

## **MEMO**

To: Mr. Client

From: Greg Barford

Date: December 4, 2003

Subject: Year end tax planning for 2003

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Here is a summarization of some of the ways to minimize your year 2003 federal and state income tax liability. The overall goal of minimizing tax liability is achieved by deferring income and accelerating deductions when you will be in a higher tax bracket in 2003 compared to 2004. Call my office for further details.

### **Individuals**

**Compensation**- Where you can, delay payments of compensation to yourself until 2004.

**State tax payments**- Where there is additional state income tax owed, make this payment before 12/31 rather than January 15 in most cases. For example, a state tax payment of \$4,000 before December would reduce federal taxes \$1,120 at the 28% rate.

**Mortgage payment**- To receive a deduction for mortgage interest in 2003 make sure your December and or January payment is received by your mortgage company by December 31, 2003. Future payments due beyond January 2004 are not deductible.

**Charitable donations**- All donations must be made by 12/31. Vehicle donations may require appraisals; contact me for details.

### **Businesses**

**Business income**- For cash basis taxpayers, postpone billings to customers so that payments will be received in 2004.

**Business expenses**- If you are a cash basis taxpayer, accelerate paying business deductions before the end of the year. However, pay only those expenses that are for the year 2003. For example, do not pay advertising bills for the year 2004 in 2003. The Internal Revenue Service will disallow these deductions. **Remember, certain credit card charges can be deducted even though the payment is made later**. Accrual based taxpayers do not have to make these payments to be deductible in 2003.

**Asset purchases**- Using section 179 it is possible to write off \$100,000 of fixed asset purchases in 2003. In addition, using bonus depreciation, an additional write off of 50% is possible in the first year. If you are planning to purchase a fixed asset in the first few months of 2004, consider making the purchase and placing the asset into service before 12/31 to take advantage of the additional deduction for 2003. **However, only purchase assets that will be useful for your business. Do not buy assets for the sake of buying them to get a tax deduction.**

**Business Mileage**- If you use a personal vehicle for your business, write a check to yourself from the business at a rate of 36 cents a mile times the total business miles driven for 2003. This does not apply to company owned vehicles and vehicles that are depreciated in your business.

**Retirement plans**- Make sure you have put away the maximum amount in a Simple IRA or 401K plans before the end of the year. If you are under 50, the maximum amount for the Simple IRA is \$8,000 and \$12,000 for the 401K. If you are age 50 and over, the maximum amount is \$9,000 for the simple IRA and \$14,000 for the 401K.