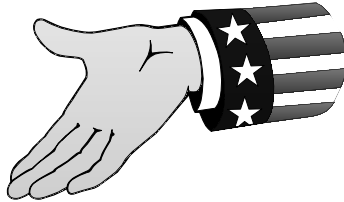


PKF PERSPECTIVES

WHAT'S NEW FOR 2003

Many important tax changes go into effect this year, some the result of tax legislation enacted in years 1996 through 2002, some triggered by effective dates in regulations, and some the result of inflation-indexing provisions in the law. Listed below are some of the *non-indexing changes* for 2003.



Individuals:

1. **Maximum Lifetime Learning Credit:** The Credit is equal to 20% of up to \$10,000 of qualifying higher education expenses. The maximum credit is now \$2,000 compared to \$1,000 in 2002 and prior years.
2. **Lower Estimated Tax Payments:** In order to avoid an estimated income tax penalty for 2003, an individual whose adjusted gross income exceeds \$150,000 (\$75,000 for a married person filing a separate return) must prepay the smaller of: (1) 90% of his/her tax for 2003, or (2) 110% of that person's 2002 tax. For year 2002, item (2) was 112%.
3. **Adoption Credit:** Individuals may now claim a \$10,160 credit for the adoption of a special-needs child (less expenses paid or incurred in prior years), regardless of actual adoption expenses. Before 2003, the credit only applied to adoption expenses actually incurred.

Businesses:

1. **Annual Expensing Limit:** The maximum annual expensing limit of qualified depreciable personal property (Section 179) is increased to \$25,000, up from \$24,000 in 2002. The limit is now \$60,000 for qualifying Liberty Zone property, qualified zone property of an Enterprise Zone business, and qualified renewal property.
2. **Health Insurance Premiums:** For 2003, self-employed taxpayers may now deduct 100% of their health insurance premiums. The amount deductible for 2002 was 70% of the premiums.
3. **Mileage Allowance:** The optional mileage deduction allowance for owned or leased automobiles is down to 36 cents per mile from 36 ½ cents for 2002.

Retirement Planning:

1. **Roth IRAs:** 2003 is the first year that distributions may be available for tax-free distribution. Distributions are tax-free if made: (1) after the five-year period that begins with the first tax year for which a taxpayer makes a contribution to a Roth IRA; and (2) on or after the taxpayer's attainment of age 59 ½, disability, death or for qualifying first-home expenses.

2. **IRA Minimum Distributions:** Final regulations pertaining to minimum distributions must be used for distributions occurring in 2003 and later years. The regulations carry more favorable life expectancy tables and, thus, reduce required distributable amounts from earlier guidance. Changes are also made to rules applicable to the death of the IRA owner after his/her required beginning date (generally, April 1st of the year following the year in which he/she attains age 70 ½).
3. **Information Reporting for Custodians and Trustees of IRAs:** If the IRA owner is alive at the beginning of the year in which a minimum distribution is required (for calendar years after 2002), the trustee of the IRA account must provide a statement to the owner by January 31st of the calendar year regarding the required distribution for the year. Thus, the first statement must be provided by Jan. 31st of the calendar year in which the IRA owner reaches 70 ½ because a distribution is required for that calendar year even though it does not have to be made until April 1st of the following year.
4. **Elective Deferrals:** Elective deferrals which apply to 401(k) plans, 403(b) annuities, SEP's and federal government's Thrift Savings Plan, increases from \$11,000 to \$12,000. This rule also applies to the limit on deferrals for deferred compensation plans of state and local governments and tax-exempt organizations.

Estate and Gift Taxes:

1. **Lower Maximum Transfer-Tax Rate:** The maximum estate and gift tax rate and the generation-skipping transfer tax rate drops to 49% in 2003, down from 50% in 2002.

2. **Smaller State Death Tax Credit:** Effective in 2003, the state death tax credit cannot exceed the credit determined under the table in Internal Revenue Code Section 2011 (b)(1) multiplied by 50% (formerly 75% in 2002).

IN THE WORDS OF ...

Margaret Mitchell (U.S. novelist - 1900-1949): **Death and taxes and childbirth! There's never any convenient time for any of them!** (Scarlett O'Hara in *Gone with the Wind*)

Items in this publication should not be considered official statements of position, nor advice for individuals or organizations without consulting a tax advisor. For more information, please contact Howard Pell or Leo Parmegiani at:

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