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What can be done to retain control past the statutory age? One plausible -- albeit sophisticated -- strategy that might be considered for large accounts is for the child's parents to form a limited liability company (LLC) in which the custodian invests the account assets. If the arrangement is properly structured, the child

will eventually hold outright ownership of an interest in the LLC without direct control of its operations. Reportedly, this strategy has not yet been legally challenged.

College Savings Plans

Parents and grandparents who are interested in putting money aside for college might consider opening an account with a state-sponsored college savings plan instead of a custodial account. Plan earnings avoid federal income tax until they are withdrawn. When the child is ready for college, the donor can withdraw funds from the account and use them to pay the child's qualified educational expenses. The income portion of such withdrawals is taxed at the child's tax rate, which is likely to be lower than the donor's. However, the donor remains in control of the account, even when the child is past age 21.

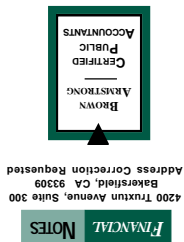
Most college savings plans allow accounts to be used for expenses at any accredited post-secondary school in the country. You can transfer up to \$50,000 to a college savings plan for your child in one year without federal gift-tax consequences.

Business Owners

If you own a business, you can shift earnings to a child by hiring him or her to work in the business. Your business may deduct reasonable pay for your child's services as a business expense. And, an unincorporated business does not have to withhold or pay Social Security taxes for a working child under the age of 18.

These are just some of the strategies that may help your family lower its tax burden. Please contact us for more information and tax planning assistance.

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Planning for Tax-free Home Sale Profits

Most homeowners can now avoid taxes on all of their home sale gains without having to buy another house or wait until age 55 to sell. But act carefully. Not knowing some of the IRS's recently proposed rules could cost you thousands of dollars in taxes needlessly.



You are entitled to a tax-free profit of up to \$250,000 when you sell your home (\$500,000 if you are married filing a joint return) if you own the home and use it as your principal residence for at least two of the five years before you sell it. You can use this tax break once every two years.

Joint filers may avoid tax on up to \$500,000 of their home sale gain if:

- neither spouse sold another home within two years before the date of sale,
- both spouses used the residence as their main home for two years or more during the five-year period, *and*
- either spouse owned the home for two years or more during the last five years before sale.

A partial tax exclusion may be available if health problems, a job change, or other unforeseen circumstances compelled you to sell your home before you could satisfy any of the two-year requirements.

Under the IRS's proposed rules, a widow or widower may use the \$500,000 exclusion only if the home is sold in the year the deceased spouse died. A sale in any later year limits the exclusion to \$250,000, unless the taxpayer remarries.

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4200 Truxtun Ave., Suite 300
Bakersfield, CA 93309
Ph: (661) 324-4971
Fax: (661) 324-4966
e-mail: barrinfo@barrcpa.com

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Your Main Home

If you own and use two or more residential properties, you may not be sure which one is your main home. Under the IRS's rules, factors that establish your main home for tax purposes include:

- which home you use most of the time,
- where your job or business is located,
- the state which issued your driver's license,
- the address you use for voter registration purposes,
- where you receive your mail,
- where you do your banking, and
- the state in which you file income-tax returns.

The Business Side

Part of your home sale gain may be taxable if you took depreciation deductions for the business use of a portion of your home. Converting that space to personal use at least two years before you sell your home may help avoid some of the capital gains tax.

However, under the proposed rules, the amount of gain equal to the depreciation deduction allowed on the business portion after May 6, 1997, will be taxed no matter what. Contact us for more details.

Being There

Under the proposed rules, if you owned and lived in your home for any 730 days during the last five years you owned the property, you satisfy the two-year ownership and use test. Note that your occupancy does not have to be continuous. You could use the home sporadically, as long as your days of occupancy total 730 or more during the five-year period.

Short absences count as time spent using your home -- even if you rent out your home during a two-month vacation. But if you go out of town for a one-year sabbatical, that time away does not count as time spent using the home.

Caution

Some homeowners in special situations may be affected by the IRS's proposed rules. If your home ownership and usage situation is atypical, be sure to check with us about the tax consequences before you sell your home.

