SMART BUSINESS

WELCOMING THE NEW TAX LAW AND ALL ITS IMPLICATIONS

BY JEFFREY PELOT, CPA

The Dish on Dividends...

As long as anyone can remember, dividends paid on stocks held in taxable accounts were taxed as ordinary income, which under the new tax law, can be as high as 35%. Courtesy of the new tax law, qualified dividends from domestic corporations and qualified foreign corporations will be taxed at no more than 15%. If you happen to be in the 10% or 15% rate bracket, your dividends will be taxed at only 5%. For 2008, the rate for lower-bracket taxpayers will be an unbeatable zero percent, but just for that single year.

There are some restrictions that must be met in order to be eligible for the new reduced rates on qualified dividend income, including a holding period requirement for stock prior to dividend payment. If you fail to meet the requirements, your dividends are taxed at your regular ordinary income tax rate.

The new reduced tax rates on dividends apply only to qualified dividends from corporations. There are a lot of payments commonly called "dividends" that are not qualified dividends under the tax law, such as:

- Credit union dividends paid on savings accounts, CDs, etc. are taxed as interest.
- Mutual fund dividends from your fund's short-term capital gains, interest income, and other ordinary income.
- Dividends paid on certain preferred stock issues, such as hybrid preferred shares, are reported as debt by the corporate issuer & pay interest deducted by the corporation.
- Most dividends paid by a real estate investment trust (REIT) are not eligible for the reduced rates. These sums are passed through to shareholders as dividends deductible to the REIT, rather than corporate earnings subject to the corporate income tax.

Unfortunately, dividends earned inside your tax-deferred retirement accounts don't qualify for the reduced rates either. Dividends accumulated in these accounts are taxed at your regular rate when withdrawn as cash distributions.

Let's Talk Long-Term Capital Gains...

If you invest in securities via taxable accounts, your long-term capital gains from sales after May 5, 2003 will be taxed at no more than 15% (down from 20% under prior law). Those in the 10% or 15% brackets will pay only 5% on long-term gains. In 2008, the rate for lower-bracket taxpayers will be zero percent, but just for that one year. These same-reduced rates also apply to the long-term capital gain component of installment sale payments received after May 5, 2003.

The new capital gains rate cuts do not extend to all types of investment gains. The maximum rate of 25% remains in effect for long-term real estate gains from depreciation deductions ("unrecaptured Section 1250 gains").However, any long-term gain above the amount of the unrecaptured Section 1250 gain is now eligible for the new 15% rate.

Keep in mind that you'll be taxed at your regular rate on short-term capital gains from investments held in taxable accounts for one year or less, just as they did under prior law. Also, the maximum rate of 28% remains for long-term gains on collectibles and certain small business stock.

As with dividend income, the new lower capital gain rates don't apply to investments held in tax-deferred accounts. Gains accumulated in these tax-deferred accounts are still taxed at your regular rate when withdrawn as cash distributions.

The benefits of the new lower rates on dividends and long-term capital gains will affect investors until the end of 2008. Unless Congress acts, dividends and long-term capital gains will once again be taxed under the "old rules" in 2009 and beyond.

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EMPLOYEE PROFILE

TODD FRANK

We'd like to introduce you to Todd Frank, the newest member of our tax department here at Smith, Barta & Company. Todd hails from Louisville, Ohio, graduated from Marlington High School and went on to receive his Bachelor of Science in Accounting from Mount Union College in 2000. And Todd is still a student! He is currently working on his Masters of Taxation at the University of Akron and will be graduating soon – only 8 more credit hours to go!

When his nose isn't to the grindstone or in a schoolbook, Todd enjoys all kinds of sports. He is the 7th and 8th grade track coach of the Eastern Eagles, plays softball for his church and squeezes in a little flag football in his spare time. Todd also still works to keep up the runner's physique he built while running the hurdles and long jumping while on the track team at Mount Union. In addition, Todd serves on the Finance Committee at the Sacred Heart of Mary Church.

Todd joined Smith, Barta & Company in June of 2002 and hasn't looked back. He enjoys working with small clients and individuals and likes that everyone's input matters, not just the partner's of the firm. He also enjoys learning about the tax laws. He adds, "Everybody needs help with their taxes and when people ask me tax questions, I love being able to give them an answer."

Smith, Barta & Company is happy to have Todd Frank as a member of the team!

KEY ELEMENTS OF ANY ESTATE PLAN BY DON KEITH, CPA

With talk of estate tax repeal in 2010 or sooner, individuals might incorrectly conclude they don't need an estate plan. However, an estate plan is much more than minimizing the tax on the transfer of wealth! An estate plan is a set of documents to ensure individuals are properly taken care of during their life with an orderly transfer of wealth to intended beneficiaries upon death. Any estate plan should have the following:

Personal Financial Statement
Start by listing all your assets and how they are titled. Also be sure to look at named beneficiaries on retirement accounts, annuities, and life insurance policies. Next list your debts or liabilities. Your net worth is assets minus liabilities. Your net worth determines if you'll anticipate a transfer tax upon death (i.e. an estate tax).

