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Quarterly Tax News

4th Quarter 2005

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New Mailing Address: P.O. Box 390428
Snellville, GA 30039. Overnight mail may be
sent to 5259 Rockbridge Drive, Stone Mountain,
GA 30087.

Important Due Dates

- October 8-15th – Monthly & Quarterly clients submit bank statements, canceled checks, credit card statements, and other records for 3rd quarter accounting and financial statements (July-Aug-Sept).
- October 14th
 - Monthly Payroll Tax Deposits due.
- October 31st – Quarterly Payroll Tax Returns due.
- October 15th
 - Last day to e-file 2004 Personal Income taxes.
- Oct, Nov, and Dec. 20th – Sales & Use Tax Returns due.

Standard Mileage Rate Increases for Last Four Months of 2005

The IRS has announced that taxpayers may use a higher standard mileage rate for calculating the operating expenses of a vehicle used for business purposes during the last four months of 2005. The rate will increase to 48.5 cents a mile for all business miles driven between September 1, 2005, and December 31, 2005.

If you are using the standard mileage rate it is very important that you track your mileage for the last four months of this year. The rate will be

re-evaluated in 2006 and is likely to be decreased back to 40.5 cents per mile. The rate for medical and moving mileage has also been increased for the last four months. The rate for charitable mileage has not changed.

If you have taken a write-off on a new vehicle you are on the actual expense method. Thus your increased fuel costs will be deductible along with the cost of maintenance, insurance and registration.

New Energy-Efficiency Tax Breaks

The recently-enacted *Energy Tax Incentives Act of 2005* provides significant tax breaks for individual homeowners who spend money in 2006 and 2007 to install specific energy-saving devices. In addition, starting in 2006, a new tax credit will be available for the purchase of some hybrid vehicles, as well as the purchase of some other, more exotic "green" vehicles. Businesses that install energy savings equipment will also be entitled to generous energy tax credits or deductions.

If you plan on making any home or office improvements, you may want to hold off until 2006 in order to take advantage of these credits. There are lots of tax benefits available in the new energy law and lots of fine print that, if you're not careful, can prevent you from maximizing your savings. Please check with us for more specific details before you begin your project.

Impact on consumers

Three new energy credits are available to individual consumers:

1. The residential energy efficient property credit,
2. The home improvement energy credit, and
3. The alternative fuel vehicles credit.

All of these credits are in effect for 2006 and 2007 only, for property placed in service in those tax years.

The "**residential energy efficient property credit**" is all about converting your home to solar energy. There are three ways to take the credit, and three separate amounts allowed for doing it. The new law makes available:

- * A 30 percent credit up to a maximum \$2,000 per year for the cost of purchasing and installing of residential solar water heating;
- * A 30 percent credit up to a maximum \$2,000 per year for the cost of purchasing and installing photovoltaic equipment for solar-generated electricity; and
- * \$500 for each 0.5 kilowatt of fuel cell property capacity.

Although there is some debate in Washington over exactly what Congress meant, apparently the \$2,000 credits for solar water and electricity apply to any residence, including vacation homes, while the fuel cell credit is restricted to installation in your principal residence.

Home improvement energy credit. Uncle Sam is offering you \$500 to install certain energy saving improvements in your home. Energy conservation property, such as energy-efficient residential exterior doors and windows, insulation, heat pumps, furnaces, central air conditioners and water heaters installed in 2006 and 2007, qualify.

"Green" vehicles. Most individuals will only be able to take advantage of the qualified hybrid motor vehicle credit since only they are being mass produced by the major automakers. Unlike the 2005 hybrid deduction the new credit is available whether you buy or lease.

The amount of the credit for a hybrid vehicle varies from \$400 to \$2,400, based on fuel savings ranging from 125 to 250 percent of a base amount. An additional conservation credit is awarded to hybrid vehicles with certain lifetime fuel savings ratings, ranging from \$250 to \$1,000.

Impact on businesses

Deduction for energy-efficient commercial property. If you own commercial building property, Uncle Sam is offering you an energy deduction for improving your building's energy consumption. The maximum deduction is \$1.80 per square foot of the building. Several criteria must be met:

- * The property for which costs are claimed must be depreciable (or amortizable) property, installed in a domestic building;
- * The property must be installed as part of: the interior lighting system, the heating, cooling, ventilation and hot water systems, or the building envelope; and
- * The property must be installed based on a plan to reduce total annual energy and power costs by 50 percent or more when referenced against a building meeting certain minimum requirements. (The IRS has been instructed to issue rules to allow a reduced deduction if specific energy efficiency targets are met but the 50-percent mark is not reached.)

Business solar investment tax credit. The business investment credit for solar energy property is increased from 10 percent to 30 percent.

Credit for qualified fuel cell property/stationary microturbines. The credit is 30 percent of the basis of qualified fuel cell property placed in service during the tax year.

Homebuilder's credit for new energy-efficient homes. An eligible contractor may claim a tax credit of \$1,000 or \$2,000 for a qualified new energy-efficient home that a person acquires

from the contractor during 2006 and 2007 for use as a residence during the tax year. An eligible contractor is a person who constructs a new energy-efficient home or a manufacturer that produces a qualified new energy-efficient manufactured home. The credit applies to new homes and those substantially reconstructed.

