

Thomas, Judy, and Tucker, P.A.

Welcome to the June 2004 Thomas, Judy & Tucker, P.A. newsletter. If you prefer to have this newsletter e-mailed, please call our office at (919) 571-7055 and give us your e-mail address, or e-mail it to us at heather.dickson@tjtpa.com

STAFF NEWS

Vina Nguyen has been an intern with the firm since 2001, while she was pursuing her accounting education at NC State University. We are excited to announce that she received her Masters in Accounting this past May! Unfortunately, Vina's future plans will take her away from Raleigh. She plans to move this summer and begin her career with a "Big 4" firm in Washington, DC. Vina has been a valuable member of our staff for over two years and a delight to have in our office. We wish her all the best in her future career and adventures!

AFRs FOR JUNE 2004

The Applicable Federal Rates for June 2004 have been announced. Selected rates are as follows:

<u>Term</u>	<u>Monthly</u>	<u>Compounding</u>	
		<u>Quarterly</u>	<u>Annual</u>
Short-term (0-3 years)	1.96%	1.97%	1.98%
Mid-term (4-9 years)	3.82%	3.83%	3.89%
Long-term (over 9 years)	5.08%	5.10%	5.20%

VEHICLE DEDUCTIONS UPDATE

2004 Depreciation Limits

For autos (not trucks or vans) that do not qualify for bonus first-year depreciation (generally used vehicles):

-\$2,960 for the year placed in service;
-\$4,800 for the second tax year;
-\$2,850 for the third tax year; and
-\$1,675 for each succeeding year.

For autos (not trucks or vans) that qualify for bonus first-year depreciation:

-\$10,610 for the year placed in service;
-\$4,800 for the second tax year;
-\$2,850 for the third tax year; and
-\$1,675 for each succeeding year.

For light trucks or vans that do not qualify for bonus first-year depreciation:

-\$3,260 for the year placed in service;
-\$5,300 for the second tax year;
-\$3,150 for the third tax year; and
-\$1,875 for each succeeding year.

For light trucks or vans that qualify for bonus first-year depreciation:

-\$10,910 for the year placed in service;
-\$5,300 for the second tax year;
-\$3,150 for the third tax year; and
-\$1,875 for each succeeding year.

Limits on SUV Write-offs Imminent

Congress is currently considering legislation that would limit the expensing of heavy SUVs. The legislation, not yet passed by the House, would allow expensing of SUVs not subject to the luxury auto limits and rated at not more than 14,000 pounds gross vehicle weight up to \$25,000. This change would apply for property placed in service after February 2, 2004. Even if this legislation does not pass, it seems likely that some limits on SUV expensing will be enacted this year.

Incentives for Clean-fuel Vehicles

The tax law provides various incentives for choosing to purchase vehicles with less negative environmental impact, including special tax deductions. Your Toyota or Honda dealer, both of which offer vehicles which have been certified by the IRS, will be glad to provide you with the details!

Want to Replace your Business SUV?

If you expensed it all when you purchased it, you may want to trade it in rather than sell it. Then, the expense recapture will not be triggered and the gain on the transaction will be deferred by reducing the basis in the new vehicle, through the like-kind exchange rules of Section 1031. (The vehicle must remain greater than 50% business use to avoid recapture.)

COST SEGREGATION STUDIES

Accelerate the Recovery of your Real Estate Investment

What? A cost analysis of new or existing real estate projects designed to identify personal property in the project costs.

Why? To maximize depreciation deductions and tax savings. Land is nondepreciable and most commercial buildings have a 39 year life. Tax law allows segregation of certain items of personal property from the land and building which can be depreciated over a five-, seven- or 15-year life.

While it is easy to identify certain costs that qualify for cost segregation, others require both tax and engineering knowledge. We work closely with your contractor or engineer to “carve out” these costs from your project that are not easily identifiable from your contractor’s invoice.

Using cost segregation, many more items may be identified, resulting in at least 20-30% of the project cost being assigned shorter lives. In addition, there is currently even greater incentive to segregate these costs. Bonus depreciation is available for new assets with lives under 15 year as follows:

- 50% write-off for expenses incurred from 5/6/03 to 12/31/04 and placed in service prior to 12/31/05, and
- 30% write-off for assets placed into service from 9/11/01 to 5/5/03.

Also, section 179 expense up to \$100,000 may be available for certain personal property.

Cost segregation is not a “black & white” area of the tax law. There are court cases and regulations to be used as guidance. Also, it is not necessarily appropriate in every taxpayer situation. However, it can provide cash flow in the form of much quicker depreciation deductions for many real estate owners.

Cost segregation studies can safeguard the cost allocation. According to the IRS, such studies should not be based on “non-contemporaneous records, reconstructed data, or taxpayer’s estimates or assumptions that have no supporting records.” We can work with your contractor to accurately accumulate the information necessary for your project.

In addition, for projects placed in service in prior years, a “change in accounting method” may be filed to “catch up” the depreciation that would have been available if cost segregation had been utilized from the beginning of the project.

