



Newsletter

JANUARY 2006

It's tax time again

It's time to file various tax returns once again. Among the tax deadlines you may be required to meet in the next few months are the following:

- **January 17** - Due date for the fourth quarterly installment of 2005 estimated taxes for individuals unless you file your tax return and pay any taxes due by January 31.
- **January 31** - Employers must furnish 2005 W-2 statements to employees. Banks, brokers, and other payers must furnish payees with Form 1099s for various payments made.
- **January 31** - Employers must generally file annual federal unemployment tax returns.
- **February 28** - Payers must file information returns, such as Form 1099s, with the IRS. This deadline is extended to March 31 for electronic filing.
- **February 28** - Employers must send Form W-2 copies to the Social Security Administration. This deadline is extended to March 31 for electronic filing.
- **March 1** - Farmers and fishermen who did not make 2005 estimated tax payments must file 2005 tax returns and pay taxes in full.

A new retirement option debuts this year – the Roth 401(k)

Contributing to a 401(k) plan at work is a great way to build up your retirement nest egg. Setting aside money in a Roth IRA is another option for building a retirement fund. Combine these two popular retirement savings opportunities, and you end up with the new Roth 401(k).

Created as part of the *Tax Act of 2001*, Roth 401(k)s finally became available on January 1, 2006. Not all employers will offer these accounts, however, since amending an existing 401(k) plan to include Roths is optional.

With a regular 401(k), your elective salary deferrals reduce your taxable income and grow tax-deferred – meaning you'll owe income taxes on distributions taken from these accounts down the road. Contribute to a Roth 401(k) instead, and you lose out on the current deduction for your salary deferrals, but your contributions grow tax-free and can be withdrawn tax-free, provided certain conditions are met.

Should you consider contributing to a Roth 401(k) if your employer's plan offers them? Yes, if you're in a low tax bracket or anticipate that tax rates will jump substantially by the time you retire, and you plan to keep the money invested for a long time.

High-income individuals might favor the Roth 401(k) as well, since anyone whose annual income has consistently exceeded \$110,000 (\$160,000 if married) has been excluded from contributing to a

Roth IRA. Choosing the Roth 401(k) might also reduce the estate and income taxes ultimately paid by your heirs, since you forgo a tax savings today in exchange for tax-free growth.

Please give us a call if you have any questions about this new tax-free retirement savings opportunity.

Use new tax numbers for your 2006 tax planning

The IRS adjusts many tax numbers for inflation each year. Other numbers change as a result of tax law revision. As you begin your tax planning for 2006, here are some of the changes you'll need to take into account.

- The maximum earnings subject to social security tax increases to \$94,200 for 2006. As before, all earned income (wages and self-employment income) is subject to Medicare tax. The earnings limit for retirees under age 65 increases to \$12,480. There is no earnings limit for those 65 and older.
- The top estate tax rate decreases to 46% and the exemption amount increases to \$2 million for 2006. The annual gift tax exclusion increases to \$12,000 per donee.
- The nanny tax threshold increases to \$1,500 for 2006. If you pay household workers more than this amount during the year, you're responsible for payroll taxes.
- The kiddie tax threshold increases to \$1,700. If your child has more than \$1,700 of unearned income in 2006 (e.g., dividends and interest income), the excess could be taxed at your highest rate.
- The first-year equipment expensing limit increases to \$108,000. A special limit applies to sport utility vehicles: when purchased for business use, no more than \$25,000 may be expensed in the first year.
- The standard mileage rate for business driving in 2006 will be 44.5¢ per mile, and the mileage rate for medical and moving expenses will be 18¢ a mile. The rate for charitable driving remains at 14¢ a mile except for driving related to hurricane recovery charitable work. The 2006 mileage rate for charitable driving related to the 2005 hurricanes is 32¢ a mile for deduction purposes and 44.5¢ a mile for reimbursement purposes.
- The adoption credit increases to \$10,960 for 2006 adoptions.
- There are some changes to the retirement plan contribution limits for 2006. The maximum contribution for an IRA remains at \$4,000 for those under age 50, but it increases to \$5,000 for those 50 and older. The SIMPLE plan limit remains at \$10,000 for individuals under age 50, but those 50 and older can set aside up to \$12,500 for 2006, or \$500 more than last year. The 401(k) limit increases to \$15,000; those 50 and older can contribute up to \$20,000.

For details or for assistance with your tax planning, give our office a call.

Your referrals are appreciated

We appreciate your business, and we would appreciate your referrals. If you know someone in need of our services, please mention our name to them. We are a growing firm, and we would like more good clients like you.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.