



Member's Corner

"This is the beginning . . ."

by **Steve Grossman, CPMR**

Former IHRA President and Chairman

Well another year has gone by – or - in the more positive vein: **"this is the beginning of a new year of opportunity."**

Since being in the business, this is the first January I will not have to brave the cold, wind and or snow for the Chicago Housewares Show, since this year it will be in late March. At this point the Show will have more exhibitors, occupied floor space and product categories than previous years. Buyer registration is also up, so come with a positive attitude to grow your business.

I am not 100% sure, but you probably can still get in the CPMR course sponsored by MRERF in early January. It is worth the investment and it is held at Arizona State in warm Phoenix, AZ. Gain the tools from class work and fellow reps on how to cope and solve today's challenges to grow your business.

At times I write about how it is going for me personally as a rep, and many of you have commented that you appreciate me taking the risk and talking about it, since you are at times experiencing the same things.

I have been finding that our ever-changing business sometimes really gets to me and I wonder what else I should be doing with my business life and how to support my family and myself. I seem to always come back to that, being a rep has the greatest opportunity with a low level of capital investment.

My paycheck comes from many places versus being beholden to one source. We have the freedom to pursue a wide range of manufacturers along with many shapes and kinds of accounts. The more

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The Subject is Taxing

Jobs and Growth Tax Relief Reconciliation Act of 2003

By **Stanton B. Herzog, CPA** — IHRA's financial consultant

Congress has passed a law that's all good for the taxpayers. The law has more positives for some than for others, but this is the first law in my memory (and I'm part elephant) that has no negatives. It is even generally understandable. The one area that is confusing is that all of these great tax savings ideas come to an abrupt end at various different dates along the way, and they still ALL come to an end at December 31, 2010. The cause for this tangled mass of dates appears to be the idea that the cost could run no more than \$350 billion over 10 years. So if something lasts three years and is prohibitively expensive, over 10 years it gets averaged out so it's not so bad. If these tax reductions are retained permanently, the cost would be in the thousand billions.

Let's start with the purchase of assets. The new law increases the amount that can be written off in the year of purchase (Section 179) from \$25,000 per year to \$100,000 per year. This benefit in the past has been reduced dollar for dollar as equipment purchases exceeded \$200,000. That limit has been increased to \$400,000. The law is effective for all purchases for fiscal years beginning after 12/31/02. Further, it is to be adjusted for cost-of-living increases. For the first time, software is considered a Section 179 asset. This provision expires December 31, 2005.

Beyond even that writeoff, the special deductions granted in connection with the 9/11 attack have been expanded. The deductible percentage has been raised to 50% from 30% for purchases after May 5, 2003. This rule fades out as of 12/31/04 (extended from 9/11/04). During this period, automobiles are granted an increased first-year writeoff of \$7,650 instead of \$4,600. Thus, the first year depreciation for a purchased (rather than leased) vehicle will be \$10,710, with \$4,900 allowed in year 2. Lease vs. Purchase will become a hot issue for business autos.

Both dividends and capital gains (net of capital losses) will be taxed at 15% for income received after May 5, 2003. If there is a net capital loss, the \$3,000 annual deduction can be used to offset other income items, such as salaries and interest. Dividends will include both Regulated Investment Companies (mutual funds) and foreign dividends as long as they meet U.S. taxing requirements; it will be up to those entities to inform the taxpayers of their status on form 1099div. A net short term gain will be taxed at ordinary tax rates. This tax break ends at December 31, 2008.

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The Subject is Taxing (from page 1)

Individuals whose top tax bracket is 10 or 15% will be taxed on dividends and capital gains at only 5% instead of 15%. And both those brackets have been increased in size only for the tax years 2003 and 2004. After 2004, there is a built-in phase-in of the rates under existing law. The "marriage penalty" has been eliminated for taxpayers in those tax brackets by making the joint tax table exactly double the single tax table. While all taxpayers taxed above the 15% rate will benefit from the larger 10 and 15% tax brackets, some marriage penalty will still apply to the higher tax brackets. The remaining brackets are reduced 2% each for the years 2003 through 2005 except for the top tax bracket which is reduced from 38.6% to 35%. The new brackets are as shown in the table:

Because prior law envisioned the reduction of tax rates in 2003, 2004 and 2005 anyway, the old and new laws have the same rates beginning in the year 2006.

One of the strangest of tax law changes was the reduction of the draconian penalty for both the corporation accumulated earnings tax and the personal holding company tax from the highest individual income tax rate (38.6%) to 15%.

