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– THIS EDITION –

2003 Tax Changes Impact All Taxpayers 1

Jobs and Growth Tax Relief Reconciliation Act Overview 2

Montana Economic Development Tax Act . . . 2

Financial Planning: What Is Probate? 3

Reduced Capital Gains Rates 4

Tax Act of 2003: Individual Tax Rate Cuts . 5

Self-Employed 401(k) Plans 6

FSAs Are Covered by HIPAA 6

Dividend Reduction 6

Employee vs. Independent Contract Labor 7

Growth Incentives for Business 7

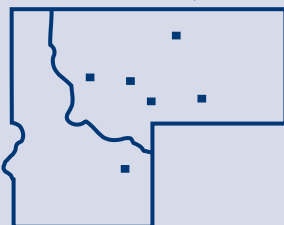
Child Tax Credit 8

Gift Annuities 8

Our Offices 8

THE GALUSHA REPORT presents information on tax and business matters of general interest. Since the information is presented in summary form, we urge you to consult your tax or business advisor before taking action.

BILLINGS, BOZEMAN, HAVRE,
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2003 Tax Changes Impact All Taxpayers

As you know, Congress has just passed sweeping new tax cuts. This is the third year in a row in which the Congress has approved major tax relief legislation at the urging of President Bush. Although the president did not get everything he asked for, Congress did pass a relief package that has already saved you money because of its many retroactive provisions, and promises to save you substantially more for the rest of this year and over the next several years. Especially in the case of this particular new law, with its temporary effective dates and its new capital gains and dividends tax rate structure, tax planning becomes essential for you to maximize many of these benefits.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA'03) was passed by Congress just before Memorial Day and gives immediate tax relief for both individuals and small businesses. Since the majority of tax breaks are retroactive to January 1, 2003, and it lowers marginal tax rates across the board, it will mean extra disposable income for all taxpayers in 2003. In addition, the law lightens the tax burden on investors by lowering the tax rates on earnings from investments (including stock dividends). It also provides significant tax incentives designed to help businesses grow and thrive.

The passage of this new law is not just a time for celebration, however. Since many of its benefits are retroactively effective and all are temporary in nature, it is important that we get this information to you immediately and begin to plan your strategy for how to make the most of the new tax benefits. The new tax law creates a new environment that deserves our attention, both for enhancing your tax savings on a personal level and for revising your business plans to maximize after-tax business profits.

Some of the major highlights in what is being called the third largest tax cut in U.S. history are listed here:

- Lower individual marginal tax rates;
- Lower taxes paid on both capital gains and stock dividends;
- Increase in the child tax credit, with a rebate check in the amount of the increase (\$400 per child) being sent to most taxpayers with children this summer;
- Marriage penalty relief;
- Expansion of the 10 percent bracket;

- Alternative minimum tax relief;
- Quadrupling the amount small businesses can elect to expense for the purchase of "qualified property";
- Increase in the first year "bonus" depreciation businesses can take for assets acquired after May 5, 2003; and
- Postponement of the due date for paying third-quarter 2003 estimated corporate taxes from September 15, 2003, to October 1, 2003.

Below are more details.

Lower marginal tax rates. Before JGTRRA'03, the marginal income tax rates were 10, 15, 27, 35, and 38.6 percent. These were the tax rates for 2003 that were put into effect when Congress passed the Economic Growth and Tax Relief Reconciliation Act of 2001. The new law changes the marginal rates for 2003, retroactive to January 1, 2003, to 10, 15, 25, 33, and 35 percent.

Since many of its benefits are retroactively effective and all are temporary in nature, it is important that we get this information to you immediately and begin to plan your strategy for how to make the most of the new tax benefits.

