

# Taxation Section

**VOLUME 7, NUMBER 1****April 2004**

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*Editor***Previous newsletters are posted on the Taxation Section website.**

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**Multnomah County and Portland City Business Taxes***By C. Jeffrey Abbott\**

This article is intended to provide an understanding of, and point out certain planning opportunities with respect to, the Multnomah County Business Income Tax Law and the City of Portland's Business License Law.

**General Overview**

The Portland City Code refers to its tax as the "Business License Law" (hereinafter "City Tax"). Chapter 7.02 of the Portland City Code contains the rules for the City Tax. Multnomah County refers to its tax as the "Multnomah County Business Income Tax Law" (hereinafter "County Tax"). Chapter 5.60 of the Multnomah County Code contains the rules for the County Tax. The City Tax and County Tax are very similar in most respects, except for the tax rates. The City of Portland administers the collection of both the City and the County Tax.

In general, the City Tax and County Tax are construed in conformity with laws and regulations of the State of Oregon imposing taxes on or measured by net income (as such laws and regulations were in effect on or before December 31, 1997). PCC 7.02.020 and MCC 5.60.020. However, the administrators of the City and County Tax have the ability to connect or disconnect from a legislative enactment that affects the City and County Tax.

In contrast to the general principle that owners of pass through entities, such as partnerships and S-Corporations, are taxed at the owner level, the City and County Tax are both imposed at the entity level. PCC 7.02.110.A. and MCC 5.60.110(A).

**Nexus**

In determining whether your client may be subject to either of these taxes, you must look at the nexus provisions common to both taxes. There is a presumption of doing business within Multnomah County in the case of the County Tax and within the City of Portland in the case of the City Tax (hereinafter "applicable jurisdiction") if a person<sup>1</sup>, engages in (a) advertising or otherwise professes to be doing business within the applicable jurisdiction; (b) delivers goods or provides services to customers within the applicable jurisdiction; (c) owns, leases, or rents personal or real property within the applicable jurisdiction which is used in a trade or business; (d) engages in any transaction involving the production of income from holding property or the gain from the sale of property (which is not otherwise exempted)<sup>2</sup> within the applicable jurisdiction; or (e) engages in any activity in pursuit of gain not otherwise exempt within the applicable jurisdiction. PCC 7.02.220 and MCC 5.60.220. Although a person may be eligible for apportioning its revenues and expenses for the calculation of net income within and without the applicable jurisdiction, the mere advertising within the applicable jurisdiction invokes the presumption of doing business within the applicable jurisdiction.

The fact that a person is doing business within the City requires the person to obtain a license to do business within the City. PCC 7.02.300. The County has no similar license requirement.

The City and County Tax have several notable exemptions. For example, persons with gross receipts from all businesses, from both within and without the applicable jurisdiction, of less than \$25,000.00 in a tax year are exempt from the requirements of the City and County Tax. PCC 7.02.400.C and MCC 5.60.400(C). Another notable exemption from both the City and County Tax involves the renting or leasing of residential real property. If the "beneficial owner" of residential real property does not rent or lease more than nine dwelling units (at least one of which is within the applicable jurisdiction), the "beneficial owner" is exempt from County and City Tax. PCC 7.02.400.F.4. and MCC 5.60.400(F)4.

## Calculation of the Tax on Net Income

One of the significant aspects of the City Tax is the change in the City Tax rates effective retroactively to January 1, 2002, as well as a surcharge effective January 1, 2002 through the end of the 2005 tax year. The City Tax surcharge is in addition to the 2.2% City Tax on the same income. PCC 7.02.500.B. The surcharge for the 2002 year was intended to raise \$20 million, net of the City collection costs, to supplement funding provided by the State to public schools within the City. The surcharge continues for the 2003 through 2005 tax years in an amount to be determined by the Director of the Bureau of Licenses to raise an additional \$6 million of revenues for each of those tax years. The forms for the combined report for 'C' Corporations calculating the City Tax indicates that the surcharge for the 2003 tax year is equal to 0.4%. Therefore, the City Tax rate for the 2003 tax year will be 2.6% of net income (i.e., the standard tax rate of 2.2%, plus the surcharge rate of 0.4%).