The child tax credit is going up from \$600 to \$1,000, with the IRS to issue checks for the \$400 differential for 2003 to the extent permitted by law. At this writing, the law is in a period of fluctuation.

The AMT exemption rates have been increased, as more and more individuals were finding themselves enmeshed in the Alternate Minimum Tax. On joint returns, the Minimum Tax exemption amount has increased from \$49,000 to \$58,000. For single filers (standing in line?) the amount has increased from \$35,750 to \$40,250.

The standard deduction of married taxpayers who file jointly also has increased to double the amount of the standard deduction for a single person. This is only valid for the years 2003 and 2004. The standard deduction

will be increased for these returns from \$7,950 to \$9,000.

There are undoubtedly some things I haven't covered, and there are special situations both (a) that are in the law but I don't have space to

cover them or (b) things that were left to the IRS to decide. We will be living with the nightmare of opening and closing dates for the next five years. But we're off on a tax adventure.

Single		Married Filing Jointly	
Taxable income to \$7,000	10%	Taxable income to \$14,000	
7,001 to 28,400	15%	14,001 to 56,800	
28,401 to 68,800	25%	56,801 to 114,650	
68,801 to 143,500	28%	114,651 to 174,700	
143,501 to 311,950	33%	174,701 to 311,950	
Over 311,950	35%	Over 311,950	

Additional important and timely tax news from Stan Herzog on page 3 . . .

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Internal Revenue Service wrestles with the tax law

By **Stanton B. Herzog**, CPA — IHRA's financial consultant

This article covers a few significant recent developments in the tax law.

First, remember that taxes on eligible dividends have been lowered to a flat 15% for all taxpayers. Eligible dividends are those received from corporations or from mutual funds that own corporate stock. The stock must have been owned for 60 days out of a 120-day period that begins 60 days before the ex-dividend date and ends 60 days after that date. Further, if a foreign stock, it must be from a country approved for this purpose. Excluded are mutual fund dividends derived from interest-bearing securities. Thus money funds, bond funds, etc. are not eligible. When a stock is sold short the 15% rate no longer applies to the dividends.

The IRS has decided to give owners of smaller trucks and SUVs a break, assuming that the SUVs are built on a truck chassis, because the costs for these new vehicles are increasing faster than regular autos. They will allow, in addition to the regular luxury car allowances of \$3,060 for the first year, \$4,900 for the second year and \$2,950 for the third year, an additional \$300 in year one, \$500 in year two, and \$300 in year three. Every year thereafter, the depreciation of \$1,775 per year can be increased by \$200 for those vehicles. The IRS is so generous.

You can also escape the "luxury auto" depreciation limitations (and take advantage of the Section 179 allowance of up to \$100,000) by ac-

quiring a vehicle weighing more than 6,000 lbs., such as a Humvee, or by acquiring a vehicle whose special purpose would limit its usefulness as a vehicle for ordinary driving. The IRS includes in this category ambulances, lift trucks and cement mixers, among others. The idea of driving a cement mixer on vacation does boggle the mind, but it might be useful for washing clothes on a long trip. My suggestion, though, would be a hearse. It can be comfortable to drive, no one would steal it, it is no more ridiculous on the road than a Humvee, and it's wonderful for driving around dead members of the family. They don't argue, they don't complain about your driving and they won't ask, "Are we there yet." If someone asks how your Aunt Matilde is, you tell them, "She dead, but she's still getting around." If an IRS agent wonders about the legitimacy of your deductions, one whiff of Aunt Matilde should convince him that he's asked enough questions.

Changing topics, an interesting IRS letter ruling was issued to a law firm regarding switching to an S Corp. from a regular "C" corp. A number of years ago, Congress created the "built-in gains tax", an attempt to prevent regular corporations from escaping regular tax by converting to an S corporation and perhaps enjoying capital gains rates. The biggest fear in such a transition for a cash-basis corporation, however, was the inclusion of receivables in the built-in gains tax. That tax is

assessed on the receivables minus payables at the moment of conversion. It effectively double-taxes the income, by forcing the S corp. to pay tax on the receivables as they are collected as if it were still a cash-basis regular C corp., and the individuals owning S Corp. stock also must pay tax on the same income since it is now S Corp. income.