Capital gains rates. Inclusion of capital gains relief in this legislation came as a surprise and was part of a compromise for lowering taxes on dividends. The tax rate on capital gains drops from 20 to 15 percent for all taxpayers except those in the lowest brackets. Taxpayers in the 10 and 15 percent brackets will pay five percent on any capital gains recognized (down from 10 percent). The 15 percent rate applies

Continued on page 4

JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OVERVIEW

The more significant provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003 are across-the-board individual tax rate reductions, a lower 15 percent federal tax on long-term capital gains and on dividend income, and significantly faster depreciation expensing for businesses. The following planning opportunities take maximum advantage of these new provisions.

Entity Selection — LLCs and S Corporations Are Preferred

Limited Liability Companies (LLCs), Limited Liability Partnerships (LLPs), and Subchapter S Corporations have been the “current entities of choice” for new business operations. Despite the 15 percent rate on corporate dividends and long-term capital gains, the tax effect of using conventional corporations continues to be less attractive than LLCs, LLPs, and S corporations. This is because the individual income tax rates were reduced by the 2003 Tax Act, but the tax rates for corporations remained unchanged. The highest combined federal and state (Montana or Idaho) rates are virtually the same for individuals and conventional C corporations. A “double tax” will always result when a conventional corporation has retained earnings and is ultimately liquidated.



Alternative Minimum Tax Planning

The Tax Act made some changes to the alternative minimum tax (AMT), such as raising the exemption amounts and extending a lower 15 percent AMT rate to long-term capital gains and to dividends. However, although the individual tax rates were reduced, the AMT rate of 26 percent remains unchanged. Unless annual inflation adjustments or changes to AMT adjustments are made (such as the add-back of state income taxes and property taxes), more and more of our Montana and Idaho taxpayer clients will be introduced to this “backdoor” tax. The need for periodic and/or year-end tax reviews will become even more essential to maximize the tax benefit of deductions that might otherwise be lost to the AMT.

Retirement/Estate Planning

Distributions from qualified employer-sponsored retirement plans and individual plans such as IRAs will be taxed at the recipient’s marginal bracket, as high as 35 percent. When compared to a 15 percent

rate on long-term capital gains and dividends, retirement plan funding may become less attractive than personal investing in appreciating (we hope!) capital assets and Roth IRAs.

Corporations that sell their business assets and cease business operations have a choice of liquidating (usually resulting in a double tax) or operating as a Personal Holding Company (PHCo). PHCos have been taxed at a 38.6 percent tax rate unless the current year income was distributed as a taxable dividend to the company shareholders. The PHCo tax rate of 38.6 percent has been lowered to 15 percent, which may make operating as a personal holding company a more favorable option than a taxable liquidation.

All this has to be tempered by at least two other considerations. The states of Montana and Idaho also have a tax on income. Montana’s tax rates currently do not give a break to either long-term capital gains or dividends, although Montana’s legislature has provided for some capital gain rate reduction, beginning in 2005. Idaho’s tax rules provide for a 60 percent exclusion from income for qualified long-term capital gains.

The second consideration is that each one of these highly favorable tax benefits is scheduled to “sunset” at various dates from 2004 through 2011. Will Congress extend these benefits? Will they provide for even bigger and better benefits? Or will they allow them to “sunset” and automatically revert to “Pre-2003 Act” provisions? Stay tuned.

Mike Duffield, CPA — Missoula Office

Montana Economic Development Tax Act

Although not effective until 2005, the changes to Montana’s income tax need to be considered in your strategic tax planning. Montana Senate Bill 407, referred to as the Montana Economic Development Tax Act, was passed during the 2003 legislative session and is best known for imposing a limited sales-and-use tax on certain property and services.

The income tax modifications for individuals were minimal in quantity but will have an immense effect on your tax planning. The major modifications are these:

- The graduated income rates are reduced from the 2–11 percent range to a 1–6.9 percent range. The 11 percent rate was imposed on taxable income in excess of \$76,000, while the

new 6.9 percent maximum tax rate will be imposed on taxable income in excess of \$13,900.

