

The basis adjustment is repealed in 2010 when the estate tax is scheduled to go to zero.

### Retirement Plan Contribution Limit Increases

| Year | Gift Tax Transfer Exemption | Estate and GST Tax Transfer Exemption | Highest Estate, GST and Gift Tax Rates |
|------|-----------------------------|---------------------------------------|--|
| 2002 | \$1 million                 | \$1 million                           | 50%                                    |
| 2003 | \$1 million                 | \$1 million                           | 49%                                    |
| 2004 | \$1 million                 | \$1.5 million                         | 48%                                    |
| 2005 | \$1 million                 | \$1.5 million                         | 47%                                    |
| 2006 | \$1 million                 | \$2 million                           | 46%                                    |
| 2007 | \$1 million                 | \$2 million                           | 45%                                    |
| 2008 | \$1 million                 | \$2 million                           | 45%                                    |
| 2009 | \$1 million                 | \$3.5 million                         | 45%                                    |
| 2010 | \$1 million                 | NA                                    | 35% (gift tax only)                    |
| 2011 | Repealed to 2001 limits     |                                       |  |

Obviously this is a complex law and the way it affects each of us is different. There are many phase-outs and some issues which we haven't discussed since they don't phase in for some time, however, there is certainly no attempt to simplify the tax code even for low income taxpayers, so call us if you want to know how this affects each of you.

### Staff Promotions:

The firm is pleased to announce the following employees have been promoted to Senior Accountants:

Amanda Wilson, CPA has been with the firm for more than three years and works in the audit and tax divisions of the firm.



Rebecca Thomas has been with the firm for two and a half years and is a part of the audit division.



Rosalva Flores has been with the firm for two and a half years and is a part of the audit division.



Wendy Yuan has been with the firm for more than two years and is a part of the audit division.



Fiona Lee has been with the firm for more than two years and is also an integral part of the audit division.



**Congratulations!**

# Summer/Fall 2001 FINANCIAL NOTES

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## Inside this Issue:

**Economic Growth and Tax Relief Reconciliation Act of 2001**

**New Accounting Rules for Business Combinations and Goodwill**

**Staff News**

## Economic Growth and Tax Relief Reconciliation Act of 2001

Most of you are aware of the "Economic Growth and Tax Relief Reconciliation Act of 2001," however, we thought we would briefly discuss a few of the highlights in this issue. If you have specific questions on these, or other areas of the Tax Act, please contact us, we would be happy to talk to you in more detail regarding your specific situation.

the 15% bracket for joint filers to twice that for singles.

**CHILD TAX CREDIT.** The Act increases the child tax credit to \$600 in 2001 continuing gradually until 2010 when it reaches \$1,000. Don't forget this phases out for married couples earning over \$110,000 and singles at \$75,000.



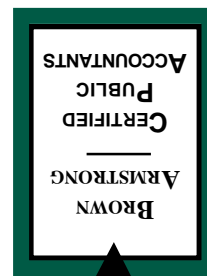
**DEPENDENT CARE CREDIT.** Beginning in 2003, the Act increases the maximum credit that an individual may claim for child and dependent care expenses. The maximum percentage of eligible employment-related expenses that may be claimed as a credit is increased to 35% from 30% and the maximum amount of eligible expenses

is increased from \$2,400 to \$3,000 for one qualifying dependent, and from \$4,800 to \$6,000 if there are two or more qualifying children or dependents. Thus, the maximum credit is \$1,050 if there is one qualifying child and \$2,100 if there are two or more.

**TAX RATE CUT.** Before the 2001 Act, the lowest individual income tax rate was 15%. Beginning in 2001, the new tax law creates a new 10% tax bracket. The \$300 to \$600 refund checks you have been reading about, or may have received, are an "advance" on this lower 2001 tax bracket. The Act instructs the Treasury to send the advance refund checks by Oct. 1, but people who filed late or got filing extensions may get their checks later. In addition to the new 10% tax bracket, there will be reductions in the other tax brackets also. All brackets of 28% or more will be reduced by 1/2% beginning during 2001, with additional cuts on the way in the future.

**MARRIAGE PENALTY REDUCTION.** Beginning in 2005, the marriage penalty will be somewhat reduced or the single penalty will be somewhat increased depending on your viewpoint. Relief will be provided in the form of a phased-in increase in the basic standard deduction for joint filers to double that for singles, and a phased-in increase in the size of

**ADOPTION BENEFITS.** The maximum adoption credit will become \$10,000 in 2002 (up from \$5,000/or \$6,000 for a special needs child). The beginning AGI phase out will double from \$75,000 to \$150,000. The credit is now permanent and is allowed to be taken against AMT (Alternative Minimum



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Tax). Tax free Employer Provided Adoption Assistance is also increased to \$10,000. Amounts will increase for inflation after 2002. Beginning in 2003, parents adopting a special needs child will be allowed the credit or the income exclusion for the year the adoption is final even if they do not have qualifying adoption expenses.

**EDUCATION.** There are many new changes:

In 2002 and 2003 taxpayers with adjusted gross income (AGI) under \$65,000 for singles, and \$130,000 for joint filers will be eligible for a maximum deduction of \$3,000 for "qualified higher education expenses." In 2004 and 2005, these taxpayers will be eligible for a maximum annual deduction of \$4,000.

Also in 2004 and 2005, the deduction for qualified higher education expenses will be available for taxpayers with higher AGI's. Taxpayers with AGI's of \$80,000 or less for singles and \$160,000 or less for joint filers will be eligible for a maximum annual deduction of \$2,000.

Under the current law, up to \$2,500 of interest paid on higher education loans is deductible during the first 60 months in which interest payments are required. In 2002, the deduction will no longer be restricted to the first 60 months of loan payments and the Act increases the income phase-out ranges of AGI's to between \$50,000-\$60,000 for single taxpayers and to between \$100,000-\$130,000 for married taxpayers.

