard for individual income tax returns prepared by Larry A. Jaffe, P.C., effective with the 2003 return filing season. Here are a few things to remember about electronic filing; a brochure offering more complete information will be included with 2003 tax organizers to be mailed in early January.

◆ **What's the Diff?** Rather than generate paper copies of individual federal and state tax returns, we will transmit these

returns directly from our office to the IRS and state revenue department. . .clients will sign federal and state forms attesting that they've reviewed the returns and authorized our office to transmit. . .clients will continue to receive a bound paper copy of the return for their records

◆ **What About the Money?** Federal or state refunds can be directly deposited into personal checking or savings accounts at banks or credit unions. . .alternatively, paper refund checks can be issued. . .amounts due can be mailed, paid by credit card, or transferred electronically on a specific date

◆ **Don't Want to E-File?** Just let us know if you wish to file by traditional paper method. . .the 2003 tax organizer you'll receive from us in early January will allow you to select paper return preparation

#### **YEAR-END TAX PLANNING**

Many of our clients ask us to prepare year-end income tax projections. The process and resulting reports can identify potential tax problems and help project cash flow needs. Please contact our office if you're interested; for now, here are some general tax-saving ideas:

◆ **Accelerate Deductions by Acting Before January 1.** Consider selling investments that have lost value—the resulting capital loss can be used to reduce other taxable income. . .contribute unwanted clothes or household items to charity. . .prepay your Oregon income tax deficiency. . .purchase any necessary business equipment such as computers, vehicles, machinery

◆ **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, saving most taxpayers \$180 per year

◆ **Support your Local Politician.** Reduce your state income tax one dollar for each dollar contributed to candidates, parties or political committees. . .joint filers can qualify for a state tax credit of up to \$100

#### **A REMINDER ABOUT PERSONAL USE OF COMPANY CARS**

The IRS requires that personal use of a company auto be treated as a taxable fringe benefit and included on the employee's W-2. This is true for owner-employees (S corporation shareholders, for example) as well as "rank and file" employees. Please contact Bethel Willocks or Alicia Sage in our office if you need assistance with this; the calculation and payroll adjustment must be made by December 31.

Enclosed you'll find a small trinket to help you contact our office when you need to. As always, thanks to all the clients who trust and support us throughout the year. Without you we wouldn't be able to do what we love doing. Best wishes to all for a safe and happy holiday season and prosperous 2004!