THE MYERS ASSOCIATES, P.C.
Certified Public Accountants

520 Pike Street, Suite 1040
Seattle, Washington 98101-2397

(206) 623-6116
Fax (206) 623-6929
http://www.tma-cpas.com

June 2006

TMA Report

What's Included?

TAX INCREASE PREVENTION AND RECONCILIATION ACT

On May 17th, President Bush signed the Tax Increase Prevention and Reconciliation Act (TIPRA) into law. TIPRA extends dividend and capital gains tax rate cuts through 2010, gives taxpayers some relief from the alternative minimum tax (AMT), extends small business expense thresholds, allows high-income taxpayers a Roth conversion opportunity, and twenty other significant changes.

For the 2006 tax year, the kiddie tax (tax on a child's unearned income, such as dividends and interest) now applies to children under the age of 18 rather than 14 as had been the rule through 2005. In this light, it may make sense to review your children's tax situation and consider moving assets that are in the child's name to a college saving vehicle such as a Section 529 plan.

TIPRA extends and increases (for 2006 only) the AMT exemption amount for individuals. The bill raises the exemption amount from $58,000 for joint filers to $62,550 (and for singles the exemption amount is raised to $42,500), lowering taxes for approximately 15 million taxpayers.

Continued on page 3

MEDICARE PREMIUM INCREASE FOR HIGHER-INCOME SENIORS

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA), signed into law in 2003, will increase premiums for many Medicare Part B beneficiaries. The Social Security Act was amended by the MMA to create an income-based reduction in Part B premium subsidies. Currently, the premiums beneficiaries pay for Medicare Part B only cover about 25% of the per-capita cost of their medical plan, and the remaining 75% is subsidized by the Federal government. Starting January 2007, the subsidy will be cut, which will result in an increase in premium charges for approximately 2 million Part B beneficiaries.

The "monthly adjustment amount" added will be determined by the taxpayer's 2005 modified adjusted gross income (AGI). Married seniors whose 2005 modified AGI was over $160,000 but not over $200,000 (and single seniors with a modified AGI over $80,000 but not more than $100,000) will see their premiums increase by 13.3%. Joint filers whose modified AGI exceeded $400,000 (and singles who exceeded $200,000) will see their premiums increase 73.3%.

The 2007 premium will be based on 2005 income; if not available, then 2004 income will be used. You can contest the determinations if your circumstances have changed due to death of a spouse, divorce, retirement or a significant cutback in hours worked, which will allow you to use the income of a later year to determine the premium surcharge.

Medicare beneficiaries will be notified of these changes by letter in late November (AFTER the elections). But Congress isn't expecting a flood of complaints, as many people are now saving money on their prescription drugs. ♦

WHERE'S MY REFUND?

The Internal Revenue Service's "Where's My Refund" internet service that allows you to track the progress of your refund is becoming more popular each tax year. You can start checking on your return's status seven days after you have e-filed; wait four to six weeks if the return was submitted by regular mail. Access this on-line tool at: www.irs.gov.

The taxpayer can trace a refund if 28 days have passed since the IRS says it mailed it. Corrections to addresses can also be made at the "Where's My Refund" webpage, however those who are married and filing jointly will have to submit Form 3911 by mail or fax. ♦

LOWER YOUR CHILDREN'S TAXES WHILE HELPING THEM START A NEST EGG

Using an IRA can reduce your child's annual taxes by offsetting taxable income. Parents who have saved money for college using the Uniform Gift to Minors' Act (UGMA) may discover that the taxable investment income results in their working children owing hundreds of dollars in taxes each year.

The short-term benefit is reducing or eliminating the impact of the kiddie tax. The long-term benefit is the potential growth of that investment until the child reaches retirement age. Not only will parents have contributed to an annual tax savings for their child, but they will have started a nest egg that could grow from a few thousand dollars to hundreds of thousands of dollars in tax-deferred earnings. The amount of an IRA contribution cannot exceed the child's earned income (wages, 1099s, jobs around the home), so parents who want to give their children the best financial advantage and a long term financial legacy should talk with us about how to fund an IRA for their children. ♦

NOT FOR PROFIT CORNER

BEING ACCOUNTABLE

A successful charitable organization knows that it must follow legal requirements of financial accounting. But to merit public trust and reliability the group must also display its high standards by being ethically accountable. This is displayed through the actions of the staff both in public events and in private governing procedures. The following actions can aid your organization in producing a culture of accountability and transparency, and be a model for others to emulate.

