



SEASONAL CONSIDERATIONS

By Jack Sullivan, Principal

It is that time of year for strategic thinking. Let's look at just a few considerations you might ponder as 2001 winds down.

Have you put off converting a regular IRA to a **ROTH** IRA because of the anticipated tax consequences? With the market trading way below the heights of the 1990's, the chances are that the potential tax bite has dropped significantly from when the provision was first heralded into existence. You may want to reconsider before the market goes back up.

Millions of Americans have been **refinancing** mortgage and other debts as interest rates decline, reducing years off the term and or lowering monthly payments. Most of us have never seen rates this low and perhaps never will again. As we go to press, fixed mortgages for 15 and 30 year terms are in the low 5% and 6% ranges, respectively. If your current rates are 1 percentage point or more lower than what you currently have, refinancing is worth exploring.

Do you have unrealized **stock losses**? Then review the viability of your investment. If the underlying reasons you bought the stock have evaporated, consider taking the loss against this year's taxable income. Stock losses first offset capital gains, then up to \$3,000 of excess losses can be used to offset ordinary income (wages, interest, dividends, etc.). Excess losses carry to future years. If you change your mind and want to buy the stock back, you will have to wait 30 days to stay clear of IRS wash sale rules. If you have mutual fund losses you have a little leeway, but you can sell one mutual fund and replace it with a similar fund without waiting. The funds may not exactly mirror each other but perhaps may be very similar.



'Tis the season to make **payroll elections** for 2002. Remember that every year you postpone maximizing retirement contributions is a lost opportunity for most. Consider increasing your elective deferrals. Increases are possible for most of us since the ceilings are going up and there are extra catch up allowances for those over the age of 50. Don't use the current stock market doldrums as an excuse; most plans have conservative places to invest your retirement funds, too.

Most of the normal **year-end tax planning** strategies still apply: reviewing whether to take advantage of lower rates from year to year by accelerating or decelerating taxable income and deductions; bunching of 'threshold limited expenses' such as medical deductions and un-reimbursed employee expenses and other 2%ers into one year or the other. Obtain contemporaneous receipts for all cash/check gifts of \$250 or more. Gather receipts for all non-cash gifts; if you have usable items, don't discard them, gift them to a needy. If you are giving a sizeable gift to a charity, consider gifting appreciated stock and get more mileage out of the same value.

Keep current. Congress is now working on **tax incentive bills** that are hoped to be ironed-out in conference committees by the time you read this. Additional relief, including increasing from \$3,000 to \$4,000 the capital loss offset noted above, *may* affect your last minute tax planning. Arm yourself with knowledge and act accordingly. Businesses are promised relief, also. If you need help with these or other planning strategies, contact us.

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Quill

QUARTERLY NEWSLETTER

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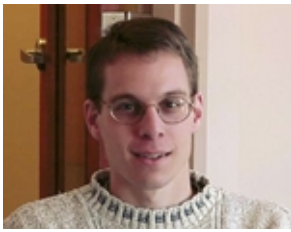
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MARRIAGE PENALTY RELIEF

By Derek Gervais, Senior



Many changes have occurred in the world of taxes over the past year. The new tax act, signed into law in June, 2001

includes

provisions to reduce the *Marriage Penalty*. The marriage penalty occurs when a married couple with the same income as two single individuals under like circumstances, have a higher tax liability than its single counterparts. This higher tax is the result of many factors since deductions and brackets were not proportionately set at double the single rate for married couples.

Relief is on the way. The Act uses numerous vehicles to reduce the marriage penalty. The most notable changes include an increase in the standard deduction and an expansion in the 15% tax bracket for married couples. However, the phase-in for these changes starts in 2005.

The standard deduction will increase through 2009 at which point it will equal double that of a single individual. Similarly the 15% bracket becomes double that of a single individual in tax year 2008. This may not seem like much, but under the current bracket, two single taxpayers could have \$52,500 of income under the 15% bracket, while a married couple would only have \$43,850, a tax savings for the single filers of \$2,422.

ESTATE TAX ROULETTE

By Jeanne T. Gibson, Manager



No doubt you have heard bits and pieces about the many changes in the estate tax law passed by Congress this past May.

However, the legislation on estate taxes is far from decisive and there are now fewer safe harbor planning tools than we have relied upon in the past. The ever-changing landscape of estate taxes makes it essential that clients with assets that may be subject to estate taxes review their wills and estate plans on an annual basis.

The new law keeps an estate tax in effect through the year 2010. To gradually reduce the estate tax burden, the new law increases both the exemption and the maximum estate tax rate (see chart). By the year 2010 the exemption becomes unlimited and the estate tax is repealed. However, this is where the legislation ends. Without further legislation, after December 31, 2010 the estate tax laws revert back to the same law in effect prior to this legislation.