- Individual taxpayers will be allowed a credit against taxes equal to one percent of the taxpayer’s net capital gains. This effectively reduces the maximum capital gains tax at the state level to 5.9 percent. The capital gains tax credit increases to two percent in 2007.
- Montana’s 11 percent marginal tax rate has always been one of the highest in the country. However, since Montana allowed a deduction for federal income taxes, this 11 percent rate was effectively reduced to around seven percent. Now that the highest marginal rate is actually being reduced to 6.9 percent, the deduction for paid federal taxes will be limited. The maximum deduction for federal income taxes beginning in 2005 will be \$5,000 (\$10,000 if filing a joint return).

Rich Hamma, CPA, CMA — Missoula Office



Financial Planning — *What Is Probate?*

C. Wayne Smith, CPA
Shareholder - Helena

Probate is simply a safeguard to ensure that your wishes are honored and your family is protected when you are no longer around to oversee matters yourself.

A court supervises the whole process to look out for the interests of both your family and your creditors. During probate proceedings, a deceased person's will is brought to the probate court. Proof must be shown that the will is authentic and was properly signed, with all the formalities required by state law. If there is no valid will, the court determines who, under state law, stands to inherit the deceased's property. The deceased person's property is inventoried and appraised, relatives and creditors are notified, and a notice is published in the local newspaper. Creditors make their claims, and debts are paid. Often probate takes a year or two, during which time the beneficiaries generally get nothing unless the judge allows the immediate family an allowance.

The cost of probate varies widely from state to state. Attorney, court, and other fees often eat up five percent or more of the value of property left behind at death. If the estate is complicated or disputed, the fees can be even larger. If you are concerned about the possibility of large claims and want to take advantage of probate's creditor cutoff, the cost of probate might be justified. Otherwise, there's no need to be in court if there is a valid will, no family conflict, and the family is willing to pay whatever bills the deceased left and divide up the property according to the deceased's wishes. Also, probate documents become a matter of public record and can be inspected by anyone who goes to the courthouse and asks.

If you're young and healthy, you don't need to spend lots of time and effort to avoid probate.

Here are some probate-avoidance methods for common kinds of assets. Not every method is available in every state, and not all are appropriate in every situation.

Asset	Method
Real estate	<ul style="list-style-type: none"> • Transfer to a living trust • Hold property in joint tenancy with right of survivorship or tenancy by the entirety with your spouse • Make tax-free gifts • Hold as community property or community property with right of survivorship with your spouse (In some states, community property doesn't have to go through probate.)
Bank accounts, certificates of deposit, stock and bonds, and government bonds	<ul style="list-style-type: none"> • Name a payable-on-death or transfer-on-death beneficiary or register ownership in beneficiary form • Hold in joint tenancy with right of survivorship or tenancy by the entirety with your spouse • Transfer to a living trust • Make tax-free gifts • Hold as community property or community property with right of survivorship with your spouse
Cars, boats, and other vehicles	<ul style="list-style-type: none"> • Register in transfer-on-death form • Hold in joint tenancy with right of survivorship or tenancy by the entirety with your spouse • Hold as community property or community property with right of survivorship with your spouse
Retirement accounts and life insurance	<ul style="list-style-type: none"> • Name someone other than your estate as beneficiary to inherit upon your death

If the total value of all the assets you leave behind is less than a certain amount, the people who inherit your personal property (anything except real estate) may be able to skip probate entirely. The exact amount depends on state law. If the estate qualifies, an heir can prepare a short document, signed under oath, stating that he or she is entitled to a certain item of property under a will or state law. This document is called an affidavit.

Simplified court procedures called "summary probate" or "informal probate" are another option for small estates as defined by state law. These are a quicker, simpler version of probate. The probate court is still involved, but it exerts far less control over the settling of the estate. In many

states, these procedures are straightforward enough to handle without a lawyer. Most states have both affidavit and simplified court procedures; some have just one. If you plan ahead and learn about your state's rules, chances are good that you can adjust your affairs so that you will leave a "small estate" as your state defines it.