- Hold staff and board training sessions on ethics.
- Have your written code of ethics and a conflict of interest policy posted on your website.
- Elect board members with financial expertise, and have the board review all financial statements.
- If appropriate, have financial statements independently audited.
- Have your annual Form 990 signed by your CEO or CFO, filed electronically, and posted on your website for public disclosure.
- Be transparent, and have a dishonest conduct policy.
- Remain current with the law. ♦

OBTAINING AN APPRAISAL FOR A NONCASH CHARITABLE CONTRIBUTION

Noncash charitable contributions can generally be deducted at fair market value (FMV). If the donated item's value is more (or less) than what you paid for it, your deduction is the FMV rather than its original price, but in some cases you will have to include an appraisal with your tax return to prove that value.

Keeping records and receipts of the purchase and appraisal of noncash contributions is key to an accurate reporting. The IRS could deny the deduction for donations over $5,000 if there is no appraisal included with the tax return. Note, however, no appraisal is required if the donation is of publicly traded securities.

Continued on page 3

TIPRA
Continued from page 1

The controversial dividend and capitals gains rate cuts, enacted in 2003, are extended through December 31, 2010. Those taxpayers who are in the 25% (and higher) tax bracket will continue to benefit from the 15% capital gains rate. A significant effect of the new bill is that in 2008, the rate for taxpayers in the 10-15% bracket falls to zero; TIPRA extends those savings for two more years.

To encourage business investment, the small business expensing thresholds are extended through December 31, 2009. The maximum expense is $100,000 (indexed for inflation) of the cost of the property (reduced by the amount which the property exceeds $400,000).

As a step toward transforming retirement savings, TIPRA eliminates the $100,000 adjusted gross income ceiling for converting a traditional IRA to a Roth IRA for tax years after 2009. In this long time frame, it is difficult to predict if these changes will actually come to pass, which makes planning extremely difficult.

Trailer Bill On the Way

Other issues not resolved with TIPRA will be addressed in stand-alone legislation or added to a pending pension reform bill. Those include: extending the state sales tax deduction, teachers' classroom expense deduction, research and development provisions, and some employment tax credits. How these are handled may depend on election results this November. ♦

OBTAINING AN APPRAISAL
continued from page 2

Qualified appraisal requirements:

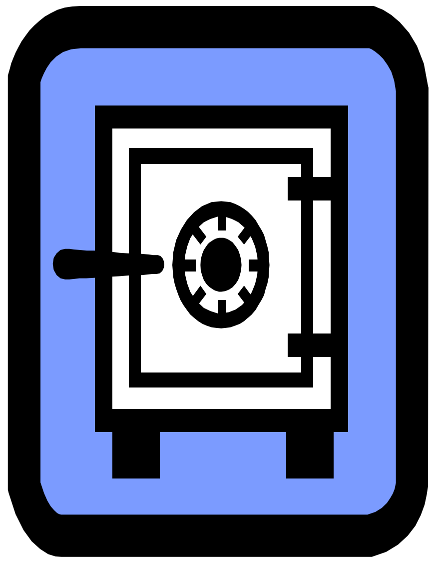
1) The appraisal must be obtained no earlier than 60 days before you contributed the item and no later than the due date of the tax return, including extensions.

2) The appraisal must describe the item/property in detail, giving its condition, date of contribution, any restrictions on its use, the date the item was valued, its FMV, the method of determining that value and identification of the appraiser (including his or her qualifications). The appraiser must have performed the majority of his or her appraisals for other persons, and cannot be a family member or the party who sold the item to the donor. ♦

PROTECTING TAXPAYER INFORMATION

You may have heard about the uproar related to tax preparers selling client data. Be assured that The Myers Associates will never sell your personal information.

