

TAX AND ESTATE PLANNING NEWSLETTER

OCTOBER 1, 2002

The following tax and estate planning news may be of interest to you in your business or personal pursuits. If you have questions about any of these items, please call or e-mail one of the Tax and Estate Planning Attorneys listed below by clicking on the attorney's e-mail address or calling the telephone number.

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THE IRA REFUND SWITCH

It's not too late to switch your Roth IRA back to a traditional IRA if you converted to a Roth IRA in 2001. Many people have converted to Roth status, because the build-up and distributions from a Roth IRA are tax-free. The price of conversion was a current tax on the IRA's built-in gain at the time of conversion. Those who converted in 2001 may have paid unnecessary taxes, because the value of their IRA's has fallen sharply since conversion. To claim a refund, file an amended return on Form 1040-X and report the change from Roth back to an IRA on Form 8606 by October 15. If your Adjusted Gross Income is \$100,000 or less in 2002 or a later year, you can again convert to a Roth IRA while the value of the IRA and the resulting tax cost is lower.

THE NEW BLACKOUT RULES

The new accounting law recently enacted to help keep public companies honest includes tighter blackout rules. These rules are aimed at avoiding the sorts of losses incurred by many Enron employees who held Enron stock in their 401(k) plan and were unable to

sell or diversify during a critical period when the plan was changing administrators. Plans must now give participants advance notice of these blackout periods - spans of four or more business days during which plan members are barred from changing their investment allocations and taking payout. Participants must be notified at least 30 days before any freeze. Executives of public companies cannot sell their stock during a blackout. The rules are effective January 27, 2003.

EXECUTIVE LOANS

The new accounting law also bars most loans to executives after July 30, 2002. The law does not affect existing loans, but it does bar modifications to existing loans. The law could also affect so-called split dollar insurance plans that many companies use to reward their employees. New rules for the insurance plans may require that they be treated as employee loans.

GIVING THAT OLD FORD TO CHARITY

The IRS recently signed off on an arrangement between an exempt group and

an independent fund raiser that handles the many details involved in giving a car to charity. Among other things, the fund raiser solicits the gifts and provides the required qualified appraisals. The fund raiser receives a percentage of the proceeds when the cars are sold. The charity keeps its tax exemption, and the donor gets a tax deduction for the value of the gift.

STANDARD MILEAGE RATES WILL DROP

The IRS has announced the optional standard mileage rates to use for 2003 in computing the deductible costs of operating an automobile for business, charitable, medical or moving expense purposes. Each of the rates is lower than the 2002 rate, except for the medical expense mileage rate, which remains at 12 cents per mile. The new rates, effective January 1, 2003 are as follows:

36 cents per mile for business use
14 cents per mile for charitable use
12 cents per mile in computing deductible medical expenses
12 cents per mile in computing deductible moving expenses

TAX RELIEF FOR SMALL BUSINESS

Among the ideas being discussed in Washington to lighten the tax load of small business is an increase in the amount that can be expensed each year. The current law allows small businesses to write off \$24,000 of equipment costs that would otherwise have to be capitalized and depreciated over several years. The Senate is considering raising the expense cap to \$35,000. Such proposals could be doomed by the need for government revenue to continue the fight against terrorism, however.