

Our Perspectives

“Thoughts From Outside the Box”

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Dear Clients and Friends:

Another tax season has come and gone, and on behalf of the shareholders of the firm, I would like to thank the staff for their continued dedication, hard work, and commitment. I would also like to take this opportunity to welcome the clients who have become a part of the Meisel, Tuteur & Lewis family during the first quarter of this year.

In keeping with tradition, we closed the office on Friday after tax season to spend time with family and recharge our batteries; on Monday we were back and ready to go.

I am very proud of the growth initiative of the firm. Our client base and staff have experienced quality growth, and we look forward to building relationships with our new clients and nurturing those we have with our existing ones.

If there is anything we can do for you, please let us know. As always, we appreciate your thoughts and comments.

Very truly yours,

Michael S. Lewis, CPA
Managing Shareholder

MCGREEVEY: NEW JERSEY'S ANSWER TO ROBIN HOOD?

By Shane Orbach, CPA, MST

On April 29, 2004, New Jersey Gov. James E. McGreevey called a joint session of the Legislature to present his plan for property tax reform within the state. The Democratic governor proposed an increase in the income tax on New Jersey's wealthiest residents in order to finance higher property tax rebates for middle class and elderly residents.

McGreevey's proposal would raise the tax rate on income in excess of \$500,000 to 8.97 percent from the current rate of 6.37 percent. In his address, the governor indicated that only 28,000 people, less than 1 percent of New Jersey households, would be affected by this tax hike. The 800 million of estimated revenue would in turn be used to restore recent cuts in the state's property tax rebate programs. Annual property tax rebates for senior citizens would rise to a maximum of \$1,200, up from \$775; average re-

bates for earners making \$125,000 a year or less would rise to \$800, up from the current \$250.

The governor called the property tax the "tax without a conscience" because of its regressive nature. While a family earning \$45,000 pays an average of 10 percent of its income in property taxes, the \$500,000 earner pays 3 percent, the \$1 million earner 1 percent.

The income tax increase was framed by McGreevey as a "recapture" of the money that high income taxpayers in New Jersey have saved as a result of President Bush's tax relief packages over the past three years. McGreevey said "by using a portion of the Bush windfall, we can restore tax fairness to New Jersey."

New Jersey's per-capita property tax is currently the highest in the country with an average assessment of \$5,259 in 2003. This figure is up

6.3 percent from 2002 and 22.3 percent since 1999.

In addition, the governor proposed that the higher property tax rebates be coupled with a 2.5 percent limit on increases in state aid to schools and towns as well as certain types of government spending. Opponents of the governor's plan believe that freezing state aid to school districts and local governments in his last two budgets was responsible for the significant rise in property taxes during that period.

The prospects of the governor's proposals are not immediately known at this time. However, Meisel, Tuteur & Lewis, P.C. will remain abreast of this issue and keep our clients informed of any additional news that becomes available. ■

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From the Bookshelf...

- Carpe Manana by Price Pritchett
- Jump Start Your Brain by Doug Hall and David Wecker



Health Notes...

May is National Bike Month

The majority of bicycle fatalities are the result of collisions between bicycles and automobiles. Use extreme caution at intersections and driveways and follow these safety guidelines to avoid accidents:

- Never ride the wrong way against traffic;
- Be alert for left-turning vehicles in which the driver may not see you;
- Always wear a helmet;
- Perform basic routine maintenance on your bike.

INTERNALLY CONTROLLING YOUR BUSINESS

By David Capodanno, CPA

Implementing internal controls to monitor your business decreases the need for constant supervision of your employees and prevents serious problems from occurring in the future.

Essentially, internal controls are checks and balances that prevent fraud, limit financial losses, and reduce errors or oversights by employees. The most basic internal control concept requires that different people handle certain tasks. This process, called "separation of duties," decidedly limits the probability of loss.

The following basic internal control checklist includes suggestions that, once implemented, helps a business owner and his employees avoid theft or fraud in

the workplace.

- Have one person open the mail and list all the checks on the deposit slip while another enters cash receipts in your financial records.
- Make sure someone who does not handle the checkbook or purchasing is in charge of payments to suppliers and vendors.
- Have your bank reconciliation done by someone who does not have access to daily checkbook transactions.
- Make sure to approve all ven-

dors and count all goods received. Check all orders to make sure they are accurate and of the quality intended. Before signing each check, review the invoice, delivery receipt, and purchase order.

As a business owner, you may want to become less involved with day-to-day operations as your company grows. Putting internal controls into place now will keep your business running smoothly and allow you the freedom to concentrate on your vision for future expansion. If you need assistance in the implementation of internal controls, please feel free to contact our office. ■

SECOND HOME THOUGHTS

Although housing market figures on the number of home sales are constantly reported, they do not distinguish between the purchases of primary residences and second homes. However, anyone in the market for a second home should be aware that mortgage lenders and insurance companies treat the two quite differently.

For example, lenders could view your second mortgage as a riskier proposition and thus charge higher fees and interest rates. For the same reason, a larger down pay-

ment, 20% or more, might be required. In addition, if your second home is in a remote location and/or remains uninhabited some of the time, its consequent vulnerability to fire and theft could be a red flag to insurance companies and lead to their charging higher rates.

As well, owning a second home, like almost everything else, has an impact on your taxes, especially if you plan to rent it at any time. Tax deductions, rental income, and other related expenses need careful consideration and

examination. If you are thinking "second home," the professionals at Meisel, Tuteur & Lewis, P.C. are ready to discuss these issues with you at any time.