With the advent of computerized tax preparation and the ability to use cheap labor in other countries, some tax preparers have been not only exposing client financial data to third parties but also selling it to marketers. The IRS recently proposed rules to update the disclosure and use of tax return information obtained by tax preparers. The new rules would require tax preparers to gain clients' consent prior to sharing private information with any third party. Unlike existing privacy agreements that make you opt out of third party sharing, the tax preparer must get your consent to opt in to the sharing or selling of your information. Currently, tax preparers can release your information to outside organizations with which they jointly market or are related affiliates of the tax preparer.



More and more CPA firms outsource preparation of their tax returns either overseas or domestically. TMA does not and will not outsource the work we do for you for any reason.

Several bills have been introduced in Congress to tighten the rules so that tax return information could never be sold, even with the client's signed approval. They are based on the concern that shared data could be sold repeatedly with mounting loss of privacy and possible identity theft.

The Myers Associates supports this type of legislation and assures you that we do not sell, share or outsource any tax return information. Our entire staff is committed to providing you with excellent service and protection of your confidential information; each year we provide you with a copy of our privacy policy. If you have any questions regarding this issue, please let us know. ♦

MIX BUSINESS & PLEASURE AND SAVE ON YOUR TAXES

Whether you are an employee or self-employed, the IRS allows you to combine a business trip with a vacation and deduct the expenses. That is why many large conventions are located in fun spots like Las Vegas, Seattle or Hawaii. Just do some planning and don't forget to keep your receipts.

Valid expenses include: the convention costs, hotels, meals, entertainment, and travel expenses to and from the convention. The convention or seminar must specifically relate to your business or profession. The expenses of your spouse may also be deductible, but only if he/she is also an employee of the employer and their travel has a bona fide business purpose as well.

Non-valid expenses: Stockholders cannot deduct the costs of attending an annual meeting of stockholders (the IRS considers this personal business). The IRS will not allow you to deduct expenses for attending an investment or financial planning seminar in a resort area (like a cruise ship).

If you are traveling across the country to meet with a client (or potential client), contact them in writing and have them confirm the appointment to discuss business matters. This will provide you with documentation to validate the trip as a business expense rather than a pleasure trip. Also, for the entire trip to be deductible, plan on spending the majority of your time conducting business. If you spend two days on business matters and six days sight-seeing, the trip will be considered primarily personal. However, even if the trip is mostly personal, any specific business-related expenses you incur can be deducted.

If you travel outside the U.S., special allocation rules apply, which significantly limit the deduction. We can help you determine the correct treatment—just let us know. ♦

PLANNING FOR YOUR ESTATE TAXES

With no actual bill introduced to repeal the estate taxes, it's best to assume that they will remain with us for a while longer. A strategy to help reduce those taxes is to prepay expenses for the benefit of an heir in such a way as to avoid gift, generation-skipping transfer and estate taxes, such as prepaying tuition at a private school for grandchildren. Arrangements can be made to prepay tuition for the child directly to the school. The school's agreement will exclude price discounts (donor or parents would pay tuition increases), provide no special treatment for the children (no guarantee of enrollment), and the money will be non-refundable (even if the children choose not to attend the school). With such qualifiers the prepayment would not be considered a gift to the school (as it pays for tuition), would not be a generation-skipping transfer (since it was not paid directly to the grandchildren) and by reducing the amount of the estate the prepayment reduces future estate taxes. But be aware that you could also lose the funds if the child does not enroll for <u>any</u> reason. ♦

ALWAYS FEEL FREE TO CONTACT US!

Call or e-mail us with your ideas for future articles on topics of interest or with names of others who may want to receive *TMA Report*. Also note that previous issues of all our newsletters, which include *On The Not-For-Profit Front* and *Small Business Outlook*, are included in the newsletter section on our website.

THE MYERS ASSOCIATES, P.C. STAFF DIRECTORY

Following is a listing of our e-mail addresses and telephone extensions. To reach us, dial (206) 623-6116, wait for the greeting and press the extension of the person you would like to reach.

Name	E-mail	Extension
General office	tma@tma-cpas.com	0
Mary Joyce, CPA	Mary@tma-cpas.com	207
Mark Long, CPA	Mark@tma-cpas.com	204
Julie Sandygren, CPA	Julie@tma-cpas.com	203
Michael Davis	Michael@tma-cpas.com	210
Warren Harrison	Warren@tma-cpas.com	202
Mary Ingersoll	admin@tma-cpas.com	206

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