

***KEY 2004 PENSION AND
EMPLOYEE BENEFIT NUMBERS
KEY 2004 INCOME TAX RATES AND
OTHER ESSENTIAL DATA
KEY 2004 ESTATE PLANNING
INFLATION ADJUSTMENTS***

A number of figures used in the estate, financial, employee benefit, and income tax planning fields are subject to change or indexed for inflation. The following list is an update of the latest figures available with a brief explanation of their applicability.

CATCH-UP CONTRIBUTIONS FOR TAXPAYERS 50 AND OLDER: The dollar limitation for "catch-up" contributions to an applicable employer plan (other than Section 401(k)(11) or 408(p) plan) for individuals ages 50 or over is increased from \$2,000 to \$3,000. The dollar limitation for catch-up contributions to an applicable 401(k)(11) or 408(p) employer plan for individuals ages 50 or over is increased from \$1,000 to \$1,500.

Note: The catch-up contribution limit for regular IRAs will not increase to \$1,000 until 2006.

GOVERNMENTAL PLANS: The annual compensation limitation to be taken into account for eligible participants in certain governmental plans that (under the plan as in effect on July 1, 1993) allowed cost-of-living adjustments to the compensation limitation (under Section 401(a)(17)), is increased from \$300,000 to \$305,000.

CONTROL EMPLOYEE: The amount of compensation in the definition of "control employee" for fringe benefit valuation purposes remains the same at \$80,000.

The compensation amount under Section 1.61-21(f)(5)(iii) is \$165,000.

WEIGHTED AVERAGE INTEREST RATE: The weighted average interest rate used to calculate plan liability for full funding limitations and required contributions was 5.26 percent in December 2003. IRC Sec. 412(c)(7). IRS Notice 2003-80.

The following figures presented in this issue are current at the time of publication. These figures (and discussions thereof) do not take into consideration any proposed or pending legislation.

Editor's Note to Advanced Marketing Activator "Death-Benefit-Only Plans – 2004"
January 2004

A mistake was made under the section of tax implications to the employer. We erroneously reported that the corporate AMT was reduced to 15 percent. The correct AMT rate is still 20 percent. In a worst case scenario, 75 percent of the amount at risk will be subject to the AMT at 20 percent (or 15% of the total death proceeds received by the corporation). We suggest that a corporation that is likely to be subject to the AMT purchase 118% of the "target" amount of life insurance to cover the potential AMT.

For example, if the corporation needs \$1,000,000 of key employee coverage, it could "gross up" the amount to \$1,180,000 to account for the AMT. Should the corporation be subject to the AMT, the maximum tax liability would be \$176,470 (i.e., 15% of the total death benefit). The "gross up" amount of \$1,180,000 is based on the "target" amount divided by 0.85 (i.e., 1 minus 0.15), rounded up to the nearest \$10,000.

PENSION AND EMPLOYEE BENEFIT NUMBERS

	2000	2001	2002	2003	2004
Sec. 415 Limit for Defined Benefit Plans IRC Sec. 415(b)(1)(a) (Maximum yearly benefit allowed is the lesser of 100 percent of the average highest 3 years' compensation or the indicated figure. Reductions apply for plans with pre-65 normal retirement ages and for participants with less than 10 years of service.)	\$140,000	\$160,000	\$160,000	\$160,000	\$165,000
Sec 415 Limit for Defined Contribution Plans IRC Sec. 415 (c)(1)(A) (Defined contribution plans with non-calendar limitation years beginning before January 1, 2002, and ending after December 31, 2001, remains unchanged at \$40,000.)	\$35,000/ 25 percent of comp.	\$40,000/ 100 percent of comp.	\$40,000/ 100 percent of comp.	\$40,000/ 100 percent of comp.	\$41,000/ 100 percent of comp.
Annual Limit on Includible Compensation IRC Sec. 401(a)(17)), 404(1), 408(k)(3)(c), and 408(k)(6)(D)(ii) (This is the maximum amount of compensation that can be taken into account when determining an individual contribution to or benefit under a qualified retirement plan.)	\$170,000	\$200,000	\$200,000	\$200,000	\$205,000
Highly Compensated Employee IRC Sec. 414(q)(1)(B) (Highly compensated employees are those with compensation above this figure. Dollar limitation under Sec. 416(i)(1)(a)(i) concerning definition of Key Employee in top-heavy plan remains unchanged at \$130,000.)	\$85,000	\$90,000	\$90,000	\$90,000	\$90,000
Elective Deferrals for a (401(k) Plan or 403(b) Plan or SEP (The indicated figure is the maximum salary reduction that a participant can make under Sec. 402(g)(3).)	\$10,500	\$11,000	\$12,000	\$12,000	\$13,000
Maximum Elective Deferrals for a SIMPLE IRC Sec. 408(p)(2)(E)	\$6,000	\$6,500	\$7,000	\$8,000	\$9,000
Maximum 457 Salary Reduction IRC Sec. 457(e)(15) Maximum deferral to non-qualified plans of state and local government and tax exempt orgs.) Organizations that sponsor 457(b) plans may permit employees to defer \$12,000 under a 401(k) plan, and to defer an additional \$12,000 on a pre-tax basis under a 457(b) program.	\$8,000	\$8,500	\$11,000	\$12,000	\$13,000
Part-time Employee Floor for a SEP IRC Sec. 408(k)(2)(c) (Employees who earn over the indicated limits must be included in a SEP if they are otherwise eligible.)	\$450	\$450	\$450	\$450	\$450
ESOP 5 YEAR Distribution Limit IRC Sec. 409(o)	\$145,000 \$755,000	\$155,000/ \$780,000	\$160,000/ \$800,000	\$160,000/ \$810,000	\$165,000/ \$830,000