We would be happy to discuss how a cost segregation study might apply to your particular project and circumstance. For more information, please contact Denise Burchett at 571-7055 or send me an email at denise.burchett@tjtpa.com.

NEW HEALTH SAVINGS ACCOUNTS

Established by the Medicare Act of 2003, signed into law on December 8, 2003, Health Savings Accounts (HSAs) provide a method for qualified individuals to put away funds pre-tax for certain medical expenses.

Generally, an “eligible individual” is a person who, for any month:

- is covered under a high-deductible health plan (HDHP) on the first day of the month;
- is not also covered by any other non-HDHP;
- is not entitled to benefits under Medicare; and
- may not be claimed as a dependent on another person’s tax return.

An HDHP must conform to the following limits:

- for self-only coverage, an annual deductible of at least \$1,000 and annual out-of-pocket expenses not exceeding \$5,000.
- for family coverage, an annual deductible of at least \$2,000 and annual out-of-pocket expenses not exceeding \$10,000. (Also, no amounts are payable from the plan until the family reaches the minimum annual deductible.)
- small or no deductible for preventive care will not disqualify a plan.

An HSA must be established with a qualified HSA trustee or custodian, such as an insurance company or bank. An eligible individual who is an employee may establish an HSA with or without the employer’s involvement.

The contribution limits are complex and are affected by such factors as the HDHP deductible, the age of the participant and other factors. Distributions may be made at any time for qualified medical expenses.

The HSA can be a great way to fund health costs with pre-tax dollars in the right situation. For more information on this option, how to set one up and if an HSA might fit your circumstances, please call our office.

SERIES HH SAVINGS BONDS

August 2004 will be the last month that Series HH savings bonds will be issued. Current holders of Series EE/E bonds have been able to defer reporting accrued interest on those bonds by exchanging them for HH bonds, which can permit tax deferral on accrued interest to continue for another 20 years after the exchange. If you are interested in switching your EE/E bonds to HH bonds, you have until August 31, 2004 to do so.

WARNING – IDENTITY THEFT SCHEME

The IRS issued a warning on April 30, 2004 about an e-mail-based scheme designed to have taxpayers reveal such personal information as social security numbers, driver's license information and bank and credit card numbers. The ploy involves an e-mail directing the recipients to an official-looking website, where detailed personal information must be provided to dispute an allegation of tax fraud against them.

Identity theft is becoming more pervasive and is extremely time-consuming and difficult to correct. Do not give personal information over the internet unless the site is known and secure. At the request of the IRS, the internet service provider hosting the fraudulent site has shut the site down. However, this will be a continuing problem and vigilance in safeguarding personal data is the best response.

EINs AVAILABLE INSTANTLY ONLINE

Most businesses can now obtain an Employer Identification Number (EIN) online directly from the IRS website. The application form can be completed and submitted online at the web site below. Select the "Employer ID Numbers (EINs)" option. The system instantly issues an EIN that may be used immediately.

www.irs.gov/businesses/small/index.html

POTENTIAL TAX RELIEF FOR NC BUSINESSES

On May 4, 2004, Governor Mike Easley released his economic development agenda for North Carolina. Of most interest is a provision to exempt from state income tax the first \$20,000 of corporate income. Also included in the package is state tax relief for small business health care savings accounts and changes to the Research and Development Tax Credit to provide greater benefits to companies with less than \$1 million in gross receipts. These provisions provide significant potential tax savings for small businesses in North Carolina - stay tuned to see how the North Carolina legislature responds.

CHARITIES – NO POLITICAL ACTIVITIES!

The IRS issued a technical advisory on April 28, 2004 cautioning charities to refrain from participating in political activities in this presidential election year. Charities described in Internal Revenue Code section 501(c)(3) are prohibited from participating or intervening in any political campaign on behalf of, or in opposition to, any candidate for public office. This generally prohibits any activity that shows a preference for or against a particular candidate. Violations of this prohibition can result in a loss of the organization's tax-exempt status.

IRS TOOLS HELP SMALL RETIREMENT PLANS STAY UPDATED

The IRS has issued two new tools to help small businesses keep their retirement plans compliant with federal tax law. First, there are three "Check-Ups" available for SIMPLE IRA, SEP or SARSEP retirement plans. These are on the web at <http://www.irs.gov/retirement/index.html>. The check-ups each have a checklist with 10 simple questions with plain language explanations of the tax law, advice on how to fix a problem and links to further information. Also, the IRS will begin publishing a newsletter entitled "Retirement News for Employers". The debut issue was released May 2004 and is available online at the same web address. Also, business owners can subscribe to the newsletter online. Topics covered include articles on retirement issues for re-employed veterans, new products such as a troubleshooter for plan administrators, and a calendar of events noting filing deadlines, seminars and more.

Please call us for additional information on any of the above. We are committed to keeping you informed on tax and financial developments and the opportunities they present for you and your business.

Very truly yours,

THOMAS, JUDY, & TUCKER, P.A