

In this issue...

Bonus Depreciation Expires 12/31/04

Corporate Minutes

THE ACT -- Business Tax Changes

Paperless Office

Unemployment Reserve Fund Changes

IRA and Retirement Plan Limits

Upper Midwest College Costs

Meet Dirk Nohre

The NOHRE REPORT

Nohre & Co., S.C.

4228 Southtowne Drive
Eau Claire, WI 54701

Certified Public Accountants & Consultants

Phone: (715) 834-2225 (800) 960-2225
Fax: (715) 833-6750
Website: <http://www.nohre.com>

BONUS DEPRECIATION EXPIRES DECEMBER 31, 2004

Thinking about purchasing new equipment, upgrading information technology or making improvements to your leased space? You may want to do so before the end of this year. A favorable tax incentive for business, bonus depreciation, is set to expire on December 31, 2004.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) contains a bonus depreciation provision which allows businesses to deduct 50% of the cost of new qualifying property in the first year. Regular depreciation is taken on the remaining 50% of the property cost.

The difference in depreciation before and after the rules expire is substantial. For example, on equipment with an expected asset life of seven years that is acquired and placed in service in 2004, 57% of the equipment cost can be depreciated in the first year. If you wait until 2005 to purchase the same equipment, only 14% may be depreciated in the first year.

The JGTRRA provides opportunity for businesses to invest in capital assets while enjoying a significant federal tax benefit from accelerated depreciation expensing rule. But you must act quickly. Bonus depreciation assets must be acquired and placed in service before January 1, 2005.

Qualifying property eligible for bonus depreciation is most **new** depreciable property other than buildings. Used property is not eligible. To qualify, the property generally must be tangible personal property with a recovery life of 20 years or less.

Leasehold improvements to non-residential property are considered qualified property if the improvements are made to the building's interior by either the lessee or the lessor under the terms of the lease. The improvements must be to a space exclusively occupied by the lessee. The lease may not be between related persons and the building must be more than three years old. Qualifying leasehold improvements do not include expansions, structural repairs or improvements to common areas.

The Section 179 \$100,000 first year depreciation deduction will be in effect through December 31, 2005. Beginning in 2006, the Section 179 depreciation deduction is scheduled to go to \$25,000 per year.

As with most tax laws, there are exceptions and special rules. For more information on bonus depreciation, please contact our Tax Department at (715) 834-2225 or (800) 960-2225.

What a Difference a Century Makes!

Some U.S. Statistics for the Year 1904:

- Average life expectancy in the U.S. was 47 years.
- Only 14% of homes had a bathtub.
- Only 8% of homes had a telephone.
- A three-minute call from Denver to New York City cost \$11.
- There were only 8,000 cars in U.S. and only 144 miles of paved roads. Maximum speed limit in most cities was 10 mph.
- Alabama, Mississippi, Iowa and Tennessee were each more heavily populated than California. With only 1.4 million residents, California was the 21st most populous state.
- The tallest structure in world was the Eiffel Tower.
- The average wage was 22 cents an hour.
- The average U.S. worker made between \$200 and \$400 per year.
- A competent accountant could expect to earn \$2,000 per year; a dentist \$2,500 per year; a veterinarian between \$1,500 and \$4,000 per year, and a mechanical engineer about \$5,000 per year.
- More than 95% of all births in the U.S. took place at home.
- Sugar cost 4 cents a pound. Eggs were 14 cents a dozen. Coffee was 15 cents a pound.
- Most women only washed their hair once a month, and used borax or egg yolks for shampoo.
- Canada passed a law prohibiting poor people from entering the country for any reason.
- The five leading causes of death in the U.S. were: #1-pneumonia and influenza; #2-tuberculosis; #3-diarrhea; #4-heart disease; and #5-stroke.
- The American flag had 45 stars. Arizona, Oklahoma, New Mexico, Hawaii and Alaska hadn't been admitted to the Union yet.
- The population of Las Vegas, Nevada was 30.
- Crossword puzzles, canned beer, and iced tea hadn't been invented.
- There was no Mother's Day or Father's Day.
- Two of ten U.S. adults couldn't read or write. Only 6 percent of all Americans had graduated high school.
- Marijuana, heroin, and morphine were all available over the counter at corner drugstores. According to one pharmacist, "Heroin clears the complexion, gives buoyancy to the mind, regulates the stomach and bowels, and is, in fact, a perfect guardian of health."
- Eighteen percent of households in the U.S. had at least one full-time servant or domestic.
- There were only about 230 reported murders in the entire U.S.