If you're young and healthy, you don't need to spend lots of time and effort to avoid probate. A will is probably all the estate planning you need.

If you have questions about probate, see an attorney. If you need assistance in developing a plan to avoid probate, see an attorney and your professional staff accountant at Galusha, Higgins & Galusha, PC.

Continued from page 1

to transactions occurring for gains able to be recognized on or after May 6, 2003, and remains in effect only through December 31, 2008. In 2008, taxpayers in the 10 and 15 percent brackets will be taxed on their capital gains at zero percent. In 2009, the capital gains rates are scheduled to return to 20 and 10 percent levels. The reduced rates and the temporary nature of the reductions call for immediate revisions in many taxpayers' investment strategies.

Stock dividends. Stock dividends, which had been taxed at the same rate as ordinary income, will be taxed at 15 percent for most taxpayers effective January 1, 2003. This rate remains in effect until December 31, 2008. Lower-income taxpayers will pay taxes on dividends at five percent effective January 1, 2003, through December 31, 2007. In 2008, lower-income taxpayers will pay a zero percent tax on dividends. However, not all corporate distributions are entitled to tax-reduced dividend treatment, creating a new web of complex rules for both shareholders and corporations alike.

Increase in the child tax credit. Before JGTRRA'03 was enacted, the child tax credit for 2003 and 2004 was scheduled to be \$600. The new law increases the credit to \$1,000. Beginning around July, the IRS will send rebate checks (\$400 per child) to qualifying individuals based on 2002 tax returns. After 2004, the child tax credit will revert back to the previously scheduled amount.

Marriage penalty relief. JGTRRA'03 immediately raises the standard deduc-



tion for married couples filing jointly to twice the standard deduction for single taxpayers for 2003 and 2004. In 2005 the standard deduction for married couples falls to 174 percent of the standard deduction for single taxpayers but doubles again in 2009. Included in marriage penalty relief is also a doubling of the income range in the 15 percent tax bracket for couples filing joint returns.

Business Tax Breaks

Increased small business expensing. JGTRRA'03 quadruples the amount of qualified property that a business can annually expense from \$25,000 to \$100,000 for 2003, 2004, and 2005. JGTRRA'03 also changes the definition of qualifying property to include off-the-shelf computer software.

Bonus depreciation. Last year, under the Job Creation and Worker Assistance Act of 2002, businesses were given a 30 percent

depreciation bonus for assets acquired between September 11, 2001, and September 10, 2004. JGTRRA'03 boosts the bonus significantly to 50 percent for assets acquired on or after May 6, 2003, and before January 1, 2005. This "bonus" is in addition to regular first-year depreciation. If bonus depreciation will not be advantageous to your business from a tax perspective, the law allows you to "elect out." A special rule applies the bonus depreciation to the purchase of a "luxury" automobile.

What's Next?

This is a very brief description of the tax cuts in the new law. It does not cover all the tax benefits and the planning opportunities that apply to your specific business and/or personal situation. Careful planning will have to be exercised to make the most of the tax relief in JGTRRA'03. This is especially true because of the retroactive effective dates and the temporary duration of many of the provisions.

We need to look at transactions that are already in the works and those you planned for this year to see how the new law affects them — and how they might be quickly revised. In addition, there may be new personal and/or business projects or investments that the new law will enable you to undertake that were not possible before its passage.

Call your Galusha, Higgins & Galusha accountant today so we can map your tax strategy to take best advantage of the new provisions.

From CCH Incorporated, 2003

Reduced Capital Gains Rates

The surprise in the Jobs and Growth Tax Relief Act of 2003 (JGTRRA) was the addition of a capital gains tax reduction. This reduction will have a substantial impact on a very large segment of the population. The new reduced rates will create a new facet to investment decisions, as well as problems for many deals that overlap the May 6 effective date or that involve five-year property.

