

HALL, ESTILL, HARDWICK, GABLE, GOLDEN & NELSON, P.C.
320 SOUTH BOSTON AVENUE, SUITE 400
TULSA, OKLAHOMA 74103
(918) 594-0400
<http://www.hallestill.com>



TAX AND ESTATE PLANNING NEWSLETTER

DECEMBER 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.

Andrew M. Wolov
(918) 594-0416
awolov@hallestill.com

Stephen W. Ray
(918) 594-0415
sray@hallestill.com

Clive A. Seymour
(918) 594-0624
cseymour@hallestill.com

Kenneth L. Hunt
(918) 594-0420
khunt@hallestill.com

Michael L. Nemece
(918) 594-0423
mnemece@hallestill.com

W. Deke Canada
(918) 594-0637
dcanada@hallestill.com

YEAR END TAX TIPS

Each year about this time, it pays to focus on what you can do to reduce your tax bill for the year. Here's a checklist of actions that should be taken before December 31, 2002 to save taxes.

SLOW DOWN AND SPEED UP

The most obvious technique for saving 2002 taxes is to postpone income and accelerate deductions. The overall reduction in your income may allow you to claim larger deductions, credits and other tax breaks that are phased out as your income increases. For example, your ability to contribute to a Roth IRA or to claim child credits and education credits may be limited or even eliminated as your overall income increases. It's important to consider your own situation, however. You may have had a lackluster year in 2002 but anticipate a large amount of income in 2003. In that case, you may want to shift income into 2002 in order to take advantage of the lower tax rates that apply to lower levels of income. The Alternative Minimum Tax (AMT) may also

affect the decision to accelerate or defer income and deductions. See the discussion of AMT below.

STOCK LOSSES

It is possible to realize tax losses on stock while substantially preserving your investment position. For example, you can sell the original holding, then buy back the same securities at least 31 days later. Of course, you really do have to subject yourself to the risk that the stock will skyrocket during that 31 day period.

WHAT'S YOUR BASIS?

If you are a partner or an S corporation shareholder, and if the partnership or S corporation generated losses in 2002, take steps to increase your basis in the entity so that you can claim all the 2002 loss deductions on your individual tax return. For example, if your share of your S corporation's losses exceeds your tax basis in the corporation, you can claim the loss on your own return by lending money to the

corporation or making a contribution to capital before December 31.

TAKE MY TAXES, PLEASE

If you expect to owe state and local income taxes when you file your return next year, ask your employer to increase withholding of those taxes (or make additional payments of estimated taxes) before year-end in order to pull the deduction of those taxes into 2002. Consider paying your entire property tax bill this year even though you are allowed to pay half the bill in 2003.

THANKS A BUNCH

Apply the "bunching strategy" to miscellaneous itemized deductions, medical expenses and other itemized deductions. Bunch the deductions into a year when you itemize deductions and then claim the standard deduction when it exceeds the itemized deductions.

ABOUT THAT BONUS

If you are fortunate enough to be expecting a bonus, you may be able to arrange with your employer to defer the bonus (and your tax liability for it) to 2003. If the deferral is handled properly, your employer can still take the deduction for the bonus on its 2002 tax return.

TO YOUR CREDIT

Use your credit card to pre-pay expenses. For example, charitable contributions and medical expense are deductible when charged to your credit card account in 2002 rather than when you settle up with the credit card company in 2003.

RETIREMENT PLANS

If you are self-employed, and if you haven't already done so, consider setting up a retirement plan for yourself. Last year's big tax act loosened the restrictions on deductible contributions to retirement plans considerably. Just as they do inside an IRA, the amounts contributed to a self-employed plan can grow tax-deferred until you take distributions from the plan.

DON'T FORGET THE AMT

The Alternative Minimum Tax can undermine the strategies outlined above. That's because many of the tax breaks allowed for purposes of calculating the regular income tax are disallowed for AMT purposes. For example, the deductions for state property taxes, state income taxes, miscellaneous itemized deductions and personal exemptions are disallowed for purposes of calculating the AMT. As a result, claiming all these deductions can cause you to have an AMT liability. The interaction between the regular tax and the AMT needs to be carefully considered by whoever is preparing your tax return.

GIVE A LITTLE

All of the discussion so far has been about the income tax. Think about the estate and gift tax as well. Remember that you (and your spouse if you are married) are each entitled to make gifts up to \$11,000 each year to each of your children, grandchildren and other beneficiaries without incurring any gift or estate tax liability. (You get no carryover of the unused exclusion, so use it or lose it.)