Shifting Income and Assets To Children

Having an income that puts you in a high federal income-tax bracket is a problem many people wouldn't mind having. But, if your taxes are so high that you want to do something about it and you happen to have young children, consider shifting some of your income to your children.

Tax Benefits

As a single individual, a child age 14 or older can have taxable income of up to \$26,250 (in 2000) and pay tax on it at the lowest 15% tax rate. Moreover, from \$700 to \$4,400 of income will not be taxed because of the child's standard deduction.

Unfortunately, opportunities to shift income to a child under age 14 are limited by the tax law's "kiddie tax" rules.

Under these rules, the first \$700 of the child's unearned (investment) income is not taxed, and the next \$700 is taxed at the child's own rate -- usually 15%. However, the parents' top marginal tax rate applies to any unearned income over \$1,400.

The most common way to shift income to children is to give them income-producing assets. You may transfer up to \$10,000 in cash or property to each of your children annually without federal gift-tax consequences. Married couples who "split" their gifts can give up to \$20,000 per child.

Custodial Accounts

Many parents and grandparents have opened custodial accounts under the Uniform Transfers to Minors Act (UTMA) or the Uniform Gifts to Minors Act (UGMA) as vehicles for putting money and investments in their children's and grandchildren's names. While this approach generally does shift income to the child/beneficiary, there is a drawback. Once the child reaches a certain age (18, 21, or other age specified by state law), the custodian's control over the account terminates. Frequently, an account that has grown significantly enters the control of a young person who lacks the maturity and the financial knowledge to handle it properly.

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Welcome!



Tony Treece joined our firm on December 11, 2000 as a staff accountant. He will be graduating Cal State Bakersfield in June with academic honors.



Jeri Dunshee started January 2nd as a staff accountant. She will be graduating from Cal State Bakersfield at the end of March. Jeri has experience in various industries and enjoys traveling.



Mario Villanueva joined Brown Armstrong on January 2 as the MIS Assistant. Mario has several years of experience in the computer industry and is a former member of the US Marine Corps. He has attended college at College of the Canyons in Santa Clarita.



Clint Baird started with us on February 5 as a staff accountant. Clint graduated from Cal State Bakersfield with a BS degree in Accounting and was just married last June.



John Jeffries started with the firm on February 5 as a staff accountant. John graduated from Cal State Bakersfield with a BS degree in Accounting and Management Information Systems. He's been working in the IT field for the past two years and is now pursuing his CPA certificate.

The CPA Exam Results:

Julie Auvil	passed all 4 parts!
Debbie Rapp	passed all 4 parts!
Wendy Yuan	passed 2 parts!
Brad Rohrbach	passed 2 parts!
Bryan Lewis	passed all 4 parts!
Amanda Wilson	passed all 4 parts!
John Anderson	passed all 4 parts!
Rebecca Thomas	passed 3 parts!
Connie Perez	passed 2 parts!
Rosalva Flores	passed 2 parts!

Accepted into the Partner Group

Steven Starbuck. Steve has been with Brown Armstrong for 10 years. He specializes in commercial and governmental auditing and has been a valuable resource to the firm's audit division.



Aileen Keeter. Aileen has been with Brown Armstrong since 1996. She manages the Firm's second office, located in Shafter, as her primary client base is in the area of agriculture and farming. Her expertise in this field has made her a valuable addition to the partner team.

Promoted to Manager



Brad Hankins has been promoted to Tax Manager. Brad has been with the firm for 6 years, playing an important role in tax preparation and planning for our clients in the oil & gas industry. Brad's promotion will add a valuable member to our Tax Management team.

Eric Xin was promoted to Audit Manager at the first of the year. Eric has been an employee of Brown Armstrong for over 4 years and has become a valuable member of our audit team, specializing in governmental auditing.



Marie Ebersbacher was promoted to Manager in our Litigation department. Marie has been with Brown Armstrong since 1997. She recently became a licensed CPA and is also a Certified Fraud Examiner. Marie's focus within litigation has been forensics and fraud analysis.

Brown Armstrong is pleased to announce the success of all of these employees and we wish them continued prosperity in their careers with us.