The new capital gains rates become effective for sales and exchanges on or after May 6, 2003, through December 31, 2007. The new maximum capital gains rate immediately falls from 20 to 15 percent. The capital gains rate for low-income taxpayers drops from 10 percent to five percent. These new, lower rates apply for both regular tax and alternative minimum tax purposes.

The five-percent rate for low-income taxpayers drops to zero percent in 2008, but for just one year. For all other taxpayers the 15-percent rate remains the same. Then, on January 1, 2009, the old pre-JGTRRA rates of 20 and 10 percent return.

However, the new capital gains rates are not "across the board." The long-term capital gains rates for some assets, such as collectibles, will continue to be subject to a 28-percent maximum rate. Unrecaptured Code Section 1250 gains continue to be subject to a 25-percent rate. The deduction allowed for capital losses against ordinary income remains at \$3,000 per year for individual

Tax Act of 2003:

Individual Tax Rate Cuts

The Tax Act of 2003 will accelerate rate reductions in two ways. First, the 10-percent tax bracket will be expanded. Second, there will be acceleration in individual income tax rate cuts.

The income cut-off for the 10-percent tax bracket will increase from \$6,000 to \$7,000 for single filers and from \$12,000 to \$14,000 for married persons filing jointly in 2003 and 2004. Then the 10-percent tax bracket will drop back to \$6,000 for single filers and \$12,000 for joint filers in 2005, 2006, and 2007. It will return to \$7,000 for single filers and \$14,000 for joint filers in 2008, 2009, and 2010.

All rate cuts are retroactive to January 1, 2003; therefore many taxpayers will have had too much tax withheld. These taxpayers should obtain a refund through the normal process of filing an income tax return.

Second, there will be acceleration in individual income tax rate cuts. Rates above 15 percent will generally fall about two percentage points. Below is a schedule of the applicable rates under the new law.

Tax year beginning during calendar year:	28% rate is	31% rate is	36% rate is	39.6% rate is
	reduced to:	reduced to:	reduced to:	reduced to:
2002	27%	30%	35%	38.6%
2003-2010	25%	28%	33%	35%
2011 and after	28%	31%	36%	39.6%

Under the Economic Growth and Tax Relief Reconciliation Act of 2001 sunset provision, these reductions do not apply to tax years beginning after December 31, 2010.

Becky Holdorf, CPA — Missoula Office

taxpayers. Capital losses carried over to 2003 will be adjusted to reflect the higher capital gains rate in effect when they were realized.

The five-year property rates enacted under the 2001 tax act (18/8 percent) have been repealed until 2009 when the pre-JGTRRA capital gains rates are scheduled to return. This repeal is also effective May 6, 2003. The change has been problematic for those taxpayers who made a deemed sale election on their 2001 returns to recognize gains as if the property had been sold on January 1, 2002. If taxpayers sell the property before 2009, they will receive no benefit for having paid tax on pre-2001 appreciation at the higher rates.

On a tax-planning note, the new lower rates have increased the spread between the highest tax bracket rate and the capital gains rate. This increased spread makes it even more beneficial for taxpayers to realize capital gains instead of either short-term gain or ordinary income.

Additionally, taxpayers should think about transferring appreciated assets to children over 13. This could be especially effective in 2008, for if the child is in the 10-percent bracket, sale of appreciated assets will, at least in part, not be taxed at all. This could be a great way to contribute to a college fund.

These new, lower rates apply for both regular tax and alternative minimum tax purposes.

Both Democrats and Republicans believe that the centerpiece of the Act — the dividend and capital gains tax cuts — will most likely be made permanent by lawmakers in the years ahead. In addition, lawmakers believe that other provisions in the measure are likely to be further extended before the provisions expire.

