

December 2005

MMCO Year-End Tax Update



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Social Security 2006

Rates and wage bases for 2006 follow:

- FICA rate: 6.20%; Medicare rate: 1.45%
- Self employment tax: 15.3% (Social Security and Medicare)
- Wage base for Social Security: \$94,200. There is no wage limit for Medicare.
- “Nanny tax” threshold increases to \$1,500. Remember, payments to cooks, housekeepers, baby sitters, caretakers, gardeners and other household employees of \$1,500 or more annually are subject to employment taxes and are reported on your federal form 1040.

NEW TAX INCENTIVES FOR CHARITABLE GIVING

Cash donations made to a qualified charity are generally limited to 50% of your adjusted gross income. However, to encourage contributions by individuals, KETRA (Katrina Emergency Tax Relief Act of 2005) exempts cash donations from the 50% income limitation for donations made between August 28 and December 31, 2005. There is no requirement that your donation be related to Hurricane Katrina. In addition, KETRA exempts these cash donations from the phase-out of itemized deductions.

To encourage cash donations by C Corporations, KETRA exempts them from the rule limiting the donations to 10 percent of taxable income. However, to qualify, corporations must substantiate that these contributions were made between August 28 and December 31, 2005 and that they were for relief efforts related to Hurricane Katrina.

Electronic Filing (E-File)

Beginning in January 2006, we will be electronically filing most of the income tax returns prepared by our office. The IRS encourages electronic filing because it is more efficient, and thus ultimately saves tax dollars. By utilizing electronic filing, data entry errors by the IRS should be eliminated, along with lost or misplaced mail.

The benefits to you include receiving an acknowledgement of receipt from the IRS (Internal Revenue Service) and the DRS (Department of Revenue Services) when the return is e-filed. The Federal and State returns can also be e-filed together. In addition, if there is a balance due you may e-file your return any time before the original due date and wait to pay the tax as long as it is paid by April 15, 2006. If you are due a refund, you should receive it within 4 days. You will have the same payment options with an e-filed return as you have with a paper return. We will print vouchers for all returns, although you will have electronic payment options. We will be pleased to respond to any questions or concerns you may have regarding electronic filing.

Mileage Rates

Business Use

For **2005**, **40.5** cents a mile for January through August and **48.5** cents for September through December. For **2006**, down **4** cents to **44.5** cents a mile

Medical transportation and Moving Expense

For **2005**, **15** cents a mile for January through August and **22** cents a mile for September through December. For **2006** down **4** cents to **18** cents a mile.

Charitable expenses

For **2005** and **2006**, **14** cents a mile with an exception for Hurricane Katrina relief.

Parking fees and tolls

are deductible in addition to your mileage.

Split up Your IRA

You may have only one IRA for the ease of administration during your lifetime. However, by creating separate IRAs you may be able to create better tax results and/or provide easier administration for your beneficiaries. Some reasons to split your IRA into separate accounts include the following:

- Allow your surviving spouse to roll over the IRA as his/her own. Your spouse may then name his/her own beneficiaries, and may defer distributions until age 70 1/2. In order to do this, your spouse must be the only beneficiary of the IRA.
- Allow your children the benefit of taking distributions over their individual life expectancies, rather than over the life expectancy of the oldest child. This also gives each child the ability to elect a distribution amount and period which is best suited to their situation without affecting the other siblings.
- Allow your spouse the ability to choose which IRA accounts to disclaim, if any, resulting in the disclaimed accounts passing to the contingent beneficiary. Therefore your spouse has the ability to direct funds to a particular beneficiary.
- Allow one of the IRA accounts to be paid directly to a charitable beneficiary to avoid the potential of disturbing the beneficial minimum distribution rules permitted for individual beneficiaries. Any beneficiary who is not an individual must receive the entire distribution within 5 years unlike individuals who are allowed to take distributions calculated on a life expectancy. The distribution to the charitable beneficiary must be made timely, otherwise any individual beneficiary of that IRA may be subject to a shorter distribution period.

Please call our office if you would like to discuss the possibilities for distributions of your IRA or other retirement plans.

Maximize your Retirement Contributions

The following plan limits increase beginning January 1, 2006:

Defined Benefit Plans - The limit on the annual benefit is \$175,000, up from \$170,000 in 2005.

Defined Contribution Plans - The contribution limit on profit sharing and money purchase plans, including Keogh (self-employed) plans is 100% of compensation up to \$44,000, increased from \$42,000 in 2005.

Elective Deferrals 401(k) and 403(b) Plans - The contribution limit is \$15,000 with the new catch-up amount set at \$5,000 for anyone who is age 50 by the end of the year. The 2005 limits were \$14,000, with a catch-up amount of \$4,000. In addition, a 401(k) plan will now be able to include a "qualified Roth contribution program" also called a "Roth 401(k)". Contributions to a "Roth 401(k)" will be included in your gross wages, but withdrawals from the plan will not be subject to tax.

IRA Accounts - The contribution limit remains at \$4,000 with a catch-up amount for anyone who is age 50 by the end of the year of an additional \$1,000 up from \$500.