As a result, if you are to try and plan for your distribution of wealth as of today, the uncertainty of the year of your death leaves you guessing about the best structure for your will. In addition, we have no way to know how Congress will view the country's revenue needs in the year 2011 and thereafter to know what portion, if any, the government will decide to take from a decedent's estate.

To illustrate the uncertainty, let's take an estate valued at \$3,000,000 and compare the difference between a person dying on December 31, 2010 and the same person dying on January 1, 2011. If the person dies on December 31, his/her estate tax would be -0- and his/her beneficiaries would receive all of the \$3,000,000. If the person died on January 1, the estate would have to pay taxes of \$1,070,250 and the beneficiaries would receive \$1,929,750. This concept is magnified dramatically as estate values increase.

To further complicate the tax structure, in the year that the estate tax is repealed (at this time only in the year 2010) the assets passing to the beneficiaries will no longer receive the "step up in basis" benefit. In other words, assets passing by will in the year 2010 will have the same tax basis in the hands of the beneficiary as in the hands of the decedent prior to death. If grandson sells the IBM stocks that he inherited from grandpa who paid \$100 for them and receives \$100,000 for them, he will have to pay capital gains taxes on the gain on his personal income tax return. Of course the tax is only part of the concern; the biggest concern is the passing of the recordkeeping. Who knows what grandpa paid for the stock and when he purchased them? The records very likely will not be available. Fortunately, the "step up in basis" law remains on the books until the year 2010.

As a result of this new legislation, estate planning can only be effective if reviewed annually. Short term planning is far more likely to reflect your wishes when planning the

distribution of your assets, than to try and project years in advance. The most critical issue at this point is to review your current plan and revise any bypass trust arrangements that may be based on the old laws. If your joint assets are less than \$7,000,000, but greater than \$1,350,000, a bypass trust could leave a widowed spouse without enough assets to maintain his/her expected lifestyle. Because of the increase in the exemption levels, all of the assets may go to fund the trust, leaving little for your spouse.

In conclusion, if your estate will be affected by this new legislation, review your will annually, and stay tuned for Congress' next chapter in estate taxation.

Year	Exemption	Max Rate
2001	\$ 675,000	55%
2002	1,000,000	50%
2003	1,000,000	49%
2004	1,500,000	48%
2005	1,500,000	47%
2006	2,000,000	46%
2007	2,000,000	45%
2008	2,000,000	45%
2009	3,500,000	45%
2010	Unlimited	Repealed

RKO REORGANIZES

By Carl Ouellette and Glenn Kersteen



In striving to continually improve delivery of services to all our clients, RKO is pleased to announce a new functional

reorganization. Replacing our four-department structure will be three divisions. The Tax-Exempt Division, headed by Kathy Tyson, will oversee the operations of the Government Department headed by Greg Chabot and the Non Profit Department headed by Tanya Perry. The For Profit Division, headed by Carl Ouellette, will be comprised of the Commercial Department headed by Roger Lebreux and the Tax Department headed by Jack Sullivan. The Service Division, headed by Mary Sawyer, will oversee Client Service and Administration Departments. The goal of this reorganization is to match the expertise and skills of RKO professionals with the specific needs of our clients. Improved efficiency in the delivery of our professional services is also a principal

objective. Primary client contacts at RKO will remain the same to ensure the best possible continuity of service and thus, this reorganization will hopefully be a seamless one.

THE END OF AN ERA

By Mary Sawyer, CPA, Firm Administrator



At the end of September, Deb Wentworth, Partner-In-Charge of our Biddeford office, announced that she wished to

pursue a sole-proprietorship opportunity in Biddeford. She truly enjoys working with the individuals and smaller businesses that have been her focus during her fourteen years at RKO. As many of you know, Deb has been the key contact in servicing the clients of Philippe E. Paquet, who retired at the end of 1999. As part of her announcement, Deb offered to purchase a significant portion of the practice serviced out of the Biddeford office. Given her expertise, commitment and loyalty to these clients, we felt it was in our clients' best interests to maintain their working relationship with Deb, if desired, and we agreed to transfer that client base to her. She now practices under the business name "Debra J. Wentworth, CPA" located on Elm Street in Biddeford. While we will miss working with Deb, we support her decision completely and we wish her continued success. Given the varying nature of our specialties, we anticipate many cross-referrals between practices, a great way to remain in contact with our friend and associate of fourteen years.

With the decision to end one era, we decided to close the RKO office located at Biddeford's Park One-Eleven. Kathy Tyson and Barbara Childs are in the process of relocating to our South Portland office. Kathy will continue to service the Tax-Exempt Division, and Barbara will continue to service individual and corporate tax clients. The transition to South Portland will occur over time, and will be completed by the end of the year.