PENSION AND EMPLOYEE BENEFIT NUMBERS continued

	2000	2001	2002	2003	2004
Social Security Tax Rate (This is the percentage that the employer and employee are each taxed for social security purposes. 6.2% is for Social Security tax. 1.45% is for Medicare.)	7.65%	7.65%	7.65%	7.65%	7.65%
Social Security Tax Rate (Self-Employed) (This is the percentage at which a self-employed individual is taxed for social security purposes. 12.4% is for Social Security while 2.9% is for Medicare.)	15.3%	15.3%	15.3%	15.30%	15.30%
Taxable Wage Base (a/k/a FICA/SE Maximum Earnings Taxable) (This "earned income ceiling" is the maximum amount of covered earnings on which Social Security OASD taxes is paid.)	\$76,200	\$80,400	\$84,900	\$87,000	\$87,900
Medicare Special Wage Base (This is the maximum amount of covered earnings on which Social Security hospital insurance taxes are paid. Half this tax is deductible in computing AGI.)	No Limit	No Limit	No Limit	No Limit	No Limit
Medicare: Part B Monthly Premium:	\$45.50	\$50.00	\$54.00	\$58.70	\$66.60
Medicare: Part A: This premium is paid only by individuals who are not otherwise eligible for premium-free hospital insurance and have less than 30 quarters of Medicare covered employment.	\$301	\$300	\$319	\$316	\$343
Social Security Quarterly Earnings: Minimum amount which must be earned to receive Social Security Benefits: 40 quarters required.	\$780	\$830	\$870	\$890	\$900

USEFUL NUMBERS AT A GLANCE

Maximum Individual Tax Rate	35.0%
Personal Holding Company Tax	15.0%
Maximum Personal Capital Gains Rate (other than S. 1250 and Collectibles)	15.0%
Maximum Corporate Tax Rate	35.0%
Qualified Personal Service Corporation (Flat Rate)	35.0%
Corporate AMT	20.0%
Individual AMT on first \$175,000	26.0%
on taxable income in excess of \$175,000	28.0%
Corporate AMT exemption	\$40,000
Individual AMT exemption (Married Filing Jointly)	\$58,000
Standard Deduction Amounts	
Married Filing Jointly	\$9,700
Heads of Households	\$7,150
Unmarried Individuals	\$4,850
Married Filing Separate Returns	\$4,850
Additional Exemption Amounts if over 65 or blind	\$950
- Unmarried and not filing as surviving spouse	\$1,200
Itemized Deductions reduced by 3% of Amount by which AGI exceeds	\$142,700
Married Filing Separately	\$71,350
Personal Exemption	\$3,100
Phase-out begins for Joint Return or Surviving Spouse	\$214,050
Phase-out begins for Head of Household	\$178,350
Single Individual (other than surviving spouse or head of household)	\$142,700
Married Filing Separately	\$107,025
Optional Standard Mileage Rate: Business	\$.375
Optional Standard Mileage Rate: Charitable	\$.14
Optional Standard Mileage Rate: Medical and Moving	\$.14
Moving Expense Deduction: "New Place of Business Required Miles"	50
Election to Expense Certain Depreciable Assets Limit	\$102,000
Deduction for Business Meals Limited to (Percent of Cost)	50
Minimum Gross Income for Income Tax Return to be Required (for 2003)	
Married - both 65 or older	\$17,500
Surviving Spouse and Married Couple, One 65 or Older	\$16,550
Married Couple - Joint Return	\$15,600
Single Person - 65 or Older	\$8,950
Single Person - Under 65	\$7,800
FICA Tax - Employers and Employees	7.65%
Social Security Component of FICA	6.20%
Medicare Hospital Insurance Tax Component of FICA	1.45%
FICA Tax - Self Employed	15.30%
Social Security Component of FICA	12.40%
Medicare Hospital Insurance Tax Component of FICA	2.90%
Social Security Ceiling	\$87,900
Limit on Earnings Subject to Medicare Hospital Insurance Tax	None
Threshold for Substantiating T&E Expenses	\$75.00
Maximum Deductible Business Gifts (per donee)	\$25.00
Qualified Free Parking	\$195.00
Transit pass exclusion	\$100.00

TAX RATE SCHEDULES

For 2004 the thresholds for the 10% and 15% rate brackets have been adjusted and new brackets at 25%, 28%, 33% and 35% have replaced the previous tiers.

