

“College Funding - Save Now”

If you have children of any age who will be college-bound at some point, you need to start investing for their college education now so you or they will not be in debt later. You have four choices for investing in your children's future education. I will discuss three of these plans below: the Uniform Gifts to Minors Act (UGMA), the Educational Savings Act (ESA), and the IRS Code 529 plan.

The fourth option -- prepaid tuition plans offered by some States -- has some serious drawbacks, and I do not recommend it because there are better options available. Some of the weaknesses of this plan are that they cover tuition only (not room and board), they are limited to State schools, and they offer only limited transferability to other children in your family.

I highly recommend that every parent maximize the Uniform Gifts to Minors Act (UGMA) first to take advantage of the lower tax rates. A UGMA that invests in a \$30,000 bond with earnings of 5 percent provides a good means of maximizing assets to invest in. Be aware, however, that your child will have access to the UGMA assets at age 21 and can make all decisions about what should be done with the money.

The choice between using the Educational Savings Account (ESA) and the IRS Code 529 plan depends on a variety of your personal factors and goals. See the Table below for a comparison of the UGMA, ESA, and IRS Code 529; and be sure to contact my office to discuss which plan will best benefit you and your college-bound children. ■

	UGMA	ESA	529
Maximum yearly contribution	\$11K per donor	\$2,000	\$11,000 per donor can front load \$55k in year 1 for 5 years period.
Lifetime contribution	\$220K per donor	\$2,000 per Year to age 18	\$175K to \$225K per child
Use of funds	Any expense For child's direct benefit	primary & college expenses	college expenses only
Taxability of earnings	\$0 to \$749 tax free \$750 to \$1,499-10% \$1,500 parents rate	Exempt	Exempt
Contribution tax deductible	No	No	No
Investment options	Virtually unlimited	Virtually unlimited	Limited to sponsor Portfolios
Phase out for contributions Based on adjusted gross income	None	\$150K	None

Q&A

The Question and Answer section was pre-empted this month by the news of the hiring of Michael Sappington. The Q&A section will return in the next issue of Money Talks.

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Gregory A. Barford, CPA, P.C.
Business & Financial Advisors

3970 Rye Lane Monrovia, Maryland 21770
Phone: 301-865-4648 Fax: 301-865-0305
E-mail: gab@gabcpa.com
www.gabcpa.com

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Fax: (301) 865-0305
E-Mail: gab@gabcpa.com

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MONEY TALKS

Winter 2003

News to Use From Gregory A. Barford, CPA

“Gambling - A Call to Arms”

The \$2 billion deficit that the State of Maryland currently faces is the result of overspending -- not a lack of revenue. Our new Governor and many legislators seem to believe that the way to solve this deficit is not by bringing spending back to reasonable levels, but by trying to increase the State's revenue.



Their solution? Put slot machines at race tracks and give the State a percentage of the receipts from the slot machines. The Governor and our legislators would like us to believe that we will all be winners with their solution. But the true winners will be the out-of-town race track owners who will funnel cash out of Maryland to large national banks and the politicians who will receive generous campaign contributions from the race track and slot machine interests. Based on the history of what has happened in other States, some politicians may receive rich consulting contracts -- that will not generally be made public -- to promote slot machines and casinos.

The backers of slot machines do not want us to think about the losers in this situation. The biggest losers will be the poor who will gamble rather than spend money on necessities for their families. Citizens must realize that the slot machines are a tax, and the poor will be hit the hardest.

There will be other losers, too. For instance, the State of Maryland will lose because liberals will pressure the State to spend more money on social programs for the poor who have gambled their money away and now need money for basic necessities. This spending will, of course, just increase the deficit.

Businesses will also be losers in the slots-as-revenue-enhancer plan because many will have decreased sales when people spend their income on slot machines and not on other goods and services. Banks and finance companies will be losers when money is spent on slot machines instead of on major purchases and financial obligations.

I propose having a referendum on slot machines to let the taxpayers of the State of Maryland decide if they want this type of tax imposed on them. This is not a question for the politicians who have already been bought off by gambling interests.

NEWS...NEWS...NEWS

New Staff Member Joins Gregory Barford, CPA, PC

Michael Sappington recently joined my staff. He has more than 17 years of experience in public accounting and private industry, which has given him broad experience in many accounting software systems including QuickBooks.

Michael, who graduated from York College of Pennsylvania, in York, PA, lives in Frederick. He most recently served as Controller for two local companies, and his previous background includes mortgage accounting management and serving as director of finance for a Frederick technology company.

Michael's primary role will be completing the year-end work including financial statements and tax returns for businesses. The addition of Michael to the staff will free up time for me to have more client contact and to help clients analyze and organize their financial affairs to increase income and cash flow and minimize taxes. All direct client contact will still be with me, but Michael will be available to answer client questions on a broad range of issues.

This is a good time to note that my wife Sonja has been an invaluable help working in an administrative capacity in my business since I began. ■

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Update: “QuickBooks Raises Prices on its “Pro” Version and Creates Confusion with Other Products and Polices.”

QuickBooks, which offers the best accounting software for small businesses, has raised the price of its 2003 Pro version from \$249.95 to \$279.95. I believe this 12 percent increase is fair based on the value of the new version of the product.

Make sure you do not make the mistake of buying the basic version of QuickBooks to try to save a little money. You need to purchase the Pro version to benefit from features such as Excel integration, multiple users, and better reports that are necessities for most businesses.

QuickBooks offers a Premier version that has the added feature of allowing you remote access to the system (this is similar to using PC Anywhere). There is a charge for this service. I do not think the Premier version is best for most businesses -- even those who want to use the remote access feature. A better deal is to buy the Pro version and use PC Anywhere for remote access.