ALERT! PENSION PLAN CHANGES

By Jeanne T. Gibson, Manager

The new tax law made significant changes to the rules governing pensions. These rules will

affect every one who may be administering a plan or contributing to a plan. **Please contact your pension administrator** to find out how your current plan may be affected and make arrangements to amend your plan to comply with the new rules. The following is a list of highlights:

- New Comparability Plans- New cross testing rules allow for highly compensated employees to contribute more to their own profit sharing plan. (starting in 2002)
- 401(k) features are now available with the new comparability plans. This is an easy amendment and it allows for higher annual contributions than a profit sharing plan without this feature. (starting in 2002)
- The annual limitation on deductible contributions to a profit sharing plan will increase from 15% to 25%. In effect money purchase plans will no longer be needed. (starting in 2002)
- Tax-exempt organizations- The rules coordinating the Sec 457 dollar limits with limits under other plans is repealed. (starting in 2002)
- See last quarter's quill article for a description of the higher contribution limits.
- Catch-up contributions rules, plan loans and rollover procedures have also changed.
- Plan Amendments- All plans will need to be amended for the new changes in order to continue to comply with IRS regulations. (by 12/31/2002).

MAINE CHILD CARE CREDIT

By Peter Way, Senior Accountant, Tax Department



can claim 25% of the federal credit on the Maine return. This credit, subject to income limitations, allows taxpayers who hire someone

to care for their children or other dependents while they work to claim a tax credit for the non-reimbursed expense.

Beginning in January 2001, Maine decided to double the amount of this credit, provided that the day care constitutes "quality child care". Additionally, up to \$500 of this credit is now refundable. To be quality child care, the care must meet a number of specific requirements: be accredited by an independent, nationally recognized program approved by DHS, Office of Head Start and Child Care; be provided at a site that meets minimum licensing standards; utilize recognized quality indicators for child care services approved by DHS, Office of Head Start and Child Care; and include provisions for client and parent input, a review of the provider's policies, procedures and program records, as well as an on-site program review.

To claim this credit, you will need to obtain the Quality Child Care Center certificate number of the provider, issued by DHS, the Office of Child Care and Head Start. Therefore, if you have not already done so, you will want to ensure they have their day care providers' certificate number. We will need it to complete your Maine tax returns.

ENHANCING OUR WEB SITE

By Todd Cloutier, Network Administrator



We have enhanced the RKO web site! Our new E-Quill page includes lots of valuable tools for you. Every month you will

find a series of new valuable E-Quill articles and some special Tips of the Month. For those needing to be aware of important due dates, we have added a Calendar of Dates to Remember. We think you will especially enjoy the Financial Calculator. This unique tool allows you to calculate anything from simple mortgage payments to the more complicated, and unfamiliar, Roth IRA conversions. It also walks you through the financial aspects of purchasing or leasing an automobile. Visit us at www.rko-cpas.com and make us your homepage.

RKO IN THE COMMUNITY

Peter Way, Senior Accountant, Tax Department, is a volunteer with the Leukemia Society of New England. Peter is in charge of the accounting for the annual "Light the Night Walk" fundraising event that takes place in Deering Oaks in September. He also volunteers with the March fundraising event known as the "Celebrity Waiters Event".

Recently Peter was elected to the Board of Directors of the Friends of Casco Bay, an organization dedicated to improving and protecting the environmental health of Casco Bay. Peter will serve as Treasurer of the board.

Feed the Kids - Stunning! There is no other way to describe the discovery that on average, 50% of Augusta K-5 children are hungry. With no dinner, imagine the difficulties these youngsters must endure and certainly, lack of proper nutrition can lead to serious issues. The solution of the Augusta Rotary is to

implement a pilot program at Lincoln Elementary School that provides a nutritional third meal during the school year. The pilot project will inform and guide a six-year expansion plan to include all Augusta public elementary schools. Empowering the program



is a new relationship, between the Rotary Club of Augusta and Augusta Public Schools. RKO is pleased to be able to sponsor one of those meals and proud that at least five of its Augusta employees are participating in this project.

WELCOME NEW EMPLOYEES

Jenna L. McPartland, CPA has joined RKO as a Senior Accountant in our Tax Department. Jenna graduated Cum Laude from the University of Massachusetts - Amherst in May 1998. After graduation she moved to Atlanta, Georgia where she most recently was employed by Braver, Schimler and Company, P.C.. Jenna and her husband have purchased a home in Cape Elizabeth and are excited to be back in Maine.

2002 STANDARD MILEAGE RATES

(cents per mile)

Purpose of Travel	2002 Rate	2001 Rate
Business	36.5	34.5
Charitable	14	14
Medical	13	12
Moving	13	12

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