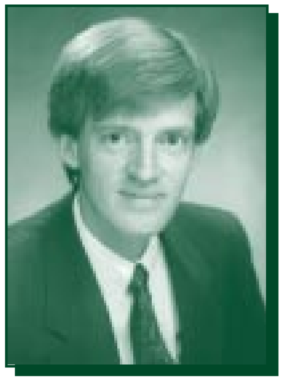
Watson & Speight, P.A.
~ ATTORNEYS AT LAW ~

Harbor Law Review

Fall 2003

Taxing Issues

Kent Speight, Attorney



In an effort to spur the economy, the Federal government has passed 3 pieces of tax cut legislation the last 3 years. The Economic Growth and Tax Relief Reconciliation Act of 2001 was designed to phase in tax cuts for individuals over 10 years. The Job Creation and Worker Assistance Act of 2002 focused mainly on reducing business taxes. The Jobs and Growth Tax Relief Reconciliation Act of 2003 is intended to accelerate and expand certain provisions of the prior 2 acts. Some of the key provisions of the 2003 law are as follows:

Acceleration of Tax Reductions. The 2003 law accelerates the $400 increase in the Child Tax Credit to take effect in 2003, instead of 2010 (but it drops back in 2005). Also, the new law accelerates the reduction in income tax rates in excess of the 15% bracket that had been scheduled to be effective in 2004 and 2006, and it temporarily accelerates the broadening of the 10% bracket that was to occur in 2008. In addition, the "marriage penalty" is reduced by a doubling of the standard deduction for married couples and an expansion of the 15% bracket for joint filers to twice that of single filers.

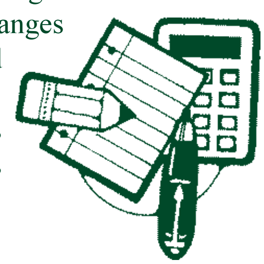
Reduction in Capital Gains and Dividend Taxes. The maximum tax rate on capital gains has been reduced from 20% to 15% (5% for persons in the 10% bracket). This does not apply to capital gains on collectibles and certain real estate. Dividends from domestic and qualified foreign corporations are taxed at the same rates as capital gains. These changes are effective May 6, 2003.

Business Provisions. The Section 179 expense deduction for certain depreciable property has been increased to $100,000 from $25,000. The additional 30% bonus depreciation for property placed in service after May 6, 2003 has been increased to 50%.

Retirement Plans. The pay-in limit for both Roth and regular IRA's is still $3000, but individuals born before 1953 can pay in an extra $500. The limit for 401(k)'s is $12,000 (with an extra $2,000 for 50 year olds) and the limit for SIMPLE's is $8,000 (plus $1,000 for older folks). The phase-out of deductible contributions to IRA's for active participants in employer sponsored plans is increased to $60,000 for couples and $40,000 for singles.

Health. There are changes in the deduction for long-term care premiums, and the health insurance deduction for self-employed persons is increased to 100% in 2003.

These are just some of the tax law changes that took effect this year. There are also significant changes in estate tax laws occurring this year and in the future. One thing is certain: nothing stays the same when it comes to taxes. If you have questions, let us know.



Sebby Joins Watson & Speight

Jan M. Sebby has joined the staff of Watson & Speight as a legal consultant. Jan is a native of North Dakota, a graduate of the College of St. Thomas in St. Paul and of the University of Minnesota Law School. He practiced law for 35 years in his home town of Minot, North Dakota in a general business practice with some emphasis on businesses organized as cooperatives. In 1999, Jan retired from full-time active practice and moved to Red Wing with his wife Barbara.

Welcome

Watson & Speight, P.A.

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VOTE
✓ Tuesday, November 4th

2nd Annual Holiday Stroll

Watson & Speight will participate in the Holiday Stroll on Friday, November 28th, 5 p.m. to 8 p.m. We'll have treats for adults and children and there will be drawings for a variety of holiday items. Mark your calendar and stroll on in.

Calendar

November 4 — Election Day – **VOTE!**

November 27 — Office closed for Thanksgiving

November 28 — Downtown Holiday Stroll

December 25 & 26 — Office closed for Christmas

January 1 & 2 — Office closed for New Year's

Organization

Kent W. Speight
Chief Executive Officer
Attorney

Jennifer L. Lappegaard
Associate Attorney

James T. McNary
Associate Attorney

Jan M. Sebby
Legal Consultant

Kay Halvorson
Legal Assistant

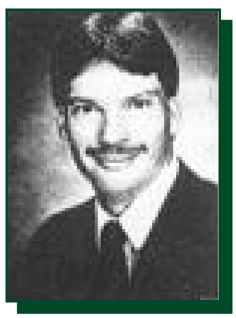
Ruth A. Goudy
Legal Assistant

Yvonne M. Raasch
Secretary

Barbara J. Janisch
Secretary

Estate Planning: Beneficiary Designation

Jim McNary, Attorney



When doing your estate planning it is very important to coordinate your IRA, 401k, insurance and annuity beneficiary designations with the rest of your estate plan. Generally, people want all of their assets to be distributed in the same manner. They want their 401k assets, IRA's and insurance to be distributed in the same manner as the assets passing under their will or trust. Therefore, it is important to review all of your beneficiary designations to insure they will effect the property distribution you desire.

When reviewing the beneficiary designations you should ask yourself (and your financial advisor) what will happen if someone dies out of order. How will the assets be distributed if one of your named beneficiaries predeceases you? If your will or trust provides for a per stirpes distribution to your grandchildren if one of your children should predecease you, you should determine whether your insurance, annuity, 401k or IRA would be distributed in the same manner.

Naming the beneficiaries of tax-deferred assets is complicated by the income tax consequences of the minimum distribution rules of the Internal Revenue Code. In April 2002 the IRS promulgated new minimum distribution rules for IRA's and qualified plans. Those new rules became effective January 1, 2003. If you haven't reviewed your estate plan and your beneficiary designations within the past two years we would recommend that you do so in the near future.

Toys For Tots

Donations of toys or cash for Toys for Tots can be brought to Watson & Speight's Law Office by December 15. Toys should be unwrapped and checks should be made to "Marine Toys for Tots". This project truly makes a difference to children and their families. Thank you for your continued generosity.