The 2004 schedules are:

TABLE 1- MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES

IF TAXABLE INCOME IS:	TAX IS:
Not over \$14,300	10% of the taxable income
Over \$14,300 - but Not Over \$58,100	\$1,430 plus 15% of the excess over \$14,300
Over \$58,100 - but Not Over \$117,250	\$8,000.00 plus 25% of the excess over \$58,100
Over \$117,250 - but Not Over \$178,650	\$22,787.50 plus 28% of the excess over \$117,250
Over \$178,650 - but Not Over \$319,100	\$39,979.50 plus 33% of the excess over \$178,650
Over \$319,100	\$86,328.00 plus 35% of the excess over \$319,100

TABLE 2 - HEADS OF HOUSEHOLDS

IF TAXABLE INCOME IS:	TAX IS:
Not over \$10,200	10% of the taxable income
Over \$10,200 - but Not Over \$38,900	\$1,020 plus 15% of the excess over \$10,200
Over \$38,900 - but Not Over \$100,500	\$5,325.00 plus 25% of the excess over \$38,900
Over \$100,500 - but Not Over \$162,700	\$20,725.00 plus 28% of the excess over \$100,500
Over \$162,700 - but Not Over \$319,100	\$38,141.00 plus 33% of the excess over \$162,700
Over \$319,100	\$89,753.00 plus 35% of the excess over \$319,100

TABLE 3- UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS)

IF TAXABLE INCOME IS:	TAX IS:
Not Over \$7,150	10% of the Taxable Income
Over \$7,150 but Not Over \$29,050	\$715 plus 15% of the Excess Over \$7,150
Over \$29,050 but Not Over \$70,350	\$4,000 plus 25% of the Excess Over \$29,050
Over \$70,350 but Not Over \$146,750	\$14,325 plus 28% of the Excess Over \$70,350
Over \$146,750 but Not Over \$319,100	\$35,717 plus 33% of the Excess Over \$146,750
Over \$319,100	\$92,593 plus 35% of the Excess Over \$319,100

TABLE 4- MARRIED INDIVIDUALS FILING SEPARATE RETURNS

IF TAXABLE INCOME IS:	TAX IS:
Not Over \$7,150	10% of the Taxable Income
Over \$7,150 but Not Over \$29,050	\$715 plus 15% of the Excess Over \$7,150
Over \$29,050 but Not Over \$58,625	\$4,000 plus 25% of the Excess Over \$29,050
Over \$58,625 but Not Over \$89,325	\$11,394 plus 28% of the Excess Over \$58,625
Over \$89,325 but Not Over \$159,550	\$19,990 plus 33% of the Excess Over \$89,325
Over \$159,550	\$43,164 plus 35% of the Excess Over \$159,550

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TABLE 5-ESTATES AND TRUSTS

IF TAXABLE INCOME IS:	TAX IS:
Not Over \$1,950	15% of the Taxable Income
Over \$1,950 but Not Over \$4,600	\$293 plus 25% of the Excess Over \$1,950
Over \$4,600 but Not Over \$7,000	\$955 plus 28% of the Excess Over \$4,600
Over \$7,000 but Not Over \$9,550	\$1,627 plus 33% of the Excess Over \$7,000
Over \$9,550	\$2,469 plus 35% of the Excess Over \$9,550

CAPITAL GAINS TAX RATES

The maximum rate on long term capital gains (other than Section 1250 property and Collectibles) is 15% for individuals in a 25% bracket (or higher) while a 5% maximum rate applies to gains otherwise taxable in a 15% (or lower) bracket.

KIDDIE TAX

(UNEARNED INCOME OF MINOR CHILDREN TAXED AS IF PARENT'S INCOME)

The amount used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax," is \$800. This is the same amount as the \$800 standard deduction that is used for purposes of determining whether a parent may elect to include a child's gross income in the parent's gross income and for calculating the "kiddie tax." For example, for the parent to make the election, a child's gross income for 2004 must be more than \$800 but less than \$8,000 (less than 10 times the Kiddie Tax Amount).

ALTERNATIVE MINIMUM TAX EXEMPTION FOR CHILD SUBJECT TO KIDDIE TAX

For tax years starting in 2004, in the case of a child to whom the "kiddie tax" applies, the exemption amount for purposes of the alternative minimum tax may not exceed the sum of (A) the child's earned income for the taxable year plus (B) \$5,750. Code Secs. 55 and 59(j).

CHILD TAX CREDIT

For taxable years beginning in 2004, the value used in determining the amount of credit that may be refundable is \$10,750.

EARNED INCOME TAX CREDIT

The "earned income amount" is the amount of earned income at or above which the maximum amount of the earned income tax credit is allowed.

The "threshold phase out amount" is the amount of modified adjusted gross income (or, if greater, earned income) above which the maximum amount of the credit begins to phase out.

The "completed phase out amount" is the amount of modified adjusted gross income (or if greater, earned income) at or above which no credit is allowed.