Self-Employed 401(k) Plans

The Economic Growth and Tax Relief Reconciliation Act of 2001 dramatically changed retirement plan contribution and deduction rules for those small business owners with no employees or only a spouse as an employee. Self-employed 401(k) plans (SE 401(k)) offer the ability to contribute up to \$40,000 per year at lower income levels than other plans that self-employed taxpayers may be involved in. This retirement plan enables a small business owner or a self-employed individual the opportunity to shelter a large portion of income from income taxes, and, depending on the plan that is used, it may also offer loan features to the participant, potentially offering a tax-efficient way to control cash flows.

Benefits of the SE 401(k)

- High limits on contributions: For 2003 the limits for elective salary deferrals and employer contributions enable a total contribution and deduction of up to \$40,000 (\$42,000 if age 50 or older).
- Assets can be rolled over from other plans or IRAs into the SE 401(k).
- If allowed by the plan, and subject to IRS regulations, the account holder can take a tax-free and penalty-free loan up to the lesser of 50 percent or \$50,000 of the vested account balance.

Who is eligible to set up an SE 401(k) plan?

Eligible candidates for the SE 401(k) plan include self-employed persons, partnerships, S corporations and C corporations, as long as the business employs only owners and their spouses.

When does the SE 401(k) plan have to be set up?

SE 401(k) plans must be set up no later than December 31 to be eligible for tax deductions in that tax year.

When can contributions be made to the plan?

Contributions can begin once the plan is established. Only compensation earned after the plan is adopted will be eligible for deferral. Contributions must be made by the employer's tax filing due date, including extensions, in order to be deducted on that tax return.

How do I decide if the SE 401(k) plan is right for me?

If you would like to discuss SE 401(k) plans or other facets of this Tax Act, contact your local GH&G advisor.

Nate McCarthy, CPA — Missoula Office

Dividend Reduction

There is finally a rate reduction for dividends. This will have a large impact on many taxpayers and provide several planning opportunities. Now the highest federal tax rate for dividends is 15 percent instead of 38.6 percent. Individuals in the 10 to 15-percent bracket will now only pay five percent, with the percentage decreasing to zero in 2008. All reduced rates for dividends will expire in 2009. Investments in tax-deferred retirements such as regular IRAs, 401(k), and deferred annuities receive no benefit from the rate reduction. Distributions from these accounts will be taxed at ordinary tax rates. The new tax rate applies only to stock dividends. This means that the rate reduction does not apply to credit unions, mutual insurance companies, farmers' cooperatives, or employer securities owned by an employee stock ownership plan. Dividends paid by a foreign corporation are eligible for the reduced tax rate but must be paid from a qualified corporation.

Taxpayers who purchase stocks with borrowed funds have a couple of options and need to determine which option is beneficial for them. They can claim the dividend as ordinary income to offset investment expense or use the rate reduction. Taxpayers can take advantage of both if they have other investment income to offset investment expense. A taxpayer must specifically elect to include a dividend in investment income, or the IRS will assume that the reduced dividend rate is to apply.

There are always exceptions to the rules. Dividends generated by regulated investment companies will be taxed at the maximum rate for individuals. Stocks owned for fewer than 60 days in the 120-day period surrounding the exdividend date are not eligible for the rate reduction. Some "preferred dividends" on "preferred stock" might not be eligible for the reduced dividend tax rate. A preferred dividend may be paid from a popular preferred equity known as hybrid preferred stock. This type of stock is reported by a company as debt, and the company pays interest that is deducted and is thus not considered a dividend.

To learn more about how these new tax laws affect you, please contact your GH&G tax advisor.

Debra L. Lawton, CPA — Missoula Office

FSAs Are Covered by HIPAA

Health flexible spending accounts (FSAs) and cafeteria plans are covered by the Health Insurance Portability and Accountability Act of 1996 (HIPAA) as health plans, according to the U.S. Department of Health and Human Services (HHS).