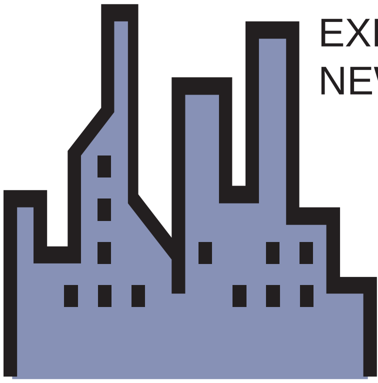
Will and Last Testament
This document names an executor to administer your estate. You also can name a guardian for minor children. The Will then states to whom and when to distribute the assets owned in your individual name; excluding those that are transferred by title or to a named beneficiary.

Power of Attorney
This document provides authority to pay your bills and to handle your financial affairs in the event you're either disabled or unwilling. Remember, Power of Attorney's only have authority for assets titled in your individual name, not those in a trust.

Health-Care Power of Attorney and Living Will
This document authorizes someone to make health-care decisions for you if you are temporarily or permanently unable. It is usually coupled with a living will in which you indicate the type of care you would want if you were terminally ill. The Health-Care Power of Attorney allows your named representative to consider the facts and circumstances before making decisions. The Living Will informs the doctors under which circumstances you would not want life preserving measures performed. Remember, by not signing either of these documents, you have chosen to have all life preserving measures applied in all circumstances!

Trusts
There are many forms of trusts to choose from. The most common trust is a Grantor or Living Trust. During your lifetime, you can add or remove assets and make changes to beneficiaries and distributions. The trustee can also handle your financial affairs more easily than with a Power of Attorney. Upon your death – or at a time of your choosing - the assets are transferred to your beneficiaries. A trust allows you to avoid probate, and gives you "control from the grave" to take into account events after your death.

As you can see, there is not a "cookie cutter" approach to estate planning! It needs to be tailored to your particular facts and circumstances. Let Smith, Barta & Company discuss your wishes and intentions in order to establish an appropriate estate plan for you.



EXPANDED BREAKS FOR BUSINESS UNDER THE NEW TAX LAW

BY JEFFREY PELOT, CPA

For many small businesses, the best part of the new law is the huge increase in the Section 179 first-year depreciation deduction. This valuable break allows your business to instantly deduct 100% of the cost of most new and used personal property assets in the year you place them in service. Non-real estate assets like machinery, equipment, office furniture, computers and software all qualify.

Before the new law, the limit on the Section 179 deduction for 2003 was only $25,000. You can now deduct up to $100,000 for tax years beginning in 2003, 2004 and 2005. This is subject to a taxable income limitation and another limitation if you add over $400,000 of qualifying assets in the same year.

Unless Congress extends the favorable Section 179, it will fall back to only $25,000 for tax years beginning in 2006 and beyond.

Last year's tax legislation introduced a new first-year bonus depreciation equal to 30% of the cost of new (but not used) assets with a normal depreciation recovery period of 20 years or less. The 2003 Act makes the bonus depreciation break even more generous.

For qualifying assets acquired after May 5, 2003 and before 2005, 50% of the cost can be written off as depreciation in the first year. The remaining 50% is then written off following the multi-year depreciation guidelines. Qualifying assets acquired this year before May 6 are still eligible for the 30% first-year bonus depreciation established by the 2002 law.

You can also elect to use the 30% rule for qualifying assets acquired on or after May 6 of this year. This election makes sense if your business has an expiring loss carryover and claiming the full 50% bonus depreciation would eliminate all taxable income. The election may also make sense if your business expects higher tax rates in future years.

The enhanced 50% bonus depreciation rule will expire after 2004 unless Congress takes further action.

If you use a car for business purposes, the depreciation rules are not as favorable as other business equipment. Previously, the maximum first-year depreciation write-off for a new (not used) vehicle placed in service this year was $7,660. The new 50% bonus depreciation rule has a positive side effect of increasing the maximum first-year depreciation deduction to $10,710 for new (not used) vehicles acquired on or after May 6, 2003. If purchased before May 6, the maximum first-year depreciation deduction is still only $7,660 (under the 30% bonus depreciation rule). For used vehicles placed in service at any time this year, the maximum first-year depreciation deduction remains at only $3,060.

HOW BUSINESS OWNERS CAN CASH IN ON THE NEW 15% TAX RATE ON DIVIDENDS

BY TODD FRANK

As highlighted in this edition of SmartBusiness, The Jobs & Growth Tax Relief Reconciliation Act of 2003 significantly reduced the maximum capital gains rates for 2003 from 20% to 15%. What's more, qualifying dividends are now taxed at the same rates as capital gains, instead of at ordinary income rates.