TABLE 5-ESTATES AND TRUSTS

NUMBER OF CHILDREN	MAXIMUM AMOUNT OF CREDIT	EARNED INCOME AMOUNT	THRESHOLD PHASE-OUT AMOUNT: JOINT RETURNS	THRESHOLD PHASE-OUT AMOUNT: OTHER RETURNS	COMPLETED PHASE-OUT AMOUNT: JOINT RETURNS	COMPLETED PHASE-OUT AMOUNT: OTHER RETURNS
1	\$2,604	\$7,660	\$15,040	\$14,040	\$31,338	\$30,338
2 or more	\$4,300	\$10,750	\$15,040	\$14,040	\$35,458	\$34,458
None	\$390	\$5,100	\$7,390	\$6,390	\$12,490	\$11,490

Excessive investment income: For tax years beginning in 2004, the earned income tax credit is denied if the aggregate amount of certain investment income exceeds \$2,650.

DEPENDENT

The standard deduction amount in 2004 for an individual who may be claimed as a dependent by another taxpayer may not exceed the greater of (a) \$800, or (b) the sum of (i) \$250 and (ii) the individual's earned income. Code Sec. 63(c)(5).

STANDARD DEDUCTION

FILING STATUS	STANDARD DEDUCTION
Married filing Jointly and Surviving Spouses	\$9,700
Heads of Households	\$7,150
Unmarried (Other than surviving spouses and Heads of Households)	\$4,850
Married Filing Separately	\$4,850

AGED & BLIND

The additional standard deduction amounts in 2004 for the aged and for the blind are \$950 for each. These amounts are increased to \$1,200 if the individual is also unmarried and not a surviving spouse. Code Sec. 63(f).

OVERALL LIMITATION ON ITEMIZED DEDUCTIONS

The "applicable amount" of adjusted gross income above which the amount of otherwise allowable itemized deductions is reduced is \$142,700 (\$71,350 for a separate return filed by a married individual). Code Sec. 68(b).

PERSONAL EXEMPTION AMOUNT:

The personal exemption amount is \$3,100.

PHASE-OUT OF PERSONAL EXEMPTION

The personal exemption amount begins to phase out at, and is completely phased out after, the following adjusted gross income amounts:

STANDARD DEDUCTION

FILING STATUS	THRESHOLD PHASE-OUT AMOUNT	COMPLETED PHASE-OUT AMOUNT AFTER
Married filing Jointly and Surviving Spouses	\$214,050	\$336,550
Heads of Households	\$178,350	\$300,850
Unmarried (Other than surviving spouses and Heads of Households)	\$142,700	\$265,200
Married Filing Separately	\$107,025	\$168,275

HOPE AND LIFETIME LEARNING CREDITS

For taxable years beginning in 2004, 100 percent of qualified tuition and related expenses not in excess of \$1,000 and 50% of such expenses in excess of \$1,000 are considered in determining the amount of the Hope Scholarship Credit. Code Section 25A (b)(1). For tax years beginning in 2004, a taxpayer's modified gross income in excess of \$42,000 (\$85,000 for joint returns) is considered in determining the reduction in the amount of Hope Scholarship and Lifetime Learning Credits otherwise available. Code Sec. 25A(d)(2)(A)(ii).

PERSONAL AMT

Individuals face an Alternative Minimum Tax (AMT) if it exceeds their regular tax bill of 26% and 28%. The AMT exemption amounts (subject to phase-out) are \$58,000 for a married taxpayer filing jointly, \$40,250 for unmarried individuals, \$29,000 for married filing separately, and the lower of \$40,250 or the sum of earned income plus \$5,600 for children under 14 with unearned income.

CORPORATE AMT

A corporation may be subjected to the Alternative Minimum Tax. The 2004 corporate rate is 20%. But a corporation is allowed a \$40,000 exemption (subject to a phase-out). No exemption is allowed once the corporation has alternative minimum taxable income of \$310,000 or more. No AMT is imposed on "small" corporations (essentially, those with average annual gross receipts of \$7.5 million or less). Note that a much lower threshold (\$5,000,000) applies for a corporation's first three year tax period starting after 1993 and ending before the current year.

ACCUMULATED EARNINGS TAX

A 15% penalty tax is imposed on C corporations that retain earnings and profits in excess of \$250,000. That figure drops to only \$150,000 in the case of a personal service corporation.

QUALIFIED TRANSPORTATION FRINGE BENEFIT

For taxable years beginning in 2004, the monthly limitation regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass is \$100. Code Sec. 132(f)(2)(A).

The monthly limitation on the fringe benefit exclusion amount for qualified parking is \$195. Code Sec. 132(f)(2)(A).

INCOME FROM UNITED STATES SAVINGS BONDS FOR TAXPAYERS WHO PAY HIGHER EDUCATION EXPENSES

For taxable years beginning in 2004, the exclusion with respect to income from United States savings bonds for taxpayers who pay qualified higher education expenses begins to phase out for modified adjusted gross income above \$89,750 for joint returns, and \$59,850 for all other returns. Code Sec. 135

This exclusion completely phases out for modified adjusted gross income of \$119,750 or more for joint returns, and \$74,850 or more for all other returns.

