



FOR EMPLOYERS' EYES

NEW DEDUCTION FOR QUALIFIED PRODUCTION ACTIVITIES

Effective for years beginning after December 31, 2004 Congress has enacted legislation that gives taxpayers a new deduction not based on actual expenditures but rather on a percentage of taxable income from qualified production activities. This percentage begins at 3% for 2005 and 2006 and increases over the next several years to 9%. Qualified production activities are defined as U.S. manufacturing, production, construction, engineering and architectural activities. Taxpayers who qualify for the deduction will be required to identify their qualifying receipts and the deductions that are allocable to the qualifying receipts. Taxpayers whose qualifying receipts exceed allocable expenditures will get a deduction of 3% of the excess subject to the following two limitations. The first limitation is the deduction is limited to the taxpayer's taxable income – prior to the deduction. The deduction cannot create a net taxable loss or be carried over to other years. The second limitation is that the deduction cannot exceed 50% of the wages paid by the Company during the year.

PROFIT SHARING PLANS MAY ESTABLISH ROTH-TYPE ACCOUNTS

Beginning January 1, 2006, a 401(k) plan may permit participants to elect to treat part or all of their contributions to the plan as after – tax Roth IRA – type contributions. Because of the designation, the employee's gross income for the year would not be reduced by the amounts contributed. The maximum amount of contributions an employee may designate as Roth contributions will be equal to the annual amount that can be contributed under the 401(k) rules, \$15,000 for 2006. Contributions so designated and all earnings attributable to them would be excludable from the employee's gross income upon distribution from the Plan as long as the other rules pertaining to Roth IRA distributions were met - that is the account was established at least 5 years in the past and the recipient has reached the age of

59 ½. A participant's eligibility to contribute would not be affected by the AGI limitations that apply to regular Roth IRA contributions. Therefore wage earners with a high AGI could contribute to these plans whereas their AGI would have prevented them from making contributions to a regular Roth account. Also, the designation of plan contributions to a Roth account will not limit the amount eligible individuals can make into a regular Roth IRA.

FOR INDIVIDUALS

GIFTING

Our current law has a "unified" system to tax transfers of wealth, whether during your lifetime (gift taxes) or after death (estate taxes). Here are answers to some of the common questions about gifts made during your lifetime

HOW MUCH CAN I GIVE?

The simple answer is that each individual can give up to \$11,000 to as many individuals as they wish each year without filing a gift tax return. Gifts are valued on the date given and can take the form of cash or any other property of value, such as real estate, stocks, artwork or antiques. This means that a married couple desiring to give maximum annual gifts to a married person can give \$44,000 in a single year, if they are willing to include the person's spouse in the gifts.

You can also give up to \$1,000,000 in gifts that exceed the annual \$11,000 limit, but you must file a gift tax return. No gift taxes will be due until you exceed the \$1,000,000 amount during your lifetime. However, these larger gifts also erode the amount you can leave to heirs after your death without paying estate taxes. For example, if you give \$111,000 to your child in 2005, you will have an annual exclusion gift of \$11,000 and you will report a taxable gift of \$100,000 on your 2005 gift tax return. This \$100,000 will reduce your remaining lifetime gift limit to \$900,000 and also reduce your tax-free post-death transfer from \$1,500,000 to \$1,400,000.

An additional complication of the gift tax laws are two special exemptions. You can pay medical expenses or college tuition expenses for another individual without reducing either the annual exclusion or the lifetime limits. The payments must be made directly to the providers.

WHEN ARE GIFT TAX RETURNS DUE?

Gift tax returns are due April 15 of the year following the gift, with extensions up to six months allowed.

WHAT IF I SELL SOMETHING THAT WAS GIVEN TO ME?

Generally, the cost or tax basis of the gift transfers from the giver to you. This means that there is no step-up or increase in basis to the fair market value on the date of the gift like there is when you inherit something. There are special rules for the rare occasion when the gift is worth less than its cost when it is given to you.

***DO I GET TO DEDUCT A GIFT FROM MY
TAXABLE INCOME?***

No, the giver does not have a deduction when making the gift and the recipient does not have income. However, after the gift is made, any future earnings are taxed to the recipient.

WHAT ABOUT IF I PUT MY CHILD ON THE DEED TO MY HOUSE?