While I agree with QuickBooks' new price for its Pro version, I do not approve of the fact that they have also begun to charge users for Emailing and faxing invoices to their customers. Fortunately, there is a way to Email or fax your invoices free of charge. Contact me for details on how to do this.

Note that QuickBooks now has a Web version that allows you to access its services and your company's data through a secure Internet site. This Web-based product, however, does not have all of the features of the regular QuickBooks.

WARNING: Do not change your payroll service to QuickBooks at this time. The company recently made several confusing revisions to its payroll service. They changed the names of the services, changed the pricing, and created new procedures. This confused everybody -- including the company! I believe that everything will get sorted out eventually, since this type of problem has never occurred with QuickBooks before; it is not like them. But in the meantime, heed the warning above! ■

“Highlights of President Bush’s New Tax Package”

On January 7, 2003, President George W. Bush proposed major tax changes that will have a positive effect on the economy by putting more cash into the hands of consumers and businesses. This money will be spent on goods and services, and spending drives our economy! This plan, as proposed by President Bush, will stimulate the economy.

It is difficult to determine at this point just what parts of the President's plan will be implemented and how soon. Since the road through the Congress -- especially the Senate -- may be slow and fraught with changes to the proposed plan, I feel it is not prudent to try to plan for any of these tax changes now. It is interesting, however, to take a look at the highlights of what President Bush has proposed.

The major highlights are as follows:

\$\$\$ Make effective now the reductions in individual tax rates that were to be phased in over the next 8 years. The top rate would be reduced from 38.6 percent to 35 percent, effective January 1, 2003.

\$\$\$ Make effective now the elimination of the marriage tax penalty.

\$\$\$ Increase the child tax credit to \$1,000 (it is currently \$600).

\$\$\$ Increase the Section 179 write off, which will allow the expensing of fixed asset purchases all in one year (as opposed to writing them off over 5 years) and will increase the allowable amount from \$25,000 to \$75,000.

\$\$\$ Eliminate the double taxation of dividends so that dividends received from corporate stocks and from mutual funds will be tax free to the recipient.

These reductions in taxes are expected to provide \$70 billion to taxpayers over the next 18 months. The average individual taxpayer will see a reduction in taxes of \$1,083. Married couples will see an average decrease of \$1,716.

I will keep my clients informed as the Bill containing these proposals progresses and it can be determined what provisions will be made into law. For the present, however, these proposals are just that -- proposals; they are not yet law. ■



“Save Cash by Refinancing Your Loans”

Anyone following the stock market and unemployment figures recently may not think that this is a good time for the U.S. economy as a whole. There are, however, some bright spots in the financial picture.

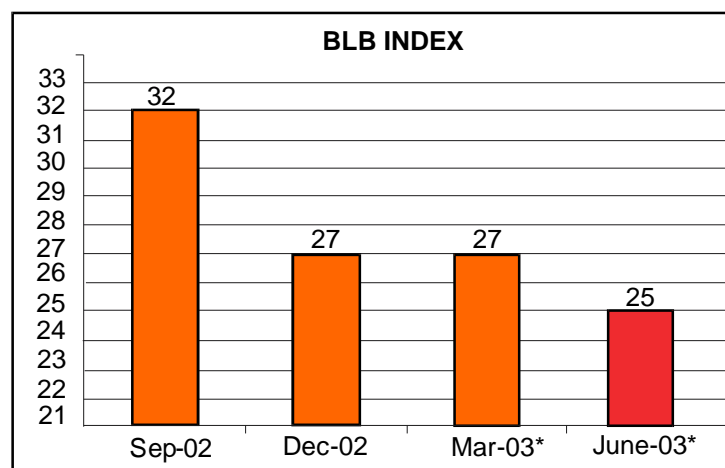
One of the brightest of those spots is the fact that interest rates on business loans have dropped substantially in the last couple of months; they currently range between 5.5 percent to 6.5 percent. If your business has any outstanding loans, this is the time to refinance and get a lower monthly payment.

You may be able to save a considerable amount of money over the life of your loan. For instance, a 2 percent decrease in your interest rate can save \$10,000 over 5 years on a \$150,000 loan.

Refinancing takes some planning and thought, however. Make sure you are aware of the two steps to getting your loan refinanced. First, you need to demonstrate that your overall financial condition is strong. You should be able to show a trend of increasing cash flow, and you need to provide adequate collateral.

The collateral has to be hard business assets such as accounts receivable, inventory, marketable securities, or real property (land or buildings). Banks will not consider goodwill or leasehold improvements - office furniture, equipment -- as collateral. If your business assets are not sufficient, a bank may look at taking a lien on your personal assets.

The second thing you must do to refinance -- after making sure you are financially fit -- is to find a willing lender. It may be difficult to find a willing lender -- even with good financial data and good collateral. I have been working with two Maryland banks and an out-of-state bank that currently are lending money and refinancing business loans.



Updated Bank Lending Barometer (BLB) Index (see Fall 2002 Money Talks for further information): Lending by commercial banks -- especially local banks -- continues to tighten. It seems certain that many banks are on the verge of becoming investment banks and not commercial banks. Investment banks take deposits and invest solely in U.S. Treasury instruments and State bonds; they grant very few commercial loans. * = Forecasted. ■

Score	Lending	Color Zone	Description
76-100	Jackpot	Green	Here's the Money! We will do the paperwork later.
51-75	OK	Yellow	Let's see what we can do.
26-50	Tight	Orange	I would lend you the money, but underwriting is killing most of my deals now.
0-25	Very Tight	Red	I know you have 100% cash pledged for the loan, but we don't have the money.