

CGB Release

Special Interest

- Lower Capital Gains Rate
- Business Mileage Rate Increased
- Quarterly Employment Taxes
- Student Loan Interest
- Depreciable Business Expense up to \$24,000
- Self Employment social security tax base increased to \$80,400
- Defined benefit plan up to \$140,000; contribution plan increase to 25% or \$35,000
- **IRA Contribution Phase-Out**
- **Nanny Tax Threshold**
- Minimum annual distribution liberalized

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Changes In Business Tax Laws for 2001

TAX LAW

Changes For Tax Year 2001

To update you on what's new in the tax rules, here's a summary of the major tax changes for 2001. This is intended to give you an idea of what tax changes may help you or hurt you when you sit down to prepare your 2001 tax return next year. It isn't a substitute for that yearly trip to your accountant's office.

Capital Gains

Taxpayers who are in the 15% tax bracket will pay a tax of only 8% (rather than 10%) on capital gains from assets such as stock that they have held for at least five years before sale. Taxpayers who sell or exchange capital assets held more than 5 years will be taxed at 18% (rather than 20%), but only if the assets were purchased after 2000.

An election can be made to have the new, lower rates apply to capital assets held on January 1, 2001 but not yet sold. If the election is made for stock, it is treated as having been sold on January 2, 2001 for its closing market price on that date, and reacquired on that date for that closing market price. The deemed sale date is January 1, 2001 for eligible capital assets that aren't readily tradable stocks. Any gain is recognized (included in income), but a loss on a deemed sale is disallowed. Once made, the deemed sale-repurchase election is irrevocable.

Business Mileage Rate:

The simplified deduction for business auto use during 2001 is 34.5 cents per mile (increased from 31 to 32.5 cents per mile in 2000).

Quarterly Employment Taxes:

Beginning January 1, 2001, many small businesses are allowed to make employment tax deposits on a quarterly basis rather than monthly. Businesses can make payments every three months if they have less than \$2,500 in quarterly employment taxes. This replaces the former rule, which allowed quarterly payments only if businesses had less than \$1,000 in quarterly employment taxes.

Student Education Loan Interest:

You can deduct up to \$2,500 of interest paid on a qualified education loan (\$2,000 in 2000). The deduction is phased out for single taxpayers with modified adjusted gross income of \$40,000 to \$55,000 and for married taxpayers filing jointly with modified adjusted gross income of \$60,000 to \$75,000.

Section 179 Election:

The maximum amount of depreciable business property that can be expensed is \$24,000 for tax years beginning in 2001 (\$20,000 for 2000).

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Avoiding The Estimated Tax Penalty:

For 2001, if your adjusted gross income for 2000 was over \$150,000 (\$75,000 for married individuals filing separately), you escape an estimated tax underpayment penalty for 2001 if your estimated tax payments for 2001 were at least equal to 110% of the tax shown on your return for 2000.

Self-Employment Tax:

The social security tax base for 2001 has increased to \$80,400 (\$76,200 in 2000).

Pension Plans:

The dollar limit on the annual benefit that can be funded in a defined benefit plan is \$140,000 (\$135,000 in 2000).

The annual additions to a defined contribution plan account increase to the lesser of 25% of compensation or \$35,000 (\$30,000 for 2000).

The maximum amount of compensation an employee may elect to defer under a SIMPLE plan increases to \$6,500 (\$6,000 for 2000).

IRA Contribution Phase-Out:

The maximum \$2,000 deduction for contributions to traditional IRAs made by active participants in an employer-sponsored plan begins to phase out when AGI exceeds \$53,000 (joint return filers) or \$33,000 (single or head of household). The deduction is completely phased out when AGI is \$63,000 and \$43,000 respectively. For 2000, the deduction phase-out range was \$52,000 to \$62,000 and \$32,000 to \$42,000 of AGI respectively.

Nanny Tax Threshold:

Employers must withhold and pay FICA taxes on the wages of their household workers if cash wages paid in calendar year 2001 total \$1,300 or more (\$1,200 in 2000).

RMD Rules:

The IRS has just simplified and liberalized the rules that determine the minimum annual distribution that must be withdrawn from your traditional IRA, 401(k)s, and other individual accounts in an employer-sponsored defined contribution plan (such as a profit sharing plan). In general, you'll have to withdraw less each year under the revised rules than you did under pre-existing rules. For those looking to withdraw no more than the minimum from their retirement plan accounts, the new rules will result in a lower tax bill, a longer-lived tax shelter for the family, and potentially larger payouts for the owner's beneficiaries.

About Our Organization

Attorneys Guy Gilbert, James Bachor, Sean Fitzpatrick and Shea Conway practice in the area of general business law with an emphasis on California and Federal small to medium size business advisement and litigation.

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Mr. Walls is an attorney and accountant located in our office building, who is available for tax advice, tax return preparation and for representation in tax disputes with California and Federal tax agencies..