There have been few clues as to how to value service corporation receivables. Leave it to the lawyers to force the IRS hand on that issue. The lawyers claimed that the fees on their contingency cases were not income until the fees were received, since they had no idea whether they would win or lose the case, and could not determine how much they would receive. The IRS agreed. They always agree with lawyers. None of the contingent fees were considered receivables, they ruled, unless the lawsuit had been decided, and, in addition, the fee had not yet been received at the moment of transition to an S Corp.

Can this letter ruling be translated to other situations? For example, many sales reps work on the basis that their commission is contingent until the manufacturer collects the money from the customer. The above ruling, while "limited to the law firm", seems to point a way to severely limit "built-in gains" tax liability for contingent receivables upon conversion from a regular corp. to an S corp.

Steve Grossman (from page 1)

we are able to think outside the box, the sky is the limit.

I think I mentioned before that Jim Harris's book "Blindsided" offers some answers on where and how to manage the future of business thru and on the web. The biggest strides that the web has made are not necessarily in sales, but definitely in the

areas of saving of time and cutting the cost of transactions.

I believe what this means to us is that more and more is going to happen over the web and or internet in dealing with our principals and customers. I miss now — and will miss more in the future — ringing phones and faxes, snail mail and catalog

Steve Grossman can be eMailed at: gmpartner@aol.com

pages from our manufacturers. So "Don't change the wind, change your sail."

In closing, I hope you and yours had a joyous holiday and a prosperous New Year. Take the time to thank the people around you that have helped and supported you in making a living.

2004 INDUSTRY CALENDAR OF EVENTS**January**

Orlando Gift Show

January 04, 2004 - January 06, 2004

Orlando, FL

Atlanta International Gift & Home Furnishings Market

January 06, 2004 - January 15, 2004

Atlanta, GA

The Gift Fair in Atlanta

January 09, 2004 - January 12, 2004

Atlanta, GA

Portland Gift & Accessories Show

January 10, 2004 - January 13, 2004

Portland, OR

Philadelphia Candy Show

January 11, 2004 - January 13, 2004

Valley Forge, PA

Dallas International Gift & Home Accessories Market

January 14, 2004 - January 21, 2004

Dallas, TX

California Gift Show

January 17, 2004 - January 20, 2004

Los Angeles, CA

Toronto Internatinal Gift Fair

January 23, 2004 - January 26, 2001

Toronto, Canada

CGTA Canadian Gift & Tableware Show

January 25, 2004 - January 29, 2004

Toronto, Canada

Washington Gift Show

January 25, 2004 - January 28, 2004

Chantilly, VA

New York Gift & Housewares Show

January 31, 2004 - February 05, 2004

New York, NY

New York Gift Show at 41 Madison

January 31, 2004 - February 04, 2004

New York, NY

February

ISM (International Sweets & Biscuits Fair)

February 01, 2004 - February 04, 2004

Cologne, Germany

San Francisco International Gift Fair

February 07, 2004 - February 11, 2004

San Francisco, CA

Ambiente

February 20, 2004 - February 24, 2004

Frankfurt, Germany

March

National Coffee Association Annual Convention

March 03, 2004 - March 07, 2004

Laguna Niguel, CA

Natural Products Expo West

March 04, 2004 - March 07, 2004

Anaheim, CA

Atlanta Spring Gift, Accessories & Holiday Market

March 13, 2004 - March 16, 2004

Atlanta, GA

Dallas International Gift & Home Accessories Market

March 13, 2004 - March 16, 2004

Dallas, TX

Coffee Fest Washington, D.C.

March 19, 2004 - March 21, 2004

Washington, DC

IHA Home & Housewares Show

March 20, 2004 - March 22, 2004

Chicago, IL

Globalshop

March 22, 2004 - March 24, 2004

Las Vegas, NV

EX-TRACTS

March 26, 2004 - March 29, 2004

New York , NY

New York Home Textiles Show

March 26, 2004 - March 29, 2004

New York , NY

Boston Gift Show

March 27, 2004 - March 30, 2004

Boston, MA

Los Angeles Gift & Home Accessories Market

March 28, 2004 - March 30, 2004

Los Angeles, CA

Take Me 2 Tea Expo

March 28, 2004 - March 30, 2004

Las Vegas, NV

SIAL China

March 30, 2004 - April 01, 2004

Shanghai, China

April

New York Spring Tabletop Market at 225

April 17, 2004 - April 22, 2004

New York, NY

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REPRESENTATIVES ASSOCIATION**

175 N. Harbor Drive
Suite 1712
Chicago, IL 60601
(312) 240-0822
Fax: (312) 240-1005
eMail: info@ihra.org
Web: www.ihra.org

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