It is interesting to note that if the rate increase due to the surcharge results in raising taxes less than the target amount, then the next tax year will result in a rate increase sufficient to raise the target amount in the subsequent year as well as the deficiency for the prior year. However, if the surcharge raises more than \$500,000 in the final year, slated to be the 2005 tax year, the excess can either be refunded or retained by the City as a credit for fees due in the following year. PCC 7.02.500.G. The target amount to be raised by the City via the surcharge is \$38 million, and once this amount has been raised, the surcharge shall be terminated. PCC 7.02.500.H.

Businesses that are doing business in both Multnomah County and the City of Portland are subject to both the County and City Tax. The County Tax is equal to 1.45% of the net income from business activities within the County. MCC 5.60.500(A).

The City Tax imposes a minimum license fee of \$100, whether or not the person subject to the City Tax has net income. PCC 7.02.540. The County Tax has no such minimum tax. Both the County and City Tax allow a net operating loss deduction against the net income derived within the applicable jurisdiction and a carry forward to years following the net operating loss year up to a maximum of five years. However, no more than 75% of the current year's net income

may be offset by a net operating loss carry forward. PCC 7.02.600.I and MCC 5.60.600(I).

## Special Deductions and Calculations for Net Income

One of the more frustrating provisions of the County and City Tax involves owner compensation deductions. These provisions are seen by many as discriminatory against small and family owned businesses. In general, owner's compensation deductions are limited to \$50,000 per year, indexed for inflation. PCC 7.02.600.A and MCC 5.60.600(A). For 2003, according to City and County tax forms, instructions limit that deduction to no more than \$56,000. The calculation of the owner's compensation deduction is a little different for each type of entity. For sole proprietorships, any expenditures deemed as compensation to the sole proprietor must be added back to net income. The rules then allow the lesser of 75% of income or \$50,000, indexed for inflation, to be deducted in determining the sole proprietorship's income. PCC 7.02.600.B and MCC 5.60.600(B). It should be noted that not only compensation for services, but also any interest paid to owners, is included in the calculation.

In contrast to the sole proprietorship calculation for the owner compensation deduction, the corporate calculation for the owner compensation deduction is tied to what is defined as "controlling shareholders." PCC 7.02.600.D. and MCC 5.60.600(D). A controlling shareholder generally is a person who owns more than 5% of the corporation's stock. PCC 7.02.100.G and MCC 5.60.100(G). Special rules (discussed below) regarding attribution apply. The compensation paid to controlling shareholders must be added back to income. The rules then allow the lesser of 75% of the corporation's income or \$50,000, indexed for inflation, for each controlling shareholder to be deducted in determining the corporation's income. This means that for every business operated as a corporation (either as an S or C Corporation), the compensation deduction is limited for shareholders who own more than 5% of the stock. No such limitation applies to shareholders who own less than 5% of the stock.

For example, suppose there are 21 equal shareholders in an architectural firm operating as a C Corporation. Supposing also, that each of the shareholders is paid compensation of \$150,000. Assuming no attribution rules apply, the corporation is allowed to deduct compensation for those owners of \$3,150,000. Limitations do not apply because none of the shareholders is a controlling shareholder (i.e., none owns more than 5% of the stock). However, in a similar firm with only 19 shareholders, the \$2,850,000 deduction (i.e., \$150,000 x 19) would be limited to \$1,064,000 (i.e., \$56,000 x 19) assuming that the \$1,064,000 deduction is less than 75% of the net income of the corporation. Assuming the entire \$1,064,000 is deductible, \$1,786,000 of compensation paid to these controlling shareholders is not deductible. As a result, the City Tax on the \$1,786,000 is approximately \$46,000 and the County Tax is about \$25,000. The smaller 19 shareholder firm pays almost \$75,000 more in City and

County taxes. In addition, the fewer the number of controlling shareholders, the smaller the compensation deduction allowable. If there are no controlling shareholders (i.e. no one owns more than 5% of the stock), there is no limitation under the County or City Tax rules on compensation deductions for corporations.

