The Professor Speaks

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FEDERAL TAX CHANGES

1. ***Capital Gains*** – The maximum capital gains tax rate was lowered to 15% with a holding period of 12 months. For investment real estate the maximum capital gains on profits would be 15%. Under the tax laws, 25% capital gains would be imposed on gains attributable to depreciation recapture taken by the seller during the time of ownership. If assets are held more than 12 months, the capital gains rate is 15%. If assets are held less than 12 months, the maximum tax rate would be 35%. The capital gains rate is scheduled to increase to 20% in 2009.

2. ***Primary Residence Capital Gains*** – Every two years taxpayers will be able to exclude from federal income tax up to $250,000 in gains from the sale of a principal residence for a single taxpayer and $500,000 for married couples filing jointly. Owners must have lived in the residence two of the last five years.

3. ***Estate Taxes*** – The exemption is $1 million, but increases to $1.5 million in 2004-2005, $2 million in 2006-2008 and scheduled for $3.5 million in 2009 with no tax in 2010. In 2011, it will revert so $675,000.

4. ***Marriage Penalty Relief*** – Doubles the standard deduction, but the phase-in doesn't start until 2005, and is not complete until 2009.

5. ***IRS Adds Reverse Exchange Rules*** – An investor can now first locate a suitable replacement property and have the third party accommodation temporarily take title to it (parking) before the old "Like Kind" property is sold.

6. ***IRA Contributions*** – Increased to $4,000 in 2005 and $5,000 in 2008. There is also a catch-up provision of an extra $500 per year for those over 55 years of age.

7. ***IRA Catch-up Contribution*** – People age 50 and older may contribute an additional $500 per year through 2005, and thereafter an additional $1,000.

8. ***1031 Tax Deferral Exchanges*** – This format has remained unchanged, with the seller having to name replacement properties within 45 days and complete the exchange within 180 days or the next tax year, whichever is sooner. The 1031 exchange can only be used on investment properties.

9. ***Small Business Expensing Allowance*** – The deduction increased of depreciable property to $34,000 per year