DEDUCTION FOR HEALTH INSURANCE COSTS

A self-employed person can now deduct 100% of "eligible" health insurance costs.

ELIGIBLE LONG TERM CARE PREMIUMS

Premiums a taxpayer pays for long term care insurance are considered "medical expenses" for income tax purposes - but only up to specified dollar amounts. These amounts increase as the taxpayer grows older. (See, growing older does have its benefits!)

The limitations regarding eligible long- term care premiums includible in the term "medical care," are as follows:

ATTAINED AGE BEFORE CLOSE OF TAXABLE YEAR	2004 LIMITATION ON PREMIUMS
40 or less	\$260
More than 40 but not more than 50	\$490
More than 50 but not more than 60	\$980
More than 60 but not more than 70	\$2,600
More than 70	\$3,250

Code Sec. 213(d)(10).

PERIODIC PAYMENTS RECEIVED UNDER QUALIFIED LONG-TERM CARE INSURANCE CONTRACTS OR UNDER CERTAIN LIFE INSURANCE CONTRACTS

For calendar year 2004, the stated dollar amount of the per diem limitation of periodic payments received under a qualified long-term care insurance contract or periodic payments received under a life insurance contract that are treated as paid by reason of the death of a chronically ill individual, is \$230.

MEDICAL SAVINGS ACCOUNTS

SELF ONLY COVERAGE: For taxable years beginning in 2004, the term, "high deductible health plan" means, in the case of self-only coverage, a health plan which has an annual deductible that is not less than \$1,700 and not more than \$2,600, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$3,450. Code Sec. 220(c)(2)(A).

FAMILY COVERAGE: For taxable years beginning in 2004, the term "high deductible health plan" means, in the case of family coverage, a health plan which has an annual deductible that is not less than \$3,450 and not more than \$5,150, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$6,300.

INTEREST ON EDUCATION LOANS

For taxable years beginning in 2004, the \$2,500 maximum deduction for interest paid on qualified education loans is reduced when modified adjusted gross income is greater than \$50,000 (\$100,00 for joint returns) and is completely eliminated when modified adjusted gross income is \$65,000 (\$130,000 for joint returns). Code Sec. 221(b)(2)(B).

TREATMENT OF DUES PAID TO AGRICULTURAL OR HORTICULTURAL ORGANIZATIONS

For taxable years beginning in 2004, the limitation regarding the exemption of annual dues required to be paid by a member to an agricultural or horticultural organization is \$124.

CHARITABLE DEDUCTION

Itemized charitable and other deductions (except medical expenses, casualty and theft losses, and investment interest) must be reduced by an amount that equals 3% of adjusted gross income over \$142,700 or \$71,350 if married filing separately. This rule may have a strong impact on taxpayers who rent or have no home mortgage, who have very high adjusted gross incomes, or who live in states which impose little or no income tax.

OPTIONAL STANDARD MILEAGE RATES

The 2004 mileage rate allowed for the use of a motor vehicle for charity is \$.14 per mile. Parking fees and tolls are fully deductible. The standard mileage rate is not indexed for inflation. (It may be more advantageous to document and deduct the actual cost of fuel and oil as well as tolls and parking.)

INSUBSTANTIAL BENEFIT LIMITATIONS FOR CONTRIBUTIONS ASSOCIATED WITH CHARITABLE FUND RAISING CAMPAIGNS

"Quid pro quo" rules require a charity to report to a donor the value of benefits he or she has received from the charity. However, certain small amounts are considered "de minimis" so they don't require a reduction in the donor's contribution. The 2004 guidelines for disregarding the value of insubstantial benefits received by a donor in return for a fully deductible charitable contribution under IRC Section 170, are:

A benefit will be considered "de minimis" if:

- A donor makes a gift to charity worth at least \$41 and receives benefits from the charity bearing the charity's name or logo (e.g. a Villanova University Mug or United Cerebral Palsy umbrella) with a cost to the charity of no more than \$8.00, or
- A charity mails or otherwise distributes free articles (not ordered by the recipient) which cost the charity no more than \$8.20, or
- The benefit received by the donor isn't more than the lower of (a) \$82, or (b) 2% of the donor's contribution.

Code Sec. 513(h). And Reg. Proc. 90-12, 1990-1 C.B. 471 (as amplified and modified).

LOW COST ARTICLE

As noted above, the unrelated business income of certain exempt organizations does not include a "low cost article" of \$8.20 or less.

Note that these are guidelines only: A benefit received in connection with a contribution may be considered "insubstantial" even if it does not meet these safe harbor rules of thumb - if the facts and circumstances bear out such a contention. For instance, even though a donee receives a gift worth \$100, it could be considered insubstantial if the donation was \$2,000,000.