The rules are quite a bit different for partnerships and limited liability companies. All general partners, and members of limited liability companies who are not deemed limited partners, who are paid compensation, have a deduction limitation. The calculation adds back all compensation paid to them. Seventy five percent of income is allowed as a deduction, but not to exceed \$50,000, adjusted for inflation, per general partner or member. PCC 7.02.600.C. and MCC 5.60.600(C). This rule differs from the corporate owner compensation deduction rule in that it does not matter what percentage interest is held by an owner in the partnership or the limited liability company.

There is a planning opportunity for businesses that do business within Multnomah County and/or the City of Portland. Consideration should be given, where there are 20 or more owners, to operating as a corporate entity (i.e., as an S or C Corporation), in order to escape the limitation on compensation paid to shareholders under the corporate owner compensation deduction rule if owners own 5% or less of the corporate stock (after applying the applicable attribution rules).

The conclusion is unavoidable that the City and County tax small closely held corporations at a higher rate than they do corporations that are more widely owned. It is inexplicable why the City and County would allow larger, widely held corporations to deduct higher salaries while smaller, closely held corporations must pay tax on salaries in excess of the limitations explained above. There appears to be no logical reason for this discriminatory treatment except simply that to change this treatment would reduce revenue for the City and County. Certainly, a careful analysis would cause small businesses, everything else being equal, to locate outside of the City or County or both. However, physical location outside of the City and County is not the cure-all to avoiding the City and County Tax because a business may still have to requisite Nexus.

In making determinations about the number of controlling shareholders owning a corporation, attribution rules apply to limit the number of compensation deductions. Remember that a corporation is allowed a compensation deduction for each controlling shareholder of up to \$50,000, adjusted for inflation, but as a group no more than 75% of the corporation's income. However, a shareholder and that shareholder's spouse, parents and children count as one owner, unless a spouse, parent or child individually controls more than 5% of the outstanding stock in his or her own name. PCC 7.02.600.D.2. and MCC 5.60.600(D)2. This has the practical effect of disallowing compensation deductions in many instances to relatives of a shareholder. Thus, in a family business operated as a corporation, payments to children, spouses

or parents in the way of reasonable compensation are simply not going to be deductible in many cases under the City and County Tax rules unless those relatives own more than 5% of the stock in their own names<sup>3</sup>. Not only does this pose a problem for payment of compensation to relatives, but it has the impact of reducing the number of shareholders that are controlling shareholders and therefore the number of allowed compensation deductions.

Portland Administrative Rule 600.93-9A illustrates the City's position on attribution rules for family members. As discussed earlier, one compensation deduction is allowed for each controlling shareholder. No limitations on deductible salary are imposed on non-controlling shareholders. However, the attribution rules combine stock ownership so that it may result in a shareholder who owns 5% or less of the stock to be deemed a controlling shareholder, thus limiting his or her salary deductions. In addition, family members who work for the corporation but own no stock or less than 5% of the stock are treated as a controlling shareholder. The reclassification as a controlling shareholder is punitive enough, but only one compensation deduction is available for the entire family. This problem is illustrated by the situation where a person owns 4% of the stock of a corporation and whose 3 children each own 1% of the stock. The attribution rules have a two fold impact. First, the owner of 4% of the stock is deemed a controlling shareholder and thus salary deductions are limited for that shareholder. Second, the attribution rules require them all to be counted only as one shareholder, thus disallowing deductions for any of the compensation paid to the children. In Portland Administrative Rule 600.93-9A, several families owned small amounts of stock individually. Stock ownership was increased by virtue of the attribution rules so that there were only 7 owners who were called controlling shareholders, whereas only a few of them owned 5% of the stock individually without attribution. As such, the attribution rules impose a limitation on compensation deductions. Finally, any stock held jointly will result in that shareholder being treated as a single shareholder. Care should be taken in ownership of stock jointly if the percentage owned is 5% or less for each person or where avoidance of attribution is desirable and each person owns more than 5% of the stock.

