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Income Tax Changes for Businesses

The election to claim a current expense deduction for certain asset purchases, rather than claiming depreciation over a number of years, has been improved. Maximum first-year expensing of equipment purchases has climbed to \$20,000 in 2000 from \$19,000 in 1999.

Requirements have been eased for electronic filing of federal tax deposits. Only if your combined federal tax deposits (e.g., employment, excise tax) exceed \$200,000 must you use the Electronic Federal Tax Payment System (EFTPS). This rule replaced separate thresholds for different types of deposits.

The deductible business mileage rate has inched up to \$.32.5 in 2000 from \$.31 per business mile in 1999.

Estate and Gift Tax Changes

A larger "unified credit" in 2000 means \$675,000 of lifetime transfers are exempt from estate and gift taxes, up from \$650,000 in 1999.

An executor may keep out of the gross estate up to 40% of the value of certain land subject to conservation restrictions. The excludable amount is limited to \$300,000 in 2000, up from \$200,000 in 1999.

Under certain conditions, an executor may value farm or business real property based on actual use, rather than highest and best use, keeping out of the gross estate as much as \$770,000, up from \$760,000 in 1999.

Adjusting to the Changes

If you'd like to discuss how these changes affect your personal and business situation, please give us a call.

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TAX CHANGES IN A BOTTLE - UNCORKED

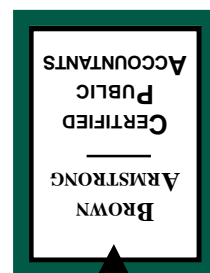
Certain taxpayer-friendly changes enacted over the past several years became effective in 2000, and some established tax breaks became more valuable. Here's a rundown.

Income Tax Changes for Individuals

The maximum deduction for education loan interest stretched to \$2,000 from \$1,500 in 1999. But remember: The deduction phases out for taxpayers with \$40,000 to \$55,000 of modified adjusted gross income (\$60,000 to \$75,000 on joint returns). Those with income higher than the top of the phase-out range may not deduct education loan interest at all.

The maximum 401(k) deferral has increased to \$10,500 from \$10,000 in 1999. If you participate in both a defined benefit (i.e., classic pension) plan and a defined contribution plan (e.g., a profit-sharing plan) with the same employer, your tax-favored plan opportunities expanded even more, because the combined plan limit is gone for plan years beginning in 2000.

Roth IRA reconversions got tougher, beginning January 1, 2000. Now, if you convert a traditional IRA to a Roth IRA and then undo the transaction (say, because your income exceeds allowable limits), you can't reconvert that amount to a Roth IRA until 30 days later, or until the following year, whichever is later. For example, if you convert your traditional IRA to a Roth IRA on February 7, 2000, and then recharacterize that Roth IRA to a traditional IRA on March 8, 2000, you can't reconvert that traditional IRA to a Roth IRA before January 1, 2001. If you convert your traditional IRA to a Roth IRA on July 1, 2000, and then recharacterize that Roth IRA to a traditional IRA on December 29, 2000, you can't reconvert that traditional IRA to a Roth IRA before January 29, 2001.



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Boost your 401(k) deferrals by automatically enrolling everyone

Looking for a simple way to increase how much compensation the IRS allows you to contribute to your 401(k) retirement savings plan? Simply enroll all your employees in your firm's 401(k) plan automatically, unless they say not to. This approach will generally increase your nonhighly compensated employees' average deferral percentage, which will allow you - and other highly compensated employees - to increase salary deferrals, too.

The IRS recently clarified that an employer may automatically enroll all eligible employees in its 401(k) plan, provided the employees had the chance to say no, but didn't. In 1998, the IRS had ruled that automatic employee contributions to a retirement plan could be considered elective contributions. The facts in that 1998 ruling involved a newly hired employee, so some people weren't sure if the rule on automatic enrollment also applied to current employees who had never enrolled in their retirement plans, or had told their plan administrator to take a very small percentage - say, less than 3% - out of their pay. The recent clarification gives employers the green light for the "negative election" or automatic enrollment approach for both new and long-time employees. How Automatic Enrollment Works

An automatic enrollment 401(k) plan lets you automatically withhold a designated percentage (such as 3%) from employees' paychecks to add to their 401(k) accounts. Each employee must have the right to say "Don't touch my paycheck!" if this approach is to work. Thus, employees must have at least one chance each year to tell you to stop taking money out of their pay and putting it into the 401(k) plan. The employee's "negative election" must be in writing.

If your plan makes automatic enrollment irrevocable - meaning employees can never change their minds - the contributions would not be treated as elective deferrals under the 401(k) plan rules.

Since it's not clear whether the IRS expects annual reminders of employees' enrollment rights to be part of the automatic enrollment package, it would be a good idea for employers who use automatic enrollment to annually notify employees who have been enrolled automatically that they can discontinue the withholding or choose a different deferral rate.

Tips for Converting to Automatic Enrollment

- (1) Decide on the default percentage. Keep it low enough so employees won't immediately opt out of the plan, but high enough to make a difference in your plan testing. Three percent is a common default percentage.
- (2) Highlight the default percentage and matching contribution on paychecks, if applicable.
- (3) Before deferrals begin, pass out a clear explanation of how the program works. Let employees know how they can make and change investment directions, how the contributions will be invested if they don't make investment directions, and how they can change the amount deferred.
- (4) Make sure you document the whole procedure, and get a determination letter from the IRS.

For more information on 401(k) plans in general - or automatic enrollment in particular - contact Peter Brown at (661) 324-4971.



Bryan Lewis joined the firm on December 6th. Bryan will be graduating Summa Cum Laude from CSUB in the spring with a concentration in Accounting.



Ginger DiGiacomo joined us on October 18th as a staff accountant. Ginger graduated from CSUB with a BS in Economics.



Kelly Barker started work with Brown Armstrong on September 9th as the Marketing Assistant. Kelly graduated Cum Laude from CSUB in 1995 with a BS in Business Administration.



Brad Rorbach joined Brown Armstrong on September 1st, as a staff accountant. Brad is a CSUB graduate with a BS degree in Accounting and Finance. He is currently studying for the CPA exam.



Darin Blunt came on board as a staff accountant on September 9th. Darin graduated from UC Santa Barbara in 1995 with a degree in Business Economics and Accounting.

Promotions to Senior

Vonie Chroman
Melinda McDaniels
Thomas Young



Alex Angulo joined us November 15th as a staff accountant. He holds a degree from Santa Clara University and has already passed the CPA exam.



Bo Koenig started on September 14th as a staff accountant. Bo will be graduating next quarter from CSUB with a Business major and an emphasis in Accounting.



Kristen Tallman began working with us September 27th as a staff accountant. Kristen is CSUB graduate with a degree in Business and Accounting.



Carol Bimat joined the firm on January 3rd as a staff accountant. Carol will be graduating with honors from CSUB in June with a Business major and concentration in Accounting.

The CPA Exam Results Are In...

LeaneDevin	passed 1 part!
Kristen Johns	passed all 4 parts!
Bo Koenig	passed 1 part!
Marie Ebersbacher	passed 3 parts!
Amanda Wilson	passed 2 parts!
Michelle Gonzales	passed all 4 parts!

Congratulations to all of these people for their accomplishments!