Rev. Proc. 90-12, 1990-1 CB 471. If the token items were themselves contributed to charity, the charity must estimate in a reasonable manner what the items would have cost had they been purchased.

No reduction in a client's deduction is necessary if the gift was free, unsolicited, and low cost and was provided as part of a charity's fundraising effort. Rev. Proc. 92-49, 1992-1 CB 987.

POOLED INCOME FUND DEEMED RATE OF RETURN

A "mature" (more than three years' experience) pooled income fund computes the rate of return to its donors by using the highest rate of return from the fund's previous three-year period. However, if the pooled fund has less than three years' experience, i.e., a "young fund," it must compute a "deemed" rate which donors then use to compute their deduction using the actual year of contribution. For example, assume a new fund in year, 2004. All contributions to this fund in 2004 must use a 4.8% rate. If the deemed rate next year (2005) were to be X%, that rate would be used to compute the deduction for all contributions in the year 2005. Likewise, in 2006, if the rate were Y%, donors in that year would use that rate. In other words, the donors use the deemed rate for the actual year of the gift to a "young" fund.

In the fourth year, the "youth" turns "mature." Donors in that year (2007 in this example) will use the highest actual rate of return the fund has experienced based on the three prior years. So in the fourth year, a three-year look-back of actual experience rather than the artificially deemed rate or the actual fourth year rate is used.

The deemed rate is re-computed by the IRS each year.

1996	7.2%
1997	7.2%
1998	7.2%
1999	6.8%
2000	6.8%
2001	6.6%
2002	6.6%
2003	6.6%
2004	4.8%

The IRS re-computes the deemed rate each calendar year by subtracting 1% from the highest annual average of the monthly rates for the three prior calendar years, and then rounds the result to the nearest 0.2%

CHARITABLE RECEIPT RULES

A receipt must be obtained from a charity in order for a taxpayer to claim a charitable deduction of \$250 or greater Value and Form of Gift	Deduction Disallowed Unless
\$250 or Greater	Charity provides Donor with contemporaneous written acknowledgment of contribution stating amount of cash or non-cash property received and value of any consideration provided by charity to Donor in return for gift.
More than \$500 but Less than \$5,000	Same as above. Plus Donor must complete IRS Form 8283 which provides charity's name, address, description of property, how and when Donor acquired property, basis, FMV, and method by which property was valued.
\$5,000 or More	A "Qualified Appraisal" is obtained. Reg. Sec. 1.170A-13(c) provides that neither the Donor nor the insurance agent (or insurer who issued the policy) can perform this appraisal if the subject of a gift is life insurance.

FUNERAL TRUSTS

For a contract entered into during calendar year 2004 for a qualified funeral trust, the trust may not accept aggregate contributions by or for the benefit of an individual in excess of \$8,000. Code Sec. 685.

EXPATRIATION TO AVOID TAX.

For calendar year 2004, the thresholds (used to test whether an individual's loss of United States citizenship had the avoidance of United States taxes as one of its principal purposes) are more than \$124,000 for "average annual net income tax" and \$622,000 or more for "net worth." Code Sec. 877(a)(2).

PASSENGER AIR TRANSPORTATION EXCISE TAX

For calendar year 2004, the tax on any amount paid for each domestic segment of taxable transportation by air is \$3. Code Sec. 4261(b).

For calendar year 2004, the tax on any amount paid (whether within or without the U.S.) for any transportation of any person by air, if such transportation begins or ends in the U.S., generally is \$13.40. Code Sec. 4261(c).

However, in the case of a domestic segment beginning or ending in Alaska or Hawaii, the tax only applies to departures and is at the rate of \$6.70. Code Sec. 4261(c)(3).

REPORTING EXCEPTION FOR CERTAIN EXEMPT ORGANIZATIONS WITH NONDEDUCTIBLE LOBBYING EXPENDITURES

For taxable years beginning in 2004, the annual per person, family, or entity dues limitation to qualify for the reporting exception with respect to certain exempt organizations with nondeductible lobbying expenditures, is \$86 or less. Code Sec. 6033(e)(3).

ATTORNEY FEE AWARDS

For fees incurred in calendar year 2004, the attorney fee award limitation is \$150 per hour. Code Sec. 7430(c)(1)(B)(iii).

ADOPTION ASSISTANCE PROGRAMS

For taxable years beginning in 2004, the maximum credit allowed in the case of an adoption of a child with special needs is \$10,930. Code Sec. 23(a)(3).

The maximum credit allowed with regard to other adoptions is the amount of qualified adoption expenses - up to a maximum of \$10,930. Code Section 23(b)(1).

The adoption credit starts its phase-out for taxpayers with modified adjusted gross income in excess of \$155,860 and is completely phased-out for taxpayers with modified adjusted gross income of \$195,860. Code Section 23(b)(2)(A).

CHILD CARE ASSISTANCE

Employers may claim a tax credit equal to 25% of qualified expenses for employer-provided child care and 10% of qualified expenses for employer-provided child care resource and referral services, up to a maximum \$150,000 credit per tax year.

