



2006 Electronic Filing Options

Electronic Filing Services

The IRS is scheduled to begin accepting e-filed tax returns on January 14, 2006. The State's do not begin accepting until after January 20th. You may file your Federal return first, and have the State return sent later, although the State's encourage simultaneous filing. Following are your refund and payment options.

Direct Deposit – Refund's in 10-16 days with no additional fees.

Refund Anticipation Loans (RAL) – Refund's in as little as 12 to 48 hours with additional fees ranging from \$34 to \$115 depending on the amount of the Loan. Loans of up to \$8,000 are available in

2006. Checks are printed in our office. (Not available on State refunds or after April 15th).

Electronic Refund Deposit (ERD) – Have your tax preparation fees deducted from your refund (up to \$1,200) and the balance direct deposited to your bank account. Bank processing fees are \$33 for Federal and \$10 for State refunds. Refunds in 8-15 days.

Electronic Refund Check (ERC) – Have your tax preparation fees deducted from your refund (up to \$1,200) and a check for the balance printed in our office. Bank processing fees are \$33 for Federal and \$10 for State refunds. Refunds in 7-14 days. (Ideal for those who do not have

bank accounts or who simply wish to receive a check.)

Owe Federal Taxes? Defer your direct debit or credit card payment until April 15th.

Tax Return Copies

As we initiated last year, you have the option of receiving copies of your tax returns either the traditional way (on paper); or in PDF format (on either 3.5 floppy diskette, by e-mail, or on CD). Please let us know your preference at the time of service.

"If you do not need an appointment, you may simply mail, fax, or email your information..."

Tax Appointments

Make appointments for tax preparation services early! Tax Organizers will be mailed out in late December 2005. You may schedule an appointment by phone call, fax or e-mail:

Phone – (770) 465-8861

Fax – (404) 795-0467

lwalker@4-Serenity.com

If you do not need an appointment you may simply schedule a time to drop off your information or send it to us by mail, fax, or e-

mail. Our mailing address for tax information is as follows:

**4-Serenity, Inc.
P.O. Box 390428
Snellville, GA 30039**

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Major Filing Deadlines

- 01/15/2006** December monthly payroll tax deposits, and individual 4th quarter estimated tax payments.
- 01/31/2006** Corporate W-2's, W-3's, 1099's, and 1096's. 4th Quarter Payroll Tax Returns.
- 03/15/2006** Corporate Income Tax Returns or extensions.
- 04/15/2006** Individual & Partnership Returns or Extensions.
- 04/30/2006** 1st Quarter Payroll Tax Returns.
- 05/15/2006** Non-Profit Income Tax Returns or extensions.

Education Related Deductions

Lifetime Learning and Hope Credits

The Lifetime Learning Credit (LLC) is based on 20% of the first \$10,000 of qualified tuition and related expenses paid during the year, or a maximum of \$2,000.

The Hope Credit is based on 100% of the first \$1,000, plus 50% of the next \$1,000 per student, or a maximum of \$1,500.

It may be more beneficial to elect to use the LLC if qualified tuition exceeds \$7,500, even if the student is eligible for the Hope Credit.

We always run all possible calculations to determine the best method. Your credit may be limited or phased out if your income exceeds the amounts in the table below.

MFJ	\$87,000 to \$107,000
S, HH, QW	\$43,000 to \$53,000
MFS	No credit allowed

	\$4,000 with income of	\$2,000 with income of
MFJ	\$0 to \$130,000	\$130,001 to \$160,000
All Others	\$0 to \$65,000	\$65,001 to \$80,000

Tuition and Fees Deduction

If you don't qualify for the Lifetime Learning or Hope Credit you may still qualify for this deduction. The deduction is based on tuition and fees of \$4,000. If your income exceeds the amounts listed in the table below you are limited to a deduction of \$2,000. Note: This deduction is scheduled to expire after 2005.

Student Loan Interest

For 2005, the maximum student loan interest amount deductible is \$2,500. For married taxpayers this phases out when income is between \$105,000 and \$135,000. For all others the phase out begins with income greater than \$50,000 and none of the interest is deductible if income exceeds \$65,000.

Basic Year-End Tax Reduction Strategy

If you are reading this letter before December 31st, you still have time to implement some basic tax reduction strategies. Generally, you should try to minimize your income, and accelerate your expenses. This strategy will not work for everyone, so you should always do further research or request a consultation before implementation.

If you are self-employed or a small business owner, you can generally defer the receipt of some of your income until January. Cash basis taxpayers only report the income received in 2005. If you are employed, you may be able to have your employer defer some of your income or a bonus to the following year.

Personal Expenses

Generally you should pay all the deductible expenses you can before December 31st. Following is a list of deductible expenses that many people forget to pay before the year ends:

- Pay your 2005 Property Taxes before year-end.
- Pay your January Mortgage Payment before December 31st.

- Make anticipated cash, and non-cash charitable contributions (don't forget to list the items donated, and to get a receipt).
- Pay any prior year State taxes owed before December 31st.
- Payoff old medical bills, January medical premiums, and other medical expenses.

Business Expenses

Don't forget that credit card purchases made on or before December 31st will count for 2005.

"Credit Card purchases made before December 31st will count for 2005."

If you claim employee business expenses, are self-employed, or own a small business, you should purchase any supplies or equipment you will need in 2006 before

the end of 2005.

Examples include:

- New computers
- Office furniture
- Equipment
- Vehicles
- Paper & Stationary
- Toner
- other supplies

Past issues available at:

www.4-Serenity.com/news.htm

Meetings are by

Appointment Only

Hurricane Katrina Emergency Relief

Hurricane Katrina Relief

Although you may not live in the Hurricane Katrina disaster area, you or a friend may be indirectly affected by the following tax provisions. If you feel you may have been affected in any way, please be sure to let us know because there are several provisions which may apply. We have listed a few of the main provisions below.