Corporate Minutes: More than just 60 Seconds

An important requirement of a corporate entity is to maintain proper corporate minutes. You may need well-documented minutes to assist your corporation through IRS audits, bankruptcy, or other court action. Without a properly maintained corporate minutes book, the IRS, courts, and other authorities may allow creditors, plaintiffs and other entities to sue you personally for debts and action of the corporation.



Protection of your personal assets from business risk and debt was one of the primary reasons your business was incorporated. Your corporation is a separate legal entity. Minutes will help shield a shareholder or officer from personal liability from corporate debt. If the corporate shield is compromised, the officers and shareholders can be named in a lawsuit, and could be held personally liable for the debts of the corporation.

Minutes may help avoid higher taxes and even double taxation. During an audit, the IRS will inspect the minutes for discrepancies between the corporate resolutions adopted by the shareholders and directors, and the actions of the corporation. Without minutes and other corporate records, the IRS may consider the shareholders to be operating as individuals and could impose an individual tax rate that could be much higher than the corporate one.

Annual corporate minutes should include written records of important corporate transactions including but not limited to: key legal, tax and financial decisions; approval of bonuses and fringe benefits, such as group term life and disability, or deferred compensation plans; lease agreements, reasonable compensation for officers and shareholder employees; approval of dividends from C-corporation (distributions from S-corporations); identification of directors and officers; property and equipment additions; stock transactions; contracts; approvals of loans, or financing arrangements; approval of "arm's length" transactions with shareholders; corporate restructuring or mergers; or documentation of the necessary business purpose for accumulated earnings.

While there is no guarantee that disputes will be settled in your favor, corporate minutes provide you a strong position to respond to issues. It is important that your minutes are complete, accurate, and up-to-date. If you have any questions about minutes or other corporate matters, please contact your attorney.

THE ACT

Congress Passes \$130 Billion of Business Tax Changes

The House and Senate have approved the American Jobs Creation Act (H.R. 4520) (“The Act”), legislation containing approximately \$130 billion of business tax reductions, offset by an extension of IRS and customs users’ fees, provisions targeting corporate tax shelters and other items. The President is expected to sign the legislation.

Export and Domestic Production Incentives

The Act repeals the extraterritorial income exclusion (ETI), which was ruled an illegal trade subsidy by the World Trade Organization and has led to the staged imposition of trade sanctions by the European Union. The repeal is phased in over three years, with taxpayers allowed 80 percent of their otherwise-applicable ETI benefits for transactions occurring in 2005 and 60 percent for transactions in 2006.

The Act replaces the ETI with a domestic production incentive, allowing a deduction equal to a percentage of a taxpayer’s qualified domestic production activities income. The deduction percentage begins at 3 percent for tax years beginning in 2005, and rises to 9 percent when it is fully phased in for tax years beginning after 2009.

Depreciation and Cost Recovery

The Act includes a number of changes to the cost recovery rules, including:

- Two-year extension of the \$100,000 limit on expensing under Section 179,
- 15-year life for qualified leasehold improvements and restaurant property,
- Clarification of the income forecast method of depreciation, and
- Transitional relief extending the bonus depreciation placed-in-service date for noncommercial aircraft.

Observation

The Act does NOT extend bonus depreciation, generally scheduled to expire for property placed in service after 2004.

Foreign Tax Reform

The Act also provides taxpayers a special 85 percent dividend-received deduction on up to \$500 million of repatriated foreign earnings.

Other Provisions

The Act includes a number of other taxpayer-favorable provisions, including:

- An election for individuals to claim state and local sales taxes as an itemized deduction in lieu of state and local income taxes for 2004 and 2005.
- Modifications to the Subchapter S rules, including an increase to 100 in the number of shareholders allowed, an election to treat all family members as a single shareholder, and a number of modifications designed to facilitate to use of S corporation status by banks; and
- Agricultural incentives, including liberalization of rules applicable to agricultural and horticultural cooperatives.

Revenue Raisers

The revenue lost to the U.S. Treasury by the Act is offset by the extension of certain IRS and customs users’ fees, rules to reduce the evasion of fuel taxes, provisions designed to limit the use of corporate tax shelters and other changes targeted to specific areas of the tax law.

