



DEAN, DORTON & FORD

CPAs • Business & Financial Advisors

NEWSLETTER

WINTER 2006

Year-End Tax Planning Tips

With 2006 rapidly coming to an end, you may want to consider some of these year-end tax savings opportunities:

Capital Losses. Consider taking investment losses to offset any capital gains, especially short-term gains (otherwise taxable at the top rates on ordinary income), recognized this year. You can take losses to offset all of your gains, and up to \$3,000 of additional losses can be deducted against ordinary income. Net capital losses exceeding \$3,000 can be carried forward. Remember that you must not “replace” the stock you sold at a loss for at least 31 days before or after the sale in order to avoid the “wash sale” rules.

First Year Depreciation. The cost of most business equipment and furniture must be capitalized and depreciated over five to seven years. However, a special tax break is available to most small businesses. The Section 179 deduction permits immediate write-offs for up to \$108,000 of 2006 qualifying additions. If you haven't yet made 2006 equipment or furniture purchases up to this amount, consider accelerating next year's planned purchases into this year to fully utilize this provision. The equipment, which may be new or used, must be “placed in service” by year-end for the deduction to be available. These rules also apply to breeding or racing horses and to breeding cattle. Note that there are limits on the availability of the Section 179 deduction, the applicability of which you should ascertain before acting. Chief among these are that the deduction is only available to the extent of net business income and the deduction is phased out dollar-for-dollar when qualifying property additions exceed \$430,000 in the year.

S Corporation and Partnership Losses. If your S Corporation will generate a tax loss this year, consider whether you have enough basis in the stock (or in loans you've made to the corporation) to take the full loss. If you don't, additional investments should be considered.

Similar considerations can arise in some situations with partnerships expecting tax losses.

Keogh Plans. If you have self-employment income and don't have a retirement plan in place to shelter any of it, you may qualify to use a Keogh Plan. Even though the plan does not need to be funded until the due date for filing your income tax return, the plan must be established by year-end in order to deduct contributions for 2006.

Prepay State and Local Income Taxes. If you expect to owe additional state and local income taxes for 2006 and you're on the cash basis, paying these projected taxes by year-end can increase deductions on your 2006 federal return. However, if you are subject to alternative minimum tax for 2006, this may not be a useful tactic and could result in your paying more combined 2006 and 2007 taxes than you would otherwise.

Roth IRA Conversions. Consider converting your regular IRA into a permanently tax-free Roth IRA. This is available only if your income is \$100,000 or less. The conversion is treated as a taxable distribution of your regular IRA.

Charitable Contributions. Consider “pre-paying” contributions you would have made next year. Always consider funding charitable gifts with appreciated marketable securities, resulting in gains being untaxed.

Annual Gifting. You may give your children and others up to \$12,000 in 2006 without gift tax consequences. This annual exclusion is a per person amount, and there is no carryover of any unused exclusion. Consider making year-end gifts to fully utilize the annual exclusion.

Energy Conservation. Consider taking advantage of tax credits available for 2006 and 2007 for an extensive list of energy-saving expenditures at your personal residence. (See our Spring 2006 newsletter or contact us for more information about available tax credits and qualifying expenditures.)

INSIDE

Key Retirement Plan Provisions in the Pension Protection Act
page 2

Reminders - W-2, 1099, and 1042-S Filings for 2006
page 2

Tax Developments for 2007
page 3

People News
page 4

DEAN, DORTON & FORD, P.S.C.

106 West Vine Street, Suite 600 • Lexington, Kentucky 40507 • (859) 255-2341 • Fax (859) 255-0125

www.ddfky.com

Key Retirement Plan Provisions in the Pension Protection Act

CLIENT SERVICE PROFESSIONALS & ADMINISTRATIVE STAFF

Shannon L. Abbott
Heather N. Adkins
Katie B. Amato
Ted R. Arlinghaus
Jaclyn T. Badeau
Nancy K. Bickford
Danielle R. Blankenship
Gina L. Broadus
Rachel L. Brown
David C. Bundy
Justin R. Camblin
Amy Cao
Emily S. Carpenter
Aimee J. Carter
Mackela Chenault
Erin E. Collier
Joshua W. Coombs
Jennifer L. Criggall
Chad W. Criswell
Pamela D. Crouch
Jason Crowe
Shannon F. Dalcour
Morgan K. Daulton
Sharon W. Davis
Sylvia C. Davis
Douglas P. Dean
Flora Djojo
Richard O. Dorton
Stephanie B. Eckel
Christian Fisher
Crissy R. Fiscus
Joseph K. Ford
Ozlem Fritz
Rebecca J. Fuller
Scott Garrett
Daniel V. Gray
James E. Green
Amanda Jo Hall
Paula C. Hanson
April N. Hatfield
Cristi Hawkins
Ashley B. Hays
Tom J. Hern
Melissa S. Hicks
Pamela Hicks
Angela L. Hollearn
Justin Hubbard
Kathy Jaeger
Christopher Jones
Keith Jones
Lynn Jones
Martha E. Jones
Benjamin D. Judd
William J. Kohm
Charles J. LeBoeuf, Jr.
Chris Mahler
Brandi N. Marcum
Diane May
Susan L. McElroy
Elizabeth R. McIntosh
Leigh McKee
Jason D. Miller
Andrea M. Mullins
Jennifer Nicholson
Sally J. Nolan
Joseph W. Overhults
David A. Parks
Kirsten A. Petrey
Douglas Pham
Susan H. Purnell
Kathy W. Reynolds
David W. Richard
Jason D. Schmiedt
Jennifer D. Shah
Michael T. Shepherd
Jessica Smith
Cynthia Standerfer
Hunter M. Stout
Dale T. Stratton
Marvis Strickland
Mary Lena Strohmeier
Amanda Jo Thompson
Beth A. van der Meer
Jody L. Warner
Raiph