EDUCATION IRAs (a/k/a COVERDELL EDUCATION SAVINGS ACCOUNTS (ESAs))

Annual contributions to ESAs have increased from \$500 to \$2,000 per beneficiary. The income eligibility for married contributors is now \$190,000. As a couple's income increases from \$190,000 to \$220,000 -- which is double the range for unmarried persons -- their contribution limit phases out. For single filers, the corresponding amounts are at or above \$95,000 and less than \$110,000.

TRADITIONAL AND ROTH IRA CONTRIBUTION LIMITS

Annual contribution limit for traditional and Roth IRAs is \$3,000.

SAVER'S TAX CREDIT

The Saver's Credit is based on the first \$2,000 contributed to IRAs, 401(k)s and certain other retirement plans. This credit is for individuals with incomes up to \$25,000 (\$37,500 for a head of household) and married couples with incomes up to \$50,000.

SOCIAL SECURITY FIGURES

COLA

Social Security and Supplemental Social Security income (SSI) beneficiaries will receive a 2.1% COLA (Cost of Living Adjustment) for 2004.

RATE:

The Tax Rate for 2004 is unchanged: Employees pay a 7.65% rate (Combined rate for Social Security and Medicare, 6.20 on earnings up to the applicable taxable maximum amount for Social Security and 1.45% on all earnings for Medicare.

Self-Employed pay 15.30%.

MAXIMUM EARNINGS TAXABLE:

Social Security (OASDI Only) \$87,900 (was \$87,000)
Medicare (HI Only) No Limit!

QUARTER OF COVERAGE:

Earnings Required: \$900

RETIREMENT EARNINGS TEST EXEMPT AMOUNTS:

Under full retirement age \$11,640 (\$970 per month)

Note: One Dollar in benefit is withheld for every \$2 in earnings above the limit
The year an individual reaches full retirement age \$31,080 (\$2,590 per month)

There is no limit on earnings beginning the month an individual attains full retirement age (65 and 2 months for retirees born in 1938; 65 and 4 months for those born in 1939).

2004 SOCIAL SECURITY RETIREMENT EARNINGS TEST EXEMPT AMOUNTS

As of January 2000, the Retirement Earnings Test was eliminated for individuals age 65-69. It remains in effect for those ages 62 through 64. A modified test applies for the year an individual reaches full retirement age (FRA).

Year individual reaches FRA. \$31,080/yr \$2,590/mo.

NOTE: This applies only to earnings for months prior to attaining FRA. One dollar in benefits will be withheld for every \$3 in earnings above the limit.

There is no limit on earnings beginning the month an individual attains full retirement age (65 for retirees born in 1937, 65 and 4 months for those born in 1939).

Under FRA \$11,640/yr \$970/mo.

NOTE: One dollar in benefits will be withheld for every \$2 in earnings above the limit.

2004 SOCIAL SECURITY DISABILITY THRESHOLDS

Substantial Gainful Activity (SGA)

Non-Blind	\$810/mo.
Blind	\$1,350/mo.
Trial Work Period (TWP)	\$580/mo.

MAXIMUM SOCIAL SECURITY BENEFIT: WORKER RETIRING MARCH 2003 (65 and 2 months)

Maximum Social Security Benefit: \$1,825/mo.

Note: Full retirement age will gradually increase to age 67 for those born in 1960 or later.
For retirees born in 1937, full retirement age is 65;
For those born in 1938, full retirement age is 65 and 2 months
For those born in 1939, it is 65 and 4 months.

2004 SSI FEDERAL PAYMENT STANDARD

Individual	\$564/mo.
Couple	\$846/mo.

2004 SSI RESOURCES LIMIT

Individual	\$2,000
Couple	\$3,000

2004 SSI STUDENT EXCLUSION LIMITS

Monthly Limit	\$1,370
Annual Limit	\$5,520

ESTIMATED AVERAGE MONTHLY SOCIAL SECURITY BENEFITS PAYABLE IN JANUARY 2004: AFTER 2.1% COLA:

All Retired Workers	\$922
Aged Couple, Both Receiving Benefits	\$1,523
Widowed Mother and Two Children	\$1,904
Aged Widow(er) Alone	\$888
Disabled Worker, Spouse & One or More Children	\$1,442
All Disabled Workers	\$862

MAXIMUM YEARLY SOCIAL SECURITY TAX PAYABLE

Employers and Employees will each pay a maximum Social Security tax of	\$5,561
Self employed workers will pay a total of	\$10,900

MEDICARE PREMIUM AMOUNTS FOR 2004

PART A: HOSPITAL INSURANCE PREMIUM:

- Most people do not pay a monthly part A premium because they or a spouse has 40 or more quarters of Medicare covered employment.
- \$343. Per month is payable by those who are not otherwise eligible for premium-free hospital insurance and have less than 30 quarters of Medicare covered employment.
- The Part A premium is \$189. For those individuals who have 30-39 quarters of Medicare covered employment.