The tax shelter provisions focus on specific types of transactions, including reform of the tax treatment of leasing transactions with tax-indifferent parties. The codification of the economic substance rule is not included in the Act.

Targeted changes include:

- Limitations on the amount that can be deducted for charitable contributions of intellectual property and vehicles;
- Changes in the treatment of nonqualified deferred compensation plans;
- Increased withholding on bonuses in excess of \$1 million; and
- Limitations on the depreciation or expensing of sports utility vehicles.

THE ACT (continued on next page)

THE ACT (continued)

If you have any questions regarding federal tax legislation, please contact Marty Goss @ (715) 833-6744 or (800) 785-8659 or Gary Gochanour @ (715) 833-6748 or (800) 785-8570.



Paperless Office Environment

Early last spring at our strategic planning meeting, Dirk Nohre set a goal for the firm, “We are going to make every effort to convert the firm to a paperless office environment”. Most of the Team had a fairly good idea of what this meant, but may not have thought through many of the issues and considerations. We all had varying degrees of education and knowledge on the topic from reading articles, attending seminars, and visiting peers. But still, there were a lot of unanswered questions.

Well, we’ve come a long way since that *historic* meeting last spring. We spent the summer evaluating hardware and software requirements and various options, defined directory tree structures for file storage, and identified clients for pilot accounts. We’ve procured our copier/scanner, beefed up the server, configured workstations with dual monitors, and purchased and installed document management software.

The tools were now in place and it was time to execute. Early this fall, we held several training sessions in-house to educate the staff on the use of the new hardware and software. We continue to meet regularly and discuss and resolve issues and problems that arise through the implementation process.

As a client of Nohre & Co., you can help us, in this effort to go paperless, by transmitting data to us electronically whenever possible. The Nohre Team is very excited about the change and is committed to seeing it through. We’re already beginning to see the benefits of our work in some areas; we’re scanning more and more documents into the computer for analysis, we’ve implemented electronic fax, and most importantly, we’re asking ourselves “How we can get there faster?” If you have any questions regarding paperless office or would like to know how you can help us as a client, please contact your account manager or client partner.

Change in Statutory Tax Rate Wisconsin Unemployment Reserve Fund

Tax rate schedule B, which is 1 of 4 rate schedules included in Wisconsin’s UI law, will be used to determine employer tax rates for 2005. This schedule contains slightly higher solvency rates than schedule C which was used for 2004. The rate schedule in effect for any particular year is dependent on the June 30 cash balance in the UI Reserve Fund. Tax rate notices for 2005 were sent to employers in October. If you have any questions about how your new rate was calculated, you can contact DWD @ (608) 261-6700 or e-mail taxnet@dwd.state.wi.us



2003-2004 IRA and SEP PLAN LIMITS

	<u>2003</u>	<u>2004</u>
Traditional IRA and Roth IRA under age 50	\$ 3,000	\$ 3,000
Traditional IRA and Roth IRA age 50 and over	3,500	3,500
SEP 25% of earnings (20% of net self-employment income)		
Maximum Earnings	200,000	205,000
Maximum SEP Contribution	40,000	41,000

2003-2004 RETIREMENT PLAN LIMITS

	<u>2003</u>	<u>2004</u>
Maximum Salary	\$ 200,000	\$ 205,000
Maximum 401(k) Deferral	12,000	13,000
401(k) Age 50+ Catchup	2,000	3,000
Maximum 403(b) Deferral	12,000	13,000
Maximum Defined Contribution Limit	40,000	41,000
Minimum Earnings for SEP Participation	450	450
Maximum Deferral to a SIMPLE	8,000	9,000
SIMPLE Age 50+ Catchup	1,000	1,500



COST OF HIGHER EDUCATION AT UPPER MIDWEST COLLEGES AND TECHNICAL SCHOOLS

College tuition and room and board costs are constantly on the rise. Do you have a good idea of what it will cost to send your child to an institution of higher learning located in the Upper Midwest? The table below lists the approximate cost of tuition and room and board for an incoming freshman for the 2004-2005 school year. Books, entertainment, transportation, and personal spending need to be added into the yearly totals. If these costs are a reason to cause you concern, contact your account manager for ideas on how to prepare for your child's future education costs.