To the extent that an FSA or cafeteria plan meets the definition of an employee welfare benefit plan under the Employee Retirement Income Security Act of 1974 (ERISA) and pays for medical care, it is a group health plan, unless it has

fewer than 50 participants and is self-administered. FSAs and cafeteria plans are not excluded from the definition of "health plan" as excepted benefits. Therefore, group health plans are "health plans" covered by HIPAA's privacy rules.

HHS will defer to ERISA in determining whether an employee assistance program (EAP) is a health plan. At this time, there is no definitive guidance on these types of plans as far as HIPAA legislation has been interpreted.

Employee vs. Independent Contract Labor

Trying to figure out if a worker you are hiring should be considered an employee or independent contractor can be somewhat confusing. In order to determine employee/independent contractor status, the relationship between the worker and the business must be examined.

Generally, a worker who performs services for you is your employee if you can control what will be done and how it will be done. You, as the employer, have the right to control the details of how the services are performed. You may use the Common Law Test below to determine a worker's employment status under the Federal Unemployment Tax Act.

Behavioral Control

The worker is an employee if the business has the right to control the work being performed. The following are examples of the types of instructions regarding how the work should be done:

- When and where to do the work
- What tools or equipment to use
- What workers to hire or to assist with the work
- Where to purchase supplies and services
- What work must be performed by a specified individual
- What order or sequence to follow when performing the work

The worker is an independent contractor if he/she is free from control or direction in performing the work, both by agreement and in reality. You should not have to train an independent contract labor worker to do the job.

Financial Control

The following are examples of whether the business has a right to control the business aspects of the worker's job:

- Business expenses. The worker has business expenses that are not reimbursed by the business. Independent contractors are more likely to have business expenses that are not reimbursed.
- The extent of the worker's investment. If the worker supplies the tools and machinery to do the job, he/she is most likely an independent contractor. If the business supplies the tools or machinery to do the job he/she is most likely an employee.
- The extent to which the worker makes services available to the general public. An independent contractor is generally free

to provide services to other businesses and to market his/her services to the general public.

- How the business pays the worker. An employee is generally guaranteed a regular wage amount whether it is hourly, weekly, or any other period of time. An independent contractor is usually paid a flat fee by the job.
- An independent contractor can make a profit or loss.

Type of Relationship

The type of relationship between the business and the worker can be determined by:

- Written contracts describing the relationship between the business and the worker.
- Whether the business provides the worker employee-type benefits, such as insurance, a pension plan, or vacation pay.
- How long the relationship will last. If the expectation is that the worker will continue to work for you indefinitely, rather than for a specific project or period, then this is an indication that the worker should be considered an employee.
- Type of work being performed. If the worker is providing services that are not closely related to the regular business activity of the firm, the worker may be considered an independent contractor. However, if the worker is providing a service that would be considered normal business activity, then the worker should be considered an employee.

Independent Contractor Classification Requirements

To help you determine if a worker is an employee or independent contractor, ask the worker to fill out form SS-8, Determination of Worker Status. You do not need to send this form to the IRS unless you are unable to make a determination on your own.

If you have determined that the worker is an independent contractor, he/she should fill out form W-9, Request for Taxpayer Identification Number and Certification. An independent contractor must provide you with a valid taxpayer identification number.

Further information can be found in IRS Publication 15 (Circular E, Employer's Tax Guide) and Publication 15-A (Employer's Supplemental Tax Guide).

Wendy Misevic, Payroll Specialist — Missoula Office

Growth Incentives for Business

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, bonus depreciation increases from the current 30 percent to 50 percent for property acquired after May 5, 2003, and before January 1, 2005. Bonus depreciation is allowed in full for alternative minimum tax purposes. Property that qualifies is defined in the same manner as for purposes of the 30 percent additional

first-year depreciation deduction provided by the Job Creation and Workers' Assistance Act of 2002.