In addition to enjoying the new tax rate reduction, business owners can benefit from proper timing of dividend distributions. For example, since dividends are not deductible by a business for tax purposes, a business with a net operating loss (NOL) could help utilize the NOL by issuing dividends instead of paying salaries. In most cases, the tax on the dividends to the business owner will be much lower than the tax resulting from receiving a salary. Issuing dividends will also save the business payroll taxes that would otherwise be due when paying salaries.

Business owners with investment interest can also benefit from receiving dividends. An individual can elect to treat the dividends as investment income, which can then be offset by investment interest. By doing so, a taxpayer can eliminate the tax on dividends entirely!

Please call your tax professional at Smith, Barta and Company for all the details on how issuing dividends can benefit you and your business.

Client Corner

BY KATRINA LYKE

UNITED WAY OF WESTERN STARK COUNTY

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What does helping over 102,000 people in Western Stark County, supporting 26 local community agencies and kicking off a campaign to raise $811,000 have in common?

The **United Way of Western Stark County**, of course! For more than 75 years, the United Way of Western Stark County has been helping people in need by giving them care, guidance and support that lasts far beyond the need of the moment. This year, one in three Western Stark County residents will seek help or utilize some sort of service from a United Way agency. That is why the people of the United Way of Western Stark County work so hard to encourage the generous giving of time and donations from members of the local community.

United Way brings communities together to focus on the most important needs in the community — building partnerships, forging consensus and leveraging resources to make a measurable difference. In 1887, religious leaders founded the first “United Way” organization, the Charity Organizations Society, in Denver, Colorado. They planned and coordinated local services and conducted a single fund-raising campaign for 22 agencies. By 1913, the nation’s first modern Community Chest was born in Cleveland, Ohio, where a program for allocating campaign funds was developed. Five years later, executives of 12 fund-raising federations met in Chicago and formed the American Association for Community Organizations (AACO), the predecessor to United Way of America. The idea took off and by 1948, more than 1,000 communities had established United Way organizations. Today, as the nation’s leading community solutions provider, United Way invests in and activates resources to make the greatest possible impact on communities across America. The United Way movement includes approximately 1,400 community-based United Way organizations. Each is independent, separately incorporated, and governed by local volunteers.

The United Way of Western Stark County (UWWSC) has adopted the slogan, “what matters” as the theme for their 2003 campaign. And what matters is the people of Western Stark County. With a focus on helping youth, families, senior citizens and the disadvantaged, there are many wonderful tales told as a result of the work of the 26 agencies supported by the UWWSC.

One of those stories, the story of Lucie, sticks out.

Lucie has a lively sparkle in her eye and can raise an ornery eyebrow as well as anyone. She fires rapid conversation about travel, authors, nature, movies, and music. “I have a wonderful life!” she affirms. At 88, although her mind is crisp, her body can’t keep pace without a helping hand, but with the help of Westark Family Services, Lucie is able to live in her home, to stimulate her mind, and enjoy her musical talent. When her beloved husband, the handsome Scotsman, Charlie, “went home,” she became ill, finding it necessary to temporarily leave her animals and books and music behind, while she recuperated in a long-term care facility. Without any of the loves of her life, Lucie was lost. Her doctor realized the importance of her canine companions, the 3000 volumes that line the walls of her home, and the musical instruments that stand ready for her to bring them to life. He recommended that she contact Westark Family Services. In 1993, she did just that and began to build a new phase of her life. Westark Family Services, a United Way agency, provides homemaker service to Lucie seven days a week. On six of those days an agency representative spends an hour or two helping her with personal and household care, helping her feed the birds and dogs and one day a week for the past five years, Charlene has spent three hours helping Lucie with special services—cutting her hair, shopping for groceries, picking up prescriptions. “She brings me her beautiful smile and she gets the dishes clean-most of the time,” Lucie teases. Lucie walks with the help of a walker and ventures farther with “Anastasia,” a three-wheeled scooter that United Way helped her obtain. To maintain her mental acuity, she phoned Massillon Public Library to bring her books and videos. “When I am an old woman I shall wear purple...” she recited dramatically, as she reached for a thoroughly-thumbed anthology and finished reading the Jenny Joseph poem with flair.

Smith, Barta & Company is proud to be a part of the United Way of Western Stark County family. Gary Feagles, Executive Director and Administrative Assistant, Jean Tondola-Smith, express their pleasure in working with Smith, Barta & Company. “We are an original client of the firm and are very pleased with the work and service provided”, says Tondola-Smith. Gary Feagles adds, “Smith, Barta & Company was very quick to respond to a request by the United Way Board of Directors to receive Financial Statements in advance of Board meetings. Smith, Barta now sends our Statements electronically saving us time and dollars.”

We wish the United Way of Western Stark County all the best in their upcoming campaign!