<u>School Name</u>	<u>Tuition</u>	<u>Rm & Bd</u>	<u>2004-05 Total</u>	<u>2004 Total</u>	<u>Change</u>
Anoka-Hennepin Tech. (Anoka)	4,053	-	4,053	3,565	+488
Augsburg College (Mpls)	20,758	7,880	28,638	25,298	+3,340
Bethel College (St. Paul)	19,880	6,680	26,560	25,080	+1,480
Carleton College (Northfield)	30,666	6,309	36,975	34,230	+2,745
College St. Catherine (St. Paul)	19,770	5,460	25,230	25,020	+210
Concordia College (Moorhead)	17,770	4,690	22,460	21,100	+1,360
Gustavus Adolphus (St. Peter)	22,590	5,810	28,400	27,220	+1,180
Hamline University (St. Paul)	22,055	6,346	28,401	26,620	+1,781
Iowa State University (Ames)	(resident) 5,426	5,958	11,384	10,582	+802
	(non-resident) 15,128	5,958	21,086	19,924	+1,162
Mpls College Art & Design (Mpls)	23,550	7,700	31,250	28,800	+2,450
MN State Universities*	4,576	4,712	9,288	9,138	+150
Normandale Community (Bloomington)	3,780	-	3,780	3,545	+235
North Dakota State Univ. (Fargo)	(resident) 4,774	4,728	9,502	8,481	+1,021
	(non-resident) 5,269	4,728	9,997	9,007	+990
St. John's University (Collegeville)	22,148	6,118	28,266	26,800	+1,466
St. Mary's University (Winona)	17,480	5,895	23,375	21,535	+1,840
St. Olaf College (Northfield)	25,150	5,800	30,950	28,500	+2,450
University Minnesota (Duluth)	8,291	5,282	13,573	12,471	+1,102
University Minnesota (Twin Cities)	(resident) 7,630	6,636	14,266	13,141	+1,125
	(non-resident) 19,260	6,636	25,896	24,771	+1,125
University St. Thomas (St. Paul)	21,634	6,542	28,176	26,550	+1,626
University South Dakota (Vermillion)	4,749	3,741	8,490	8,470	+20
University Wisconsin (Madison)	(resident) 5,866	6,700	12,566	11,311	+1,255
	(MN-resident) 7,288	6,700	13,988	12,719	+1,269
University Wisconsin (River Falls)	4,968	4,120	9,088	8,358	+730
	(MN-resident) 5,468	4,120	9,588	8,796	+792

* includes Bemidji, Mankato, Moorhead, St. Cloud, Southwest and Winona. Costs vary slightly between schools.

Number 18 is the maximum number of letters (including spaces) that can be used for the name of Thoroughbred racehorses.

"18"

18 is the number of precooked White Castle hamburgers to the pound.

18 is the number of players on a team in Australian Rules football.

Trivia

18 is the number of applicants vying for eight available jobs in the musical *A Chorus Line*.

18 is the number on the 49ers football jersey worn by Sally McMillan in the TV series *McMillan and Wife*.

Meet the Nohre Staff



Dirk S. Nohre, CPA, CPCU, ABV

Phone: (715) 833-6740
Toll Free: (800) 406-2222
Fax: (715) 833-6750
Email: dirk@nohre.com

Dirk began his professional career in 1979. He has over 25 years experience in the areas of accounting, taxation, appraisals and valuations, mergers and acquisitions, data processing and financial management. From 1979 to 1992 he was the financial manager for several owner-managed businesses in several industries; including wholesale food distribution and insurance, and for a non-profit concern. In 1992 he formed Nohre & Co., S.C., which provides accounting, taxation, financial management and merger and acquisition services to closely-held businesses and their owners.

Dirk received his Bachelors degree in Business from the University of North Dakota in 1979. He is a Certified Public Accountant (CPA), and has also earned the Chartered Property and Casualty Underwriter (CPCU) and Accredited in Business Valuation (ABV) designations.

Areas of Expertise

Appraisals and Valuations	Perpetuation Planning
Buy/Sell Agreements	Value Enhancement
Planning and Budgeting	Operational Analysis
Automation Consulting	Financial Analysis
Income and Estate Tax Planning	Compensation Planning

Organizations

American Institute of Certified Public Accountants	Wisconsin Independent Insurance Agents
Wisconsin Institute of Certified Public Accountants	Western Wisconsin Independent Insurance Agents

The NOHRE REPORT

NEWSLETTER POLICY

This newsletter is designed to present information on business and tax matters in general terms and is not intended to be used as a basis for specific action without obtaining further advice.

Editors: Debra Stange and Al Mazorol

Please forward comments to newsletter@nohre.com