Additionally, the Code Section 179 deduction has been broadened. Code Section 179 allows taxpayers (other than estates, trusts, and certain noncorporate lessors) to expense qualifying tangible depreciable property in the year it is placed in service, in lieu of depreciating the property. The maximum allowable deduction has increased from \$25,000

in 2003 to \$100,000, as well as the phase-out threshold increasing from \$200,000 to \$400,000 for qualifying property placed in service in tax years beginning after 2002 and before 2006.

For information on how bonus depreciation and Code Section 179 expensing can be a tax benefit for your company, please contact your tax professional.

Stephanie Holt, CPA — Missoula Office



OUR OFFICES

Billings

303 N. Broadway, Ste. 503
P.O. Box 2532 59103
(406) 248-1681

Bozeman

777 East Main, Ste. 201
P.O. Box 340 59771
(406) 586-2386

Havre

300 Second Avenue
P.O. Box 1530 59501
(406) 265-3201

Helena

111 N. Last Chance Gulch
P.O. Box 1699 59624
(406) 442-5520

Missoula

127 East Front, Ste. 301
P.O. Box 8867 59807
(406) 728-1800

Idaho Falls

444 B Street
P.O. Box 50699 83405
(208) 523-5953

Cathy Givler, CPA
Editor
(406) 442-5520

E-MAIL

cathy@ghg-cpa.com
www.ghg-cpa.com

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A Professional Corporation of
Certified Public Accountants and Advisors

P.O. Box 1699
Helena, Montana 59624

Child^{Tax} Credit

The new tax law will increase the child tax credit from \$600 to \$1,000 for 2003 and 2004. Beginning in July, the IRS will be sending out advance rebate checks of up to \$400 per eligible child to qualifying individuals based on the filed 2002 tax returns. Those who receive the rebate checks will have to reduce the credit taken on their 2003 tax returns by the amount of the rebate check.

However, the credit increase is only temporary. In 2005 the rate will drop back to the previously scheduled amount per child and continue to increase each year until it reaches \$1,000 in 2010.

The credit has phase-out limitations starting at the following adjusted gross income levels: \$110,000 for married filing jointly; \$55,000 for married filing separately; and \$75,000 for single filers. The phase-outs also vary depending on the number of qualifying children. Please consult your CPA for more details.

Brenna Simpson — Missoula Office

To qualify, the child must be:

- *Seventeen years or under at the end of the tax year;*
- *Claimed as a dependent by the taxpayer;*
— and —
- *The taxpayer's son, daughter, adopted child, stepchild, or eligible foster child.*

Gift Annuities

Gift annuities are one tax-planning strategy in which a donor agrees to give a gift for a specified amount to a nonprofit in return for receiving a fixed amount of money for the rest of the donor's life. The fixed amount of money depends on the value of the gift, the donor's age(s), and whether there are one or two annuitants.

Before the last legislature session, Montana did not have set regulations for charitable gift annuities. On April 24, 2003, Senate Bill 143 was signed and immediately went into effect. It made charitable gift annuities exempt from Insurance Commission regulations if the annuities follow the specific criteria listed below:

- The gift must qualify as a charitable gift annuity and be given to an organization with a nonprofit status of at least three years.
- The nonprofit organization must have a minimum of \$300,000 net worth or a minimum of \$100,000 in unrestricted cash, cash equivalents, or publicly traded securities and maintain a separate annuity fund with at least one half the value of the initial amount transferred for the outstanding annuities.

- The annuity agreement must state that the charitable gift annuity is not an insurance product, and thus not subject to the insurance regulations or protected by an insurance guaranty association.
- The issuing charitable organization must notify the insurance commissioner in writing within 90 days of entering into a gift annuity agreement. Failure to notify the commissioner may result in a fine if all the above criteria are not met.

If an organization cannot meet the first three criteria, then a licensed insurance company qualified to do business in Montana must commercially insure the gift annuity.

Darla Frank, Accountant — Missoula Office

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