THE GROWING PROBLEM OF AMT

By Anthony Pentz, CPA

Did you owe Alternative Minimum Tax (AMT) in 2003? If so, you were not alone. 2003 produced the highest number of taxpayers subject to Alternative Minimum Tax in history. Even worse is the fact that the number of people affected is expected to skyrocket over the next five to ten years. While the number of taxpayers subject to AMT in 2003 is estimated to be 2.4 million, the number is projected to reach 12.7 million in 2005 and as many as 32 million in 2010. The National Taxpayer Advocate's 2003 Annual Report to Congress, which is required to identify and discuss the 20 most serious problems faced by taxpayers, reported that the individual Alternative Minimum Tax is the problem that "requires the most immediate and thorough response." Why is AMT such a growing concern?

To understand the problems created by AMT, it is first necessary to have a general idea of what it is. Established in 1969, the Alternative Minimum Tax is basically a separate tax system originally designed to prevent the very wealthy from avoiding taxation through the use of "loopholes." Today, however, AMT has become a complex calculation affecting a growing number of taxpayers with little rhyme or reason. The AMT calculation is based upon your taxable income for regular tax purposes (disallowing any deductions for exemptions). To that amount, AMT preference items and adjustments are added back before de-

ducting the AMT exemption amount (subject to income limitations). This total is then multiplied by 26% (28% of any amount over \$175,000). The result of this calculation is compared to your regular tax. Whatever amount is higher is the tax you owe for the year.

Now, the important question: What makes a person subject to AMT? AMT preference items and adjustments are generally the cause of an AMT liability. These items include, but are decidedly not limited to, the following: state and local taxes (including real estate taxes); accelerated depreciation on business property; tax-exempt interest from private activity bonds; gains on exercised incentive stock options; and miscellaneous itemized deductions such as employee business expenses. A combination of any of these items, along with numerous other factors, will make a taxpayer subject to AMT.

So why is AMT affecting more and more individuals? The primary reason is that AMT is not adjusted for inflation. While exemptions, deductions, and tax brackets are adjusted for regular tax purposes, no such adjustment exists for AMT. When the AMT was originally introduced, the exemption amount for it was \$30,000. According to the National Taxpayer Advocate's Report, if that amount had been indexed for inflation, it would currently be nearing \$150,000. In 2005 the amount scheduled for the AMT exemption is \$45,000 for

married persons filing jointly. Another factor increasing the occurrence of AMT is the enactment of the Jobs & Growth Tax Relief Reconciliation Act of 2003. Although this act reduced individual tax rates for regular tax purposes, it did not reduce the Alternative Minimum Tax rate, effectively increasing the difference in the two calculations.

Various recommendations have been made to Congress in order to handle the situation that AMT has generated. Just before this article was published, the House of Representatives passed a bill that would curb AMT for one year. Although many stages remain before the bill becomes law, it is reassuring to know that Congress recognizes the problem at hand. Until permanent changes are made to the system, different tax strategies, such as controlling the timing of recognition of income and deduction, can be used to try to minimize the effect of AMT. If you have questions as to how the Alternative Minimum Tax affects your particular situation, please do not hesitate to contact the tax professionals at Meisel, Tuteur & Lewis so that we can assist you with your concerns. ■



BUYING A PERSONAL COMPUTER?

By Christopher Baran

The array and complexity of personal computers on the market today is astounding. Television advertising and direct marketing make the choices for one's personal computer seem endless. The uninformed consumer can get caught overpaying for a product that does not relate to his or her personal needs. Here are a few tips to help you get started in the task of buying a personal computer.

The first step in making an educated computer choice is to define your personal preferences and practical needs. Certain basic questions can clarify what type of computer will be most useful and economical. For example, what kind of applications will be run? How long will this computer be kept? Finally, what is the total budget available for this expenditure? Once these questions are answered, identifying and purchasing the appropriate computer

becomes an easier task.

The next decision involves the choice between a laptop and a desktop model. The conventional desktop, which is more cost effective, has become the overlooked alternative even though it offers more storage space, greater capability of expansion, and, with a flat panel monitor, is relatively easy to keep in any room of the house. The laptop computer is more popular because of its portability. When looking at a laptop, make sure to find one with at least a 14-inch screen. In addition, it is wise to purchase a Kensington lock, a security device that costs a nominal amount and secures the safety of the computer. If there is a need to be connected to the Internet there must be a port for a wired Ethernet connection. This is standard on most computers; however, be sure to verify this

with the salesman. If mobility is of great concern to you, a wireless Ethernet card and router are options which make internet access possible from anywhere in your home or office.

July is usually the month for store markdowns and seasonal price reductions for the major computer companies. Dell and Hewlett-Packard will soon be announcing promotions and aggressive pricing strategies to attract buyers.

The purchase of a personal computer can be harrowing. Prudent shopping and a factual assessment of the type of personal computer that fits your needs can ease the process. Choose wisely! ■

AN INSIDE LOOK....



Individual Achievements:

The firm congratulates Shane Orbach, CPA, MST, for recently obtaining his Masters in Taxation from Seton Hall University. Mr. Orbach, who received his undergraduate degree from The College of New Jersey, is a manager in our tax department, specializing in tax issues which

affect high net worth individuals as well as corporate state tax matters.

Christopher A. Baran has become a Member of the NJSCPA Sports & Entertainment Committee.

William Schwarz answered a question for the "Ask Biz Brain" column of the Star Ledger. You can read his answer in the April 6th edition.

Meisel, Tuteur & Lewis, P.C. was founded in 1946. The accounting professionals at our firm approach each client with a single goal: to build a solid financial foundation with that client...and then add to it with every subsequent contact. We believe in the value of relationships. We view every client relationship like a partnership and truly believe that our success is a result of yours.

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Kin Hubbard

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