

Perspectives - On Business

Volume 2, Issue 11

December 30, 2003

2003 Benefits Your Bottom Line

"The future has a way of arriving unannounced."

George Will

This year, some of the biggest changes to the financial arena were the result of President Bush's Jobs & Growth Tax Relief Reconciliation Act of 2003. In fact, this new law may have positioned you to take advantage of several substantial fiscal opportunities. The following bullets detail some key areas¹ impacted by the law that you should consider when planning for 2004.

- **Small Businesses**

The Treasury department has estimated that small businesses will probably benefit the most from the new tax law changes. One major impact is the amount of investment that may be immediately deducted by a business. Additionally, businesses can utilize a "bonus" depreciation of 50 percent on qualifying property and equipment purchased after May 5, 2003. If you own a small business, these provisions could have a substantial effect on your bottom-line.

- **Dividends**

Under the new tax law, taxpayers in the 25 percent and higher tax brackets will be taxed at 15 percent on qualified dividends and capital gains from 2003 through 2008. Taxpayers in the 10 and 15 percent tax brackets will pay a 5 percent tax on qualified dividends and capital gains from 2003 through 2007 and zero percent in 2008. We may need to review your current tax situation to determine what effect this change may have on your financial situation and what opportunities it may afford you.

- **Marriage Penalty and AMT (Alternative Minimum Tax) Relief**

The new tax law increased the standard deduction for married couples to twice the amount or 200 percent of single taxpayers. This change only applies to the 2003 and 2004 tax years.

Several of the new tax law's changes are not permanent and certain sunset provisions will begin to expire in as few as two years. Review your financial situation soon to ensure that you are able to take full advantage of all the opportunities that may be available to you.

I will be happy to set a time to meet and review your financial situation in light of these changes. Please feel welcome to call me with any questions.

Wishing you love, light, happiness and continued success in the New Year.

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¹ This is for informational purposes only and is not intended to be *tax or legal recommendations, advice, or endorsements*. Tax laws are complex and you should consult your tax advisor to find out how this information may apply to your specific financial situation.

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Future Finances' Market Update

By Max Larsen

Monday, December 29, 2003

The big news of the week was the discovery of the first U.S. case of mad-cow disease in Washington. I know the media is making this an "end of the world" type story, but I don't think it will be the long-term problem that some think. First, unlike the outbreak in England, the Food and Drug Administration has long since banned the use of cattle feed that includes protein from processed remains of potentially infected cattle. In the U.S., the cattle industry mostly turned to an abundant soybean crop as the source of protein for their herds. Secondly, the source of the disease, the brain and spinal cord, is not consumed directly by most Americans. Yes, such materials are included in bologna, hot dogs and sausages, but the disease has a hard time surviving in the cooking process.

There is no doubt this outbreak will cause a rise in future meat prices. Currently, only 1 in 1,700 cattle are tested for the disease. I foresee the U.S. following Japan and England's example by testing every one. We can also expect to see changes in the way cattle are killed in meatpacking plants and what happens to their remains. Unfortunately, all these changes have a price - higher costs. It may be a small price to pay though, for piece of mind.

As the days get longer (Dec. 22nd was the shortest day of the year) and the month draws to a close, I am definitely looking forward to 2004. However, I'm certain it won't be without challenges. I thought I would include three themes that will carry us into the New Year.

The Economy

The Philly Fed index is definitely one of my favorite economic indicators since it is one of the first released for the current month. The index is a composite of five sub-indexes - new orders, production, supplier deliveries, inventories, and employment. Last week's release was a barn-burner.

Philly Fed numbers are not just good readings; they are the BEST readings of any time in the last 20 years. Do you wonder why George Bush is smiling so big? The Democrats are now saying, "It's the stupid economy," instead of "It's the Economy, Stupid," that plagued Daddy Bush back in 1992.

Terrorism

I must admit I was crossing my fingers this holiday season. On the day before Christmas, we all woke up to a heightened terrorist alert. I am continually looking for more evidence to support my belief that every day, week, month and year terrorism is growing weaker, but last week's alert made it tough to see the brightness. I have no idea how terrorists think, but it seems to me a huge religious holiday would be a primary target day for terrorists to attempt a horrible act of terrorism to gain headlines. The Homeland Security alert and the revelation of heightened intelligence to that possibility was a test to see just how effective our new security consciousness really.

I believe if we make it through this season with little or no severe acts of terrorism against targets that could be interpreted as U.S., U.K. or Christian, it will be a major sign of the weakened resolve and ability of terrorism and the stronger defense against it.

Of course, those signs are all over the place already, and where else would be a better place to come from than from Muammer Gadaffi of Libya as he is finally bowing to the economic pressures? He is opting out of his productivity destroyers of supporting world terrorism, and seeking productivity enhancers that will allow Libya to once again tap capital. And look at Afghanistan, where 100 women are joined with 402 men to vote on a new Democratic constitution. Every week now, news of new alliances with India and Pakistan reveal how the transparency produced in this new technology-driven era is forcing major changes in how countries inter-react with each other.

Inflation

I hope everyone saw the amazing news about the price index of Personal Consumption that came out last week with the final revision of the GDP numbers. Based on the Wall Street Journal's story, the year over year PCE, (the index that the Fed tells us is the BEST measure of inflation to the consumer) revealed the lowest level in this indicator's history at 0.8%. Wow!! That is amazing. It's good, BUT it is also SCARY.

When you have inflation this low, it appears we are headed toward deflation. It means companies cannot depend on inflation to boost their prices and revenues. It forces massive boosts to productivity to squeeze out growth. It also forces squeezing more and more work out of employees and less and less benefits given away. So in the vernacular of legend, only the strong survive. The politicians will have a field day with this and will only try to forestall the inevitable.

I've been going on much longer than usual and need to give you a rest. I hope everyone has a safe, happy and healthy New Year! Let's make 2004 a great year.

Thanks to friends like you who refer new business to us, our practice continues to grow.

As always, your comments and reactions are welcome. Please feel free to share this newsletter with others you think may find it interesting or useful. We respect your privacy and will not share your address with others. Click [here](#) to send a comment, to subscribe, or unsubscribe.

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