A couple of other issues arise in determining compensation deductions for owners of legal entities. Portland Administrative Rule 600.93-6A provides that if changes in ownership are made during the year, special rules apply. The compensation deduction allowance must be pro-rated based on the number of months a person was deemed an owner or controlling shareholder. Fifteen days or more counts as a full month; 14 days or less does not count as a month. Supposing controller shareholder "A" earns \$75,000.00 for 6 months of service to the corporation. Under these rules, shareholder "A" must add back his entire compensation of \$75,000 to net income and is allowed a compensation allowance deduction of only \$28,000 (6 divided by 12 months x \$56,000).

The definition of compensation is not limited to W-2 wages. Under Portland Administrative Rule 600.93-2, various

other payments can be included as compensation. Those items include paid housing, taxes paid on behalf of an owner, payments for legal, medical or vision benefits not provided to all employees, and auto or vehicle allowances not included in W-2 wages. The effect of this broader definition for compensation is to cause all of those payments, including W-2 compensation, to be added back to the net income of the business. The deduction is then taken from net income equal to the lesser of 75% of income or \$50,000, adjusted for inflation, per controlling shareholder or owner.

The City, in a policy guideline, has thrown one bone to the family business concerning marital standing of owners. In general, family businesses under rules enumerated above suffer an additional tax on compensation paid to relatives of the owner. Under a City guideline adopted on April 11, 1995, a second compensation allowance deduction may be available to a husband and wife licensee filing joint income returns for both federal and state purposes. The policy guideline allows that each spouse may be an owner of the business. This contrasts with the instance where only one spouse owns a trade or business, and the other works for the owner spouse, in which case a second compensation allowance deduction is only allowed in limited circumstances. That is, the non-owner spouse must work more than half-time (1,000 hours per tax year) or if that non-owner spouse works less than 1,000 hours, but that individual's participation in the business activity is not less than anyone else's hours of participation, including non-owners, the compensation deduction paid is allowable. Therefore, a lawyer who employs his or her spouse as an assistant working 2 days a week will not be allowed to deduct, as a second compensation allowance, that spouse's compensation. This appears to be the City and County's version of the marriage penalty tax.

## Apportionment of Income

The rules carefully carve out business activity within the applicable jurisdictions to exclude activities which are solely sales of tangible personal property by the solicitation of orders for sales by an independent contractor. PCC 7.02.610.A. and MCC 5.60.610(A). Once the level of business activity reaches nexus, apportionment of income from within and without the City and County is allowed. Total income is multiplied by a fraction, which is total revenues from activity within the applicable jurisdiction divided by total gross income. Some special rules apply which are not common sense to some of the other multi-state income tax rules. For instance, if tangible personal property is delivered or shipped to a purchaser within the City, regardless of the F.O.B. point or other conditions of sale, it is deemed to take place in the City. Any sales of tangible personal property shipped outside the applicable jurisdiction are not apportioned to the City or County. PCC 7.02.610.C.1 and MCC 5.60.610(C)1. Other apportionment rules address the amount of activity and the cost of the activity in relation to the income.

## Other Miscellaneous Rules

Detailed rules exist with respect to the requirement that businesses pay estimated tax during the year to avoid penalties, similar to state and federal income tax rules. Penalties are imposed for failure to file within a certain time frame or failure to pay the tax. It should also be noted that the income, gain or loss from the sale exchange or involuntary conversion of real or personal property not otherwise exempt is apportioned and taxed<sup>4</sup>. Another rule that is interesting to note has to do with representation by an employee of the County or City. Under PCC 7.02.255.A and MCC 5.60.255(A), no employee or official of the City or County may represent any licensee in a matter before the appropriate respective agency. It seems logical for current employees, but the rule goes further than that. It prohibits any employee or official from representing a licensee (presumably this means taxpayer) for two years after termination of employment or official status.

## Conclusion

The City and County Tax amounts to a tax on net income with certain adjustments equal to approximately 4.05% for 2003. This is nearly half the tax rate of an individual under state income tax rules and more than half the corporate tax rate for corporate taxpayers under state income tax rules. Certainly, these taxes should not be ignored, but must be taken into account in locating a business. Not only should the simple calculation of the tax be considered, but also the type of legal entity used and the ownership percentages in the case of a corporate entity and its impact on the amount of deductible compensation allowed. This in turn requires an analysis of the relationships of shareholders as well as the impact of the limitations for compensation on married taxpayers and family members involved in the business<sup>5</sup>.