PART B: MEDICAL INSURANCE PREMIUM:

- \$66.60 per month

MEDICARE DEDUCTIBLE AND COINSURANCE FIGURES:

Part A: (Hospital Insurance) Deductible	\$876.00 (Per Benefit Period)
Coinsurance	219 a day for the 61st - 90th day each benefit period. \$438 a day for the 91st - 150th day for each lifetime reserve day (total of 60 lifetime reserve days - non-renewable).
Skilled Nursing Facility Coinsurance	Up to \$110 a day for the 21st - 100th day each benefit period.
Part B: (Medical Insurance) Deductible	\$100.00 per year (You pay 20% of the Medicare approved amount for services after you meet the \$100 deductible).

PENSION BENEFIT MAXIMUM MONTHLY GUARANTEE

Monthly Guarantee Limit At Age 65 \$3,698.86

The maximum monthly guaranteed amounts for plans terminating each year: Year of Plan Termination	Maximum Monthly Guarantee	Maximum Annual Guarantee
2004	\$3,698.86	\$44,386.00
2003	\$3,664.77	\$43,977.24
2002	\$3,579.55	\$42,954.60
2001	\$3,392.05	\$40,704.60
2000	\$3,221.59	\$38,659.08
1999	\$3,051.14	\$36,613.685

Maximum guarantees are reduced for those who retire at younger ages or who elect survivor benefits. In some instances, where a pension plan has adequate resources or PBGC recovers sufficient amounts, a participant may receive benefits in excess of the maximum guarantee. In other instances a participant's benefit may be reduced even though it does not exceed the maximum guarantee, for example, because of limits on PBGC coverage of early retirement supplements and recent benefit improvements.

OID INFLATION ADJUSTED DOLLAR AMOUNTS

The amount for qualified debt instruments arising out of sales or exchanges in 2004 is \$4,381,300 (up from \$4,280,800). Code Sec. 1274A

The amount for cash method debt instruments arising out of sales or exchanges in 2004 is \$3,129,500 (up from \$3,057,700).

ESTATE PLANNING INFLATION ADJUSTMENTS

	2001	2002	2003	2004
Annual Gift Tax Exclusion Code Sec. 2503	\$10,000	\$11,000	\$11,000	\$11,000
GST EXEMPTION Code Sec. 2631	\$1,060,000	\$1,100,000	\$1,120,000	\$1,500,000
Dollar Amount Used to Compute "2 Percent" Portion of 6166 Estate Tax Payable in Installments Calculation Code Sec. 6601(j)	\$1,060,000	\$1,100,000	\$1,120,000	\$1,140,000
APPLICABLE ESTATE TAX EXEMPTION	\$675,000	\$1,000,000	\$1,000,000	\$1,500,000
APPLICABLE GIFT TAX EXEMPTION	\$675,000	\$1,000,000	\$1,000,000	\$1,000,000
ESTATE APPLICABLE TAX CREDIT	\$220,550	\$345,800	\$345,800	\$555,800
GIFT APPLICABLE TAX CREDIT	\$220,550	\$345,800	\$345,800	\$345,800
Section 2032A "Special Use" Qualified Real Property Value Reduction Limit	\$800,000	\$820,000	\$840,000	\$850,000
"Super Exclusion" for Present Interest Gifts from Citizen to Non-Citizen Spouses: Code Sec. 2503 and 2523(i)(2).	\$106,000	\$110,000	\$112,000	\$114,000
Notice of Large Gifts from Foreign Persons: A U.S. person must report each gift received from foreign persons if the total gifts from all such persons in the year is more than:	\$11,273	\$11,642	\$11,827	\$12,097

As noted above, the 2004 estate tax exemption is \$1.5 million. In 2006, it is scheduled to rise to \$2 million and in 2009 to \$3.5 million.

The estate tax is scheduled to be repealed for one year in 2010 but return in 2011 with only a \$1 million exemption.

Note that the gift tax exemption is and remains at \$1 million. It is not scheduled to increase.

PERSONS AGAINST WHICH A FEDERAL TAX LIEN IS NOT VALID

For calendar year 2004, a federal tax lien is not valid against certain purchasers that purchased personal property in a casual sale for less than \$1,180, or a mechanic's lien that repaired or improved certain residential property if the contract price with the owner is not more than \$5,890. Code Sec. 6323(b)

Fuel, provisions, furniture, and other household effects as well as arms for personal use, livestock, and poultry may not exceed \$7,040. The value of books and tools necessary for the trade, business, or profession of the taxpayer may not exceed \$3,520. Code Sec. 6334(a)

OVER AND UNDER-PAYMENT RATES:

The IRS makes quarterly adjustments to the rates paid for under-payments and over-payments of tax. These adjustments are based on prevailing market conditions. The interest rates for the first quarter of 2004 will be 4% on non-corporate taxpayers' over and underpayments and 3% on overpayments and 4% on underpayments for most corporations. (The rate for large corporate overpayments, i.e., the portion of the overpayment in excess of \$10,000, is 1.5% but 6% for large corporate underpayments, i.e., those in excess of \$100,000).

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