SIMPLE Plans - Contribution limits to SIMPLE plans remain at \$10,000. However, the catch-up amount is increased to \$2,500 up from \$2,000 in 2005.

SEP Plans - Contributions are limited to 25% of compensation, with a maximum contribution of \$44,000, up from \$42,000 for 2005.

Catch-up contributions for anyone 50 or older may be made regardless of whether an employee has reached the maximum contribution. An employer is permitted, although not required, to make matching contributions with respect to the catch-up contributions.

Energy Credits

If you are planning on making energy saving improvements to your home, wait until 2006. You may claim a credit of up to \$500 during 2006 or 2007 for part of the cost of making these improvements. Your home must be used as your principal residence and you must be the original user of the energy saving improvement.

Credits are also available in 2006 or 2007 for property using solar power to generate electricity in your home, and property generating solar hot water. The equipment can be installed in your residence or vacation home and may not be used to heat a pool or hot tub.

Qualified fuel cell property is also available for a tax credit, but only in your primary residence, which may include a co-op or condo.

In addition, beginning on January 1, 2006, a tax credit is available to buyers of hybrid fuel automobiles. Please call us if you are considering buying a hybrid.

Our Team in the Community



Frank Miller received the **2005 Community Service Award from the United Way of New Britain & Berlin** for his many years of volunteer service to the Boys' and Girls' Club of New Britain. Frank serves on the club's board of

directors, is the board treasurer, chairman of the finance committee, and member of the endowment committee.

In the Spring of 2005 **John Miller** was elected **President** of the **New Britain - Berlin YMCA**. John has been a Y volunteer for over 10 years. He has previously served as Vice President, Treasurer, Chairman of the Finance Committee, the Annual Support Campaign and the Youth and Family Committee. As President, John is the Chief Volunteer Officer, serves as Chairman of the Board of Directors and is a member of the Board of Trustees.

Our Team Members generously donated to **The United Way of New Britain** resulting in our largest donation to date. We also helped our neighbors in the South by donating to **Hurricane Katrina Relief**, and continue to be a strong supporter of New Britain's "**Read to Succeed Program**".

Production Deduction

Your business may be able to claim the new Deduction for Production Activities for tax years beginning January 1, 2005 or later. The deduction is equal to a percentage of the income earned from manufacturing and other production activities within the United States and is limited to 50% of W-2 wages paid. The deduction is calculated at a rate of 3% for years beginning in 2005 and 2006, 6% for years beginning in 2007 through 2009, and 9% for years beginning in 2010 or later.

Production activities include income from any lease, rental, license, sale or other disposition of qualified production property that was manufactured, produced, grown, or extracted by the taxpayer within the United States. Also included is income from some films, electricity, natural gas, and potable water produced domestically, construction, and engineering or architectural services performed in the United States.

As you can see, the definition of production activities is very broad so the deduction will apply to a wide variety of businesses. We can advise you regarding this deduction and assist you with the calculations.

Come Visit Us

During 2005, we launched our website thanks to Bill Maier and his outstanding team at Maier Advertising, Inc. We invite you to visit www.millermoriarty.com and tell us what you think. We wanted our website to be more than just a place where we talk about ourselves. We developed our site to be a resource for you, a destination where tools and informational materials are provided to help answer your questions. Our information center page is where you can view, download and/or print IRS forms and publications and view an events calendar which details filing deadlines for everything from sales tax, employment tax and annual tax filings. Our financial calculators page provides many financial calculators and tools to assist you with some of the day-to-day questions and concerns you may have such as whether or not to refinance a mortgage or how much to save for your child's college education. Our newsletter page features discussions on a wide variety of tax topics at both the federal and state level which we think might be of interest to you. Please spend some time at our site and take advantage of these resources. We would be happy to answer any questions you have and/or discuss those topics you find that are relevant to you and your tax situation.

2005 1099 Forms

Recipient - Due January 31, 2006
Paper to IRS - Due February 28, 2006
Electronic to IRS - Due March 31, 2006

Several types of business payments need to be reported on information returns (Forms 1099). The IRS continues to improve its matching program to insure that income reported on 1099 forms is reported on income tax returns.

Use the following forms:

1099-DIV - Report dividends paid of \$10 or more.

1099-INT - Report interest paid of \$10 or more.

1099-MISC - Report payments of \$600 or more for services performed for your business by individuals

who are not your employees. Report payments for rents, prizes and awards, directors' fees, services performed by independent contractors (including parts and materials), other income payments and medical and health care payments. Also report payments to accountants, business agents, physicians, maintenance workers, and others. Royalties of \$10 or more and all amounts paid to attorneys must also be reported.

Report payments only when they are made in the course of your trade or business. Personal payments do not have to be reported. Please call our office if you would like additional information regarding your 1099 forms.

*All of the Team Members at
Miller, Moriarty & Company, LLC
wish you happiness and
health in the New Year.*

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ADDRESS CORRECTION REQUESTED