Effective dates

The energy tax incentives apply to equipment placed in service after December 31, 2005 and before January 1, 2008. Some complex issues surround these 2006 and 2007 benefits.

Health Savings Accounts

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created a new tax advantaged savings account known as a Health Savings Account or "HSA", effective January 1, 2004. The account is designed to enable people with a High Deductible Health Plan to save money for qualified medical expenses.

Contributions are tax deductible and the account grows tax-free until used to pay qualified medical expenses. An individual does not have to meet any income standards or have earned income in order to participate.

1. High Deductible Health Plans
 - a. Single Coverage - \$1,000 minimum deductible and a \$5,100 maximum out-of-pocket expense.
 - b. Family Coverage - \$2,000 minimum deductible and \$10,200 maximum out-of-pocket expense.
2. Who is Eligible?
 - a. Covered by High Deductible Plan
 - b. Not covered by any other health plan
 - c. Not enrolled for Medicare benefits
3. Who can contribute?
 - a. Anyone including an employer on behalf of its employee(s).
4. How much can be contributed annually?
 - a. Up to \$2,650 for Individual Coverage

- b. Up to \$5,250 for Family Coverage
- c. Over age 55 - additional catch up contributions of \$600

Accounting Tips

As you may know compiling financial statements monthly or quarterly is one of the keys to proactive tax planning. Compilation involves processing deposits, checks, debit card and online banking transactions from your bank statements. It further involves processing business expense charges from your credit card statements. Finally it involves entering data from receipts involving cash purchases.

Deposits – For most businesses, deposits to the business bank account represent all the income for the business for that month. Deposits should be supported by copies of invoices, HUD-1 Settlement Statements for property transactions, copies of detailed deposits tickets, copies of checks deposited, or lease agreements for rents received from rental properties.

Sometimes, deposits represent money borrowed from company officers, banks, or credit cards. Details or documentation should be provided when deposits to your business account do not represent earned income.

Cancelled Checks – Checks should be coded by describing the type of expense on the memo line. If you own multiple properties and are paying mortgages, utilities, and other expenses, the address of the property should be written on the memo line for each related expense.

Debit Cards – Debit card purchases should be supported by receipts or other documentation when the expense is not clear. For example, we do not require receipts for purchases from gas stations because it is clear that this is a gasoline purchase. Since business meals require further documentation, receipts should always be provided and maintained.

Online Banking – When bills are paid through online banking you should keep your statements.

We do not need them for accounting purposes if the expense is clear, but if we are not familiar with the expense, one should be provided.

Credit Card Charges – We need your monthly credit card statements in order to process the appropriate expenses including deductible monthly finance charges. Credit cards can be used to purchase gasoline, pay monthly subscriptions, buy equipment and supplies, or to pay bills. Receipts and statements associated with your business or personal credit cards should be provided whenever the expense may not be clear. Otherwise you should code your credit card statements by writing a one or two word description next to each item on your statement.

Receipts – There are generally three types of receipts. Receipts can be for cash purchases, business or personal debit card purchases, or business or personal credit card purchases. For accounting purposes, we generally only need your receipts for cash and personal debit or credit card purchases (except as indicated above). Reducing the volume of paperwork that is provided to us on a monthly, quarterly, or annual basis, will keep your costs down and enable us to focus on more important matters such as your year-to-date tax projections, minimum required salary, and payroll tax deposit requirements. *[Never discard any of your receipts or statements just in case you are audited.]*

Proactive Tax Planning

Proactive tax planning is a monthly, quarterly, or once a year (*prior to year end*) process. Small business owners are required to pay themselves a salary along with the appropriate payroll taxes. Payroll tax returns are due the month following each quarter. Payroll tax deposits are generally due either on the 15th of each month, or by the month following each quarter. *If payroll tax deposits are not made timely the penalties can be very stiff accelerating from 2% to 15% of the amount due.*

We provide monthly and quarterly accounting services in order to advise on the amount of salary required to be paid. *The amount of salary required by a business owner is directly proportionate to the monthly or quarterly net profit of the business.*

Throughout the year we provide small business owners with tax projections which help to determine whether enough taxes are being paid during the year to either break even or receive a refund. We also advise on the effect of IRA, 401(k), SEP, SIMPLE, and Health Savings Account contributions. Many individuals also hire us to provide tax projections before year-end. The process involves reviewing monthly or quarterly financial statements, pay stubs from employers, and knowledge of extraordinary items such as the sale of a personal or rental home, receipt or expectation of a bonus, winnings from lotteries, casualty or theft losses, or large charitable gifts.

Many times individuals will implement tax savings programs without really knowing the effect. Once projections are prepared, we can advise and many times assist with implementing an appropriate tax savings strategy tailored to your needs.

Following is a list of other events which may require proactive tax planning: Starting a new business; withdrawing money prematurely from an IRA or 401(k); expectation of a large increase in Income or certain Expenses; Marriage, Divorce, or birth of a child; Purchasing a Home; Contributing to an IRA or 401(k); Increase in Medical Expenses (see Health Savings Accounts); Participating in Dependent Care Benefit Plans; Home Improvements for the New Energy Tax Credits; Buying or Selling a business vehicle; Selling Stocks or Mutual Funds

I am a believer in proactive planning. We are here year-round to assist with tax and other financial planning. Please call or send an e-mail to make your appointment before it's too late.