1999 Tax Update

Happy New Year! Although there weren't any major tax legislative changes affecting 1999 business and personal tax returns, some mention should be made regarding the following:

BUSINESS TAX CHANGES

Standard Mileage Rate

Unreimbursed business mileage rate was reduced (mainly because of increased fuel economy vehicles and lower gasoline prices) effective April 1, 1999. The standard rate of .325/mile is in effect for the first three months, then down to .31/mile for April to December. Charity, moving and medical rates remain unchanged at .14/mile, .10/mile and .10/mile respectively.

Excess Group Term Life Insurance

The old rule of income inclusion of premiums in excess of $50,000 of employer provided group term life insurance has been relaxed to allow for inflation. The new W-2 income inclusion amounts will be based on the employee age, effective June 30, 1999.

Self-employed Insurance

Self-employed individuals may now deduct 60% of health insurance premiums as an adjustment to income on page 1 of the form 1040. The deductibility percentage will eventually reach 100% in the year 2003.

Home Office Rules

Taxpayers may deduct the cost of maintaining a home office if it is a principal place of business, conducting administrative and management activities, and there are no other locations where the taxpayer conducts substantial administrative or management activities.

Educational Assistance Exclusion

Up to $5,250 paid by the employer for employee educational assistance may be excluded from W-2 gross wages.

Sale of Small Business Stock

Individuals may exclude from capital gains 50% of proceeds from the sale of small business stock acquired at original issue and held at least 5 years. The remaining 50% gross proceeds is taxed at the old rate of 28% (versus 20% long-term capital gains tax maximum), thus resulting at a favorable 14% effective tax on the capital gain.

INDIVIDUAL TAX CHANGES

Hope Scholarship and Lifelong Learning Credit

Many students took advantage of the new educational credits in 1998, but many qualifying post-secondary educational credits may have been missed due to a lack of information from the provider institutions. The Hope Scholarship Credit ($1,500 maximum credit) applies to only the first two years of post-secondary education and is subject to income level phase-outs of $80,000 to $1,00,000 for married taxpayers filing jointly. The Lifelong Leearning Credit allows taxpayers (and dependents) to claim a nonrefundable credit equal to 20% of the first $5,000 of qualified post-secondary education, or $ 1,000 maximum credit, with the same level phase-outs.

IRA Rules

Effective 1998, individuals may claim an IRA deduction up to $2,000, even if the spouse is an active participant in an employer-sponsored 401(K)plan. The gross income phaseout for eligibility is $150,000 to $160,000. The new income phase-out for eligibility when both spouses are active 401(K) participants is $51,000 to $61,000.

Sale of Principal Residence

One the most surprising and beneficial changes in the '97 Tax Reform Act was the exclusion of gain from the sale of a principal residence. The $500,000 exclusion of gains on homes owed more than 2 years seemed too good to be true. Sale of homes owned less than 2 years and sold before August 5, 1999 are eligible for a partial exclusion based on the pro-rated time period.

Charitable Giving

It is recommended to give appreciated collectibles and artwork to qualified charities since the itemized deduction is based on the value of the gift and no capital gain needs to be realized if the gift is made prior to cash liquidation. A note of caution on the numerous ads promoting donation of vehicles to charity. Many ads are misleading claiming that you may deduct what you think is the fair market value of the vehicle. The IRS is taking a close look in this area and you should either have a certified appraisal or "Blue Book" value justification to substantiate your itemized deduction.

You can see that it has been a pretty dull year in the tax business! I recommend that you explore any of these applicable tax points with your CPA or preparer to ensure that they will be of benefit to your specific situation. As always, I welcome your thoughts, questions and suggestions.