\*Abbott & Associates, P.C., West Linn

## Footnotes

<sup>1</sup> The term "person" includes, but is not limited to, a natural person, sole proprietorship, partnership, limited partnership, family limited partnership, joint venture, association, cooperative, trust, estate, corporation, personal holding company, limited liability company, limited liability partnership, and any other form of organization for doing business. PCC 7.02.100.D. and MCC 5.60.100(D).

<sup>2</sup> The definition of "property" is broad and includes tangible and intangible personal property as well as real property.

<sup>3</sup> Even if the relatives own more than 5% of the stock, deductible salary would be limited.

<sup>4</sup> The author could not discern through the rules whether an exemption from net income exists for involuntary conversions that are allowed under deferral rules for net income compensation under the state income tax provisions.

<sup>5</sup> The author relocated his law practice of approximately 17 years of downtown Portland locations to West Linn, Oregon and enjoys several thousand dollars a year in tax savings.

## NEWS TO USE

### News from the IRS

There is a dedicated toll-free number available from the IRS for Tax Professionals, and they can use the number - 866-860-4259 - to request the transcripts of their clients, or they can file Form 4506 to request a transcript.

New filing centers for individual taxpayers living in AK, CA, HI, ID, MT, NV, OR, WA, WY:

Fresno, CA 93888-0002 (**tax to pay**)

PO Box 7704, San Francisco, CA 94120-7704 (**Refunds**)

The Ogden center will process only business returns.

**New FAX Guidelines:** These general guidelines are applicable to all divisions and cover operations related to income tax, employment tax, excise tax, estate tax, gift tax, and generation skipping tax, as well as tax exempt and employee plans determinations.

- Filing of original tax returns via fax will only be allowed as part of a return perfection process (e.g. securing missing schedule or missing signature) initiated by the IRS or in the post-filing/non-filing activities described in next bullet.

- Submission of documentation, forms, letters, and returns related to post-filing/non-filing inquiries and interactions can be allowed via fax based on taxpayer or IRS request unless there is a specific prohibition.

- The IRS will not acknowledge faxes received from taxpayers in the course of tax administration activities by a

return fax. Exceptions can be made in unusual circumstances as determined by IRS management.

**Signature Stamps - General Guidelines:** Return Preparers may sign original returns, amended returns, or requests for filing extensions using a signature stamp. Taxpayers, however, must continue to sign their returns with an original signature or other authorized alternative (e.g. PIN). Preparer/taxpayer signature stamps will not be permitted when signing other documents such as elections, applications for change in accounting method, powers-of-attorney, consent forms, revenue agent reports, and other case inquiry/resolution related documents requiring signature.

**Abusive Transactions:** On January 20, 2004, the Treasury Department and the IRS issued four items of administrative guidance as part of an ongoing effort to halt abusive tax avoidance transactions and maximize effective use of IRS audit resources. The first of the items released was aimed at strengthening the tax system through heightened standards for tax advisors. The other three were aimed at increasing transparency and disclosure of information to the IRS. According to the IRS, improved disclosure coupled with more effective use of the information disclosed are central to the Treasury Department and IRS's strategy for identifying abusive tax avoidance transactions early and addressing them promptly. In addition, the transparency that disclosure brings serves as a deterrent to abusive tax avoidance transactions.

*continued*

## Study of the Uniform Trust Code is Progressing

In September 2002, a 12-person committee was formed to study the new Uniform Trust Code (UTC) for possible adoption in Oregon. The UTC is the most comprehensive trust and estate legislation developed by the National Conference of Commissioners on Uniform State Laws since 1969, when the Uniform Probate Code was approved. Five states already have adopted the UTC, and at least 35 states have study projects or legislative proposals pending. The text of the UTC is available on-line at [www.nccusl.org](http://www.nccusl.org).