The Hope and Lifetime Learning credits may still be used.

Corporations may make contributions to education IRA's regardless of income.

Section 529 plans are much more effective and are my new favorite method for providing for the higher education of children, grandchildren and any others one would care to educate. The plan's earnings accumulate tax free and if used for "qualified higher education expenses" remain tax free. This seems similar to the education IRA except for the flexibility, amounts contributed and safety. If it is decided that the money will not be used for the designee, it may be used for other relatives or brought back to a closer generation. Once again, my favorite plan - call us for a recommendation; State plans differ.

**RETIREMENT.** One of the real secrets of this law is the increased benefits available to pension and profit sharing plans.

Profit sharing plans limited to 15% of compensation in 2001 are increased to 25% in 2002, limiting the need for two plans to achieve 25%. The maximum contribution per individual in these types of plans is \$35,000 in 2001 and \$40,000 in 2002. The amount of compensation which can be used in the calculation goes from \$170,000 in 2001 to \$200,000 in 2002.

For defined benefit plans, the benefit limits will increase to \$160,000 beginning in 2002, and the limit on compensation taken into account under qualified plans rises to \$200,000, making these much more effective in the future.

Participants who are over 50 will be able to defer more in 401K, SIMPLE and IRA's. For 401K's, the difference grows to \$5,000 in 2006.

IRA limits will gradually increase up to \$5,000 in 2008.

**Retirement Plan Contribution Limit Increases**

| Year | 401(k)s for Taxpayer's |          | IRA's for Taxpayer's |         | SIMPLE's for Taxpayer's |          |
|------|------------------------|----------|----------------------|---------|-------------------------|----------|
|      | 401(k)s                | Over 50  | IRA's                | Over 50 | SIMPLE's                | Over 50  |
| 2002 | \$11,000               | \$12,000 | \$3,000              | \$3,500 | \$ 7,000                | \$ 7,500 |
| 2003 | \$12,000               | \$14,000 | \$3,000              | \$3,500 | \$ 8,000                | \$ 9,000 |
| 2004 | \$13,000               | \$16,000 | \$3,000              | \$3,500 | \$ 9,000                | \$10,500 |
| 2005 | \$14,000               | \$18,000 | \$4,000              | \$4,500 | \$10,000                | \$12,000 |
| 2006 | \$15,000               | \$20,000 | \$4,000              | \$5,000 | \$10,000                | \$12,500 |
| 2007 | \$15,000               | \$20,000 | \$4,000              | \$5,000 | \$10,000                | \$12,500 |
| 2008 | \$15,000               | \$20,000 | \$5,000              | \$6,000 | \$10,000                | \$12,500 |

**ESTATE TAXES.** This area will be revisited by Congress. As it currently stands, estate taxes go to zero in 2010 and come back to current levels in 2011.

Gift tax limits remain at \$1,000,000 lifetime exclusion and the gift tax is only reduced to 35% in 2010.

Care must be taken to review current plans as the possible effect of the new exempted amounts on the bypass trust type of estate plans may create unintended consequences. You must review current plans with your attorney, CPA or estate counselor.

*(Continued on page 6)*

**Welcome!**



**Debbie Ginn** as the Firm's new Human Resource Manager. She has a B.S. Degree in Business Administration from California State University, Bakersfield.



**Matthew Gilligan** joins the firm as a Staff Accountant. He graduated from California State University, Bakersfield with a B.S. degree in Business Administration and Accounting.



**Elizabeth Lancaster** holds a B.S. degree in Business Administration concentrating in Accounting. She joins the firm as a Staff Accountant.



**Mohamed Mora** is a Staff Accountant. He graduated from Menoufia University in Shebin El Kom, Arab Republic of Egypt with a B.S. in Business Administration concentrating in Accounting.



**Jessie Palpallatoc** is a graduate from the University of the East in the Philippines. She is a Staff Accountant with a B.S. degree in Business Administration concentrating in Accounting.



**Patricia Welch** joins the firm as a Staff Accountant. She earned a B.S. degree in Accounting from Dickinson State University, in North Dakota.

**The CPA Exam Results:**

- Fiona Lee** passed all 4 parts!
- Wendy Yuan** passed all 4 parts!
- Rebecca Thomas** passed all 4 parts!
- Connie Perez** passed 3 parts!
- Rosalva Flores** passed all 4 parts!
- Patricia Welch** passed 3 parts!
- Carol Bimat** passed 2 parts!
- Elizabeth Lancaster** passed all 4 parts!

**Brown Armstrong Government CPE Day 2001**

On July 27, 2001 Burt Armstrong, CPA and firm principal, kicked off the 3rd annual continuing professional education day. Clients, staff and interested organizations joined the firm for an 8 hour session. Burt first



introduced guest speaker, Donald McDougall. Don is an appraiser with the American Appraisal Associates. He led an interesting discussion on GASB 34.

Topics in the morning session were Management Discussion and



Analysis, which was presented by Steven Starbuck, CPA and firm principal, and Alternative Retirement Plans which was presented by guest speaker Richard Maxey. Richard is a consultant with VALIC out of Sacramento.

Later, Joan Anderson, CPA and firm manager, gave an informative



talk on GASB 33 & 36 and Implementation Issues relating to GASB 34. Marie Ebersbacher, CPA and Certified Fraud Examiner



for the firm gave an interesting talk on Fraud & Government and what governmental entities should watch for inside their organizations.

Brown Armstrong will hold it's 4th annual CPE Day on July 26, 2002. If you attended the CPE day and know of topics you would like see discussed, please let Deanna Blaise know by calling (661) 324-4971.