Yes, there is a gift of one-half of the value of the house at that date. If your purpose is to leave the house to your child after your death, a better means might be the beneficiary deed. You retain full ownership but designate a beneficiary that inherits.

ACCOUNTING HUMOR?

Three partners in an accounting firm go out to lunch. They are the audit partner, the tax partner, and the senior partner. One of them sees a brass lamp lying in the gutter. Curious, they pick it up and give it a rub. Instantly, a genie appears.

“You know the deal,” says the genie. “Three wishes. But seeing there are three of you, you can have one wish each.”

“Great,” says the audit partner. “Take me to the Whitsunday Islands, give me a blonde and an endless supply of Jack Daniels and leave me there forever.”

Pouf! There is a flash of light, a puff of smoke and he is gone.

“Now me,” says the tax partner. “Take me to the Cook Islands, give me two blondes and an endless supply of offshore tax schemes and leave me there for ever.”

Pouf! There is a flash of light, a puff of smoke and he is gone.



The genie turns to the senior partner. “And what do you want?”

“I want those two back in the office straight after lunch!”

QUICKBOOKS CORNER

When would I want to use “Classes” in QuickBooks?

“Classes” are set up in the “Preferences, Accounting”. You may want to use class tracking if you have more than one location or distinct lines of business that you need to keep track of; for example, multiple rental locations. When using class tracking, each item of income and expense must be assigned to a class. You will then be able to print a profit and loss statement by “Class” to help in the management of the business.

How do I change the look of invoices sent to customers?

To customize the looks of an invoice, go to “Lists, Templates” then choose “Custom S.O. Invoice” or copy one of the other standard templates in the list to a new template to be edited. You can customize the columns, etc. to be printed as well as the information to be included and the typestyles used.

How do I add account numbers in addition to account names?

It is preferable to use account numbers in your chart of accounts instead of names. In “Preferences, Accounting” check the box for use of account numbers. Our office can help you with a standard numbering system for these accounts. Account numbers help you to determine you are coding transactions to the right type of account (i.e. an expense account or a fixed asset account). You may still

“type” in the account name when coding a transaction – or you can use the account number.

How do I clear an invoice that has a credit and still appears in “Pay Bills” window?

In the “Pay Bills” option, check the invoice with the credit to be applied, choose “set credits” and “done”. If the credit pays the entire invoice, it will no longer show up in “Pay Bills”.

Do you have a QuickBooks question that is bothering you? Email us and we will use in the next newsletter!

PUBLISHED AUTHORS – WE WANT YOUR BOOKS!

Helfinstine & Associates is proud of our clients and we want to show it! We are starting a library of published books authored by our clients to be displayed in our office. However, we may not be aware of all you talented people. So if you have published a book, please contact us as to the name and where we can purchase the book. And if you could come by and autograph our copy – that would make us even more proud!

CFO/CONTROLLER SERVICES

Many small and medium-sized firms find that they are requesting that their higher level people wear too many hats or perform financial duties beyond their expertise. For the company needing high-quality financial and accounting consultation on a contract basis, or for the entrepreneur needing financial expert advice with regular personal contact, we can help.

Helfinstine & Associated has professionals ready to take on part time or interim CFO or Controller functions for your company.

Some examples of what the part time CFO/Controller may do:

Immediate financial leadership for your business.

Strategic Planning

Reviewing accounting and developing inventive plans for key management

Preparing and maintaining financial budgets

Analysis of overall company operational procedures and controls

Assist management in understanding the value of their business and how to build over time

Cash flow planning and analysis

Providing leadership to the accounting department including hiring, training, etc.

And many more services. We custom design the CFO/Controller Services to fit your needs.d.

WHAT'S NEW?

A new Arizona Bill (Senate Bill 1529) amends the credit for contributions to charities that provide **assistance to the working poor**. The bill increases the maximum credit allowed to married taxpayers to twice the amount allowed to single individuals or heads of household. This increase is phased in over a two-year period. Under this amendment, the maximum credit for married taxpayers filing a joint return will be **\$300** for **2005** and \$400 for 2006 and later years.

Also amended is the credit for contributions to **school tuition organizations**. Married taxpayers will receive a maximum credit of **\$825** for **2005** and \$1,000 for 2006 and later years.

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