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FOR EMPLOYERS' EYES

Small Business Owners and Retirement Plan Options

Payroll Deduction IRA – This is probably the simplest retirement arrangement that a business can set up. No plan documents are required and no forms need to be filed.

Under a payroll deduction IRA, an employee establishes an IRA (traditional or Roth) with a financial institution. The employee then authorizes a payroll deduction for the IRA. The employer's responsibility is simply to transmit the employee's authorized deduction to the financial institution.

The plan is funded entirely by employees. Each employee, including the owner, can contribute up to $4,000 (for 2005-2007). Additional "catch-up" contributions of $1,000 per year are permitted for employees age 50 and over.

As with all IRAs, participant loans are not allowed. In-service withdrawals are allowed, but may be subject to income taxes and a 10% penalty tax under the normal IRA rules.

Simplified Employee Pension – Under a SEP, the employer makes contributions to traditional IRAs set up for each eligible employee. SEP-IRAs are funded solely by employer contributions. Each SEP-IRA is owned and controlled by the employee. The employer sends the SEP contributions to the financial institution where the SEP-IRAs are maintained.

Available to employers of any size or type of organization, a SEP can be set up by adopting IRS Form 5305-SEP or an individually designed plan document. An employer can not maintain any other retirement plan (except another SEP) if Form 5305 is used. The annual reporting required for qualified plans is normally not required for SEPs.

An individual is an eligible employee is he or she (1) has attained the age of 21, (2) has worked for the employer in at least 3 of the last 5 years, and (3) has received at least $450 in compensation from the employer in 2005.

Total contribution to each SEP-IRA cannot exceed the lesser of $44,000 for 2006 or 25% of compensation (limited to $220,000 per participant for 2006).

Simple Plan – A Savings Incentive Match Plan for Employees, known as a SIMPLE Plan, is usually an IRA-based arrangement that allows employees to elect to defer a part of their salaries into the plan for retirement. Under a SIMPLE IRA, employees and employers make contributions to IRAs set up for employees, subject to certain percentage-of-compensation and dollar limits.

SIMPLE-IRAs can be set up by employers with 100 or fewer employees. However, there is a two year grace period during which growing employers are still eligible even if they go over the 100-employee limit. Employers with a SIMPLE-IRA plan cannot maintain another retirement plan.
Employers make either (1) a contribution matching employees' contributions dollar-for-dollar up to 3% of compensation or (2) a 2% non elective contribution for each eligible employee (even if the employee doesn't make his or her own contributions to the SIMPLE-IRA, An employer may reduce the 3% matching contribution to a lower percentage, but not lower than 1%. The employer may not lower the 3% for more than 2 calendar years out of the 5 year period ending with the calendar year the reduction is effective. This can be established at any sponsoring financial institution.

FOR INDIVIDUALS

Let's Talk About Cars
Donation of Cars – New Rules

The new rules will impact both individual who make car donations and nonprofit organizations that operate car donation programs. For example, individual donors who want to maximize their deductions will need to select a donee (or recipient) organization that qualifies for one of the exceptions to the new deduction limitation. And all donors claiming more than a $500 deduction must comply with the new substantiation requirements or forfeit their deductions. Charities must provide their donors with proper acknowledgments and provide the IRS with required information reports.

Background – If a charitable donation is made in the form of property, the amount that can be deducted is generally the fair market value of the property at the time of the donation.

Under the new (2005) rules, no deduction is allowed for a donation of a qualified vehicle with a claimed value of more than $500 unless the donee (or recipient) substantiates the donation by a contemporaneous written acknowledgment that meets certain requirements. A copy of the acknowledgment must be included with the donor's tax return on which the deduction is claimed.

A "qualified vehicle" is defined as (1) a motor vehicle manufactured primarily for use on public streets, roads, and highways, (2) a boat, or (3) an airplane.

If a charity sells a qualified vehicle, the donor's deduction is generally limited to the gross proceeds received from the sale except in three cases (1) when there has been "significant intervening use" of the vehicle by the charity before the sale, (2) when the charity makes "material improvements" to the vehicle, or (3) when there is a bargain sale for gift of the vehicle by the charity to a needy individual.

In any event, a qualified appraisal is required for a deduction in excess of $5,000 for a qualified vehicle if one of the exceptions applies and the deduction is not subject to the gross proceeds limit.

ACCOUNTING HUMOR?

Once upon a time, there was a beautiful oil company. She loved to run up and down the share price list. One day she was very sad, she couldn't find an interim dividend anywhere and she knew people would be very angry if she couldn't produce it.

"What's wrong, little oil company?" said a voice nearby.

She looked around and there was a funny little creature with spectacles and a bald patch.

"I can't find a dividend," she said and started crying.

"Don't worry," said the creature, "I can find you one. I am an accountant. As for how I do it, you never mind that. There's one condition, if I do find it for you, you must agree to let me stay with you."

“Yes!” she said, anxious to get the dividend.
The accountant left muttering and tut-tutting. He came back and said “I’ve found you a dividend!”

“You must keep your word” said the accountant.

However hesitant, the oil company kept her word. That night the accountant slept on the floor beside her bed.

The next morning she opened her eyes and the accountant was still there.

“I know what you are thinking. You’re quite right. Before I was changed into an accountant I was a handsome young man with a devil-may care attitude.”

“Then change back!” said the oil company.

“Are you crazy?” said the accountant. “Handsome young men are a dime a dozen but clever, ugly little accountants are worth their weight in gold!”

QUICKBOOKS CORNER

How can I prepare the state unemployment forms in QuickBooks?

State payroll tax forms are available with the QuickBooks Enhanced Payroll service. QuickBooks uses your payroll data to prepare the appropriate forms for you. For a list of forms available with the QuickBooks Enhanced Payroll service go to **www.quickbooks.com/taxforms**

HELFINSTINE & ASSOCIATES IS GOING PAPER “LESS”

With our ever changing world and in an effort to improve client services, increase productivity and save a tree or two, Helfinstine & Associates is making a real effort to go paper “less”. What we mean is that we are taking steps to use more computers and programs and less paper to complete our tasks (while maintaining the same security as always). Last tax season alone we e-filed almost 400 individual income tax returns! That saved approximately 20,000 sheets of paper! We will be trying new and innovative ideas this year to use less paper and become more efficient. If you have tried some paper “less” ideas and they have worked (or not) let us know. It is a good thing.

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