Retirement Plan Provisions

Penalty-free Retirement Plan Withdrawals for Disaster Victims – Those who have sustained an economic loss due to Hurricane Katrina are exempt from the 10-percent penalty tax on withdrawals from qualified plans of up to \$100,000. Distributions must be made after August 25, 2005 and before January 1, 2007.

Repayment of Qualified Distributions – Katrina retirement distributions may be recontributed at any time within three years of the date of the distribution. An amended return may be filed to receive a refund if the distribution was previously taxed.

Income Averaging Allowed for Qualified Hurricane Katrina Distributions – A qualified Katrina distribution is included in gross income ratably over a three-year period.

Retirement Plan Loan Limits Increased and Payments Postponed – For those whose principal residence was in a Hurricane Katrina disaster area on August 28, 2005, the loan limit is increased from \$50,000 to \$100,000, and loan repayments are delayed for one year.

Work Opportunity Tax Credit

Your business may be eligible for the WOTC if it hired an individual whose

principal residence was in the Hurricane Katrina disaster area, was displaced, and hired between August 28, 2005 and December 31, 2005.

Charitable Contributions

Contributions to qualified charities for hurricane victims are exempt from the normal contribution limits. Individuals are normally limited to cash contributions of 50% of their adjusted gross income.

Additional Exemption for Housing Katrina Victims

For tax years beginning in 2005 and 2006, taxpayers are allowed an additional exemption of \$500 for each Hurricane Katrina displaced individual they house, up to a cap of \$2,000 for both years. An individual may only count one time, and must have been provided housing free of charge in your principal residence for a period of 60 consecutive days within the tax year claimed. The exemption is not allowed if rent was charged or if other income was received for providing housing. You must provide the displaced individuals tax identification number in order to claim the deduction.

Casualty Losses

Casualty Losses in the Katrina disaster area are not subject to the \$100 minimum or the 10 percent AGI floor.

"...taxpayers are allowed an additional exemption of \$500 for each Hurricane Katrina displaced individual they house..."

Health Savings Accounts

New Health Savings Accounts

If you are covered by a High Deductible Health Insurance Plan (HDHP), you may be able to save on taxes by contributing to a Health Savings Account. Since expenses for co-payments, and other medical expenses have to exceed 7.5% of adjusted gross income before they become deductible, many taxpayers are not able to take a deduction. By contributing to a health savings account you are allowed an above the line deduction.

In order to qualify your deductible must be greater than \$1,000 for single, or \$2,000 for family coverage. A health savings account is used to reimburse you for co-pays, prescriptions, over-the-counter medicines, and other related expenses. Contributions can be carried forward to future years and can be used to supplement your retirement after age 62.

The benefits of these new accounts are worth looking into, so don't hesitate to ask questions.

You have until April 15th to establish and contribute to a Health Savings Account and still be able to take a deduction for 2005.

Larry M. Walker, Jr.
Enrolled Agent

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Startup Costs and Organizational Expenses

Start up and Organizational Expenses

Small businesses are now allowed to deduct up to \$5,000 in organizational expenses in the year incurred for expenses incurred after October 22, 2004. Prior to this date, expenses were deducted over a period of 60 months. Any amount over the \$5,000 limit must be amortized over a 180 month period.

2005 Rate Changes

2005 Tax Brackets

	10%	15%	25%	28%	33%	35%
Single	\$0	\$7,301	\$29,701	\$71,951	\$150,151	\$326,451
MFJ, QW	\$0	\$14,601	\$59,401	\$119,951	\$182,801	\$326,451
MFS	\$0	\$7,301	\$29,701	\$59,976	\$91,401	\$163,226
HH	\$0	\$10,451	\$39,801	\$102,801	\$166,451	\$326,451

2005 Standard Mileage Rate

Whether you use the standard mileage rate or the actual expense method, you should be prepared to provide your total mileage, business miles, and personal miles for any vehicle used for business. Following are the Standard Mileage Rates applicable for tax year 2005 and 2006.

2005	Jan. to Aug.	Sept. to Dec.
Business	.405	.485
Medical and Moving	.15	.22
Charitable	.14	.14

2006	Jan. to Dec.
Business	.445
Medical and Moving	.18
Charitable	.14

New Retirement Plan Limits

Traditional and Roth IRA Limits

Contributions may be made up until April 15, 2006

Age	2005 Limit	2006 Limit
Under 50	\$4,000	\$4,000
50 and Over	\$4,500	\$5,000

IRA contributions are not allowed if your income exceeds the following amounts:

Traditional IRA

Taxpayer covered by Employer Plan		Spouse of Covered Employee	
S, HH	\$60,000	MFJ	\$160,000
MFJ, QW	\$80,000	MFS	\$10,000
MFS	\$10,000		

Roth IRA

Filing Status	Zero when income reaches
MFJ	\$160,000
MFS (lived with spouse)	\$10,000
S, HH, MFS (did not live with spouse all year)	\$110,000

Qualified Retirement Plan Limits

Making tax deductible retirement contributions through your employer can reduce your tax bill. Following are the contribution limits on qualified employer plans.

Provision	2005 Limit	2006 Limit
Contribution Limits		
Defined Contribution Plan (SEP)	\$42,000	\$44,000
Defined Benefit Plan	\$170,000	\$175,000
Salary Deferral Limits		
401(k), 403(b),	\$14,000	\$15,000
SIMPLE Plans	\$10,000	\$10,000
State & Local Government	\$14,000	\$15,000
Catch-up Contributions (age 50+)		
401(k), SARSEP, 403(b), 457	\$4,000	\$5,000
SIMPLE IRA, SIMPLE 401(k)	\$2,000	\$2,500