The UTC Study Committee includes representatives of those groups that would be affected the most by a new trust code: the Elder Law Section, Estate Planning and Administration Section, and Taxation Section of the Oregon State Bar; the Oregon Bankers Association; Oregon probate judges; and the Oregon State Bar Public Affairs staff. After studying the UTC for four months, the Study Committee formed five subcommittees charged with

reviewing the various UTC articles and making written recommendations. The subcommittees, which included about 40 members, invited other Oregon State Bar Sections to participate in the review process.

The subcommittees submitted their written reports to the Study Committee in September 2003. During the coming months, various Oregon State Bar Sections will be asked for input regarding UTC provisions affecting their areas of interest. The Study Committee's goal is to prepare a final legislative proposal by May 2004, for consideration by the 2005 legislature.

If you have any questions about the study process or would like to share your views about the UTC with the Study Committee, please contact one of the co-chairs:

Professor Valerie J. Vollmar  
(503) 370-6079  
[vvollmar@willamette.edu](mailto:vvollmar@willamette.edu)

Professor Susan N. Gary  
(541) 346-3856  
[sgary@law.uoregon.edu](mailto:sgary@law.uoregon.edu)

The four areas of guidance are:

(1) Proposed changes to Circular 230 set high standards for the tax advisors and firms that provide opinions supporting tax-motivated transactions.

The proposed rules set out clear and specific requirements for tax opinions provided by attorneys and accountants and expectations for those with supervisory responsibility for a professional services firm's tax practice.

In an effort to halt the "rush to the bottom" that pervaded the 1990s and restore the confidence of the public in tax professionals, the proposed changes also describe best practices for tax advisors and call on professional services firms to put in place procedures for all of the firm's personnel that are consistent with these best practices.

To ensure clients are well-advised, the proposed changes would obligate tax advisors to inform clients explicitly about what protections, if any, an opinion provides to the client. For example, tax advisors would have to advise clients about issues that the opinion does not address and warn the client if the opinion will not protect the client against penalties.

The Treasury Department and the IRS are working with professional organizations to promote best practices among tax professionals through setting aspirational standards and self-regulation. The proposed changes would put in place a framework for that effort.

The proposed changes replace changes proposed in January 2001. They reflect the IRS' consideration of the comments received on the January 2001 proposals and information gathered by the IRS in its audit of professional services firms' compliance with the tax shelter rules.

## Tax Humor

Intaxification: Euphoria at getting a tax refund, which lasts until you realize it was your money to start with.

A tax conscience is the small inner voice that tells you that the Special Compliance office will be writing to you.

For every tax problem there is a solution which is straightforward, uncomplicated and wrong.

A detailed analysis of tax strategy usually reveals that the best time to take positive tax action is last year.

(2) Final regulations will increase the cost of failing to disclose abusive tax avoidance transactions. The regulations also apply to taxpayers who do not disclose that they have reported items on their tax returns that are based on the position that a Treasury regulation is invalid. Under the final regulations, for purposes of the imposition of penalties, a taxpayer's failure to disclose an abusive tax avoidance transaction is treated as a strong indication that the taxpayer acted in bad faith with respect to any additional tax owed as a consequence of the transaction. Similarly, taxpayers who do not disclose items that are based on advice that a Treasury regulation is invalid will be deemed to have acted in bad faith with respect to any additional tax that is owed as a consequence of those items.

(3) Revised final regulations clarify that the disclosure of confidential transactions on a return is limited to transactions for which a promoter has imposed confidentiality on a taxpayer to protect the promoter's tax strategies from disclosure. The revisions are intended to reduce unnecessary paperwork for taxpayers and advisors and to allow the IRS to focus its attention on transactions with potential for abusive tax avoidance, not on transactions for which confidentiality is required for non-tax reasons.

(4) Proposed new Form 8858 requires information reporting by U.S. persons that own foreign entities that are disregarded for U.S. tax purposes. The need for information is not limited to the area of abusive tax avoidance transactions. Appropriately tailored disclosure and information reporting requirements provide the means to better focus the audit resources aimed at protecting the integrity of our tax system. Ready access to information allows the IRS to identify potential compliance issues efficiently and is critical to achieving the IRS's commitment to reducing the time needed to complete an audit. The proposed Form 8858 will be required for annual accounting periods beginning after December 31, 2003. Comments on the text of the proposed new Form 8858 are requested from the public by March 1, 2004.

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### From the Editor

We welcome your contributions to, and suggestions for the newsletter. To submit an article, please call or email me with your idea rather than sending the article along first. If you have ideas for ongoing columns, please let me know.

Gwendolyn Griffith  
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email: gwengriff@speerhoyt.com

***Editor's Note:** Articles in this newsletter are informational only, and should not be construed as providing legal advice. For legal advice, please consult the author of the article or your own tax advisor.*

## 2004 At a Glance:

### Individual

Income Tax Rate Schedules - 2004\*\*

(Taxable Income)	15% over:	25% over:	28% over:	33% over:	35% over:
<b>Married Joint</b>	\$14,300	\$58,100	\$117,250	\$178,650	\$319,100
<b>Married Separate</b>	\$ 7,150	\$29,050	\$58,625	\$89,325	\$159,550
<b>Single</b>	\$ 7,150	\$29,050	\$70,350	\$146,750	\$319,100
<b>Head of Household</b>	\$10,200	\$38,900	\$100,500	\$162,700	\$319,100

\*\*A 10% tax rate applies to taxable income up to the point at which the 15% rate begins.

### Personal Exemptions - 2004 - \$3,100

#### Standard Deductions - 2004

Single	\$4,850
Head of Household	\$7,150
Married Joint	\$9,700
Married Separate	\$4,850

#### Additional Deduction for age 65 or over/blind:

Single	\$1,200
Married	\$950 each

### Business

#### Standard Mileage Rate (SMR) - 2004

Business Miles	37.5 cents
Charitable	14 cents
Moving expense	14 cents
Medical	14 cents

#### Simplified Per Diem Rates - 2004

High-Low	\$207 - \$126
(Lodge/M&IE)	(161/46) (90/36)
Transp. Industry	
M&IE in US/out US	\$41/46@70%

#### Net Operating Losses

You can now carry back NOLs 5 years - an increase of 3 years - and this change is retroactive to 2001.\*

IRC §179 Expensing \$102,000

Self-Employed Health Insurance Deduction \$100%

#### Some Key 2004 Items:

Tuition and Fees Deduction increases to \$4,000

Top estate tax rate reduces to 48%

2004 Plan Limitations Dollar Amounts. See IRS News Release (IR 2003-122) issued 10/16/2003. Most important were the following:

- Defined Benefit Plan Dollar Limitation \$165,000
- Defined Contribution Plan Dollar Limitation \$41,000
- Highly Compensated Employee \$90,000
- Compensation Dollar Limitation \$205,000
- 401(k) Deferral Dollar Limitation \$13,000
- Catch Up Contributions \$3,000

\*NOTE: The Oregon Department of Revenue could not process returns carrying back a 2001 NOL 5 years prior to November 26, 2003.

# Upcoming Tax Meetings

## PORTLAND:

### **Portland Luncheon Series**

Contact: Mark Huglin < mark@draneaslaw.com >

### **Portland Tax Forum**

Contact: Mark Golding < mgolding@hhdglaw.com >

## SALEM:

### **Mid-Valley Tax Forum**

Contact: Barbara Smith < bjsmith@mail.heltzel.com >

May 18, 2004

Agricultural Income Tax Issues

Speaker: Stan Compton

## EUGENE:

### **Eugene-Springfield Tax Association**

Contact: James Workman < jamesw@mossadams.com >

April 27, 2004

Partnership Income Tax Issues

Speaker: David Culpepper

May 25, 2004

§2036 – Gifts with Retained Interests

Speaker: Steve Lane

### **Eugene Estate Planning Council**

Contact: Douglas Nelson < dnelson@dgnmw.com >

May 11, 2004

Joint Meeting of Eugene Estate Planning Council, Eugene-Springfield Tax Association, Financial Planning Association, and Society for Financial Service Professionals

Presorted Standard  
US Postage Paid  
Portland, Oregon  
Permit No. 341

Oregon State Bar  
Taxation Section  
5200 SW Meadows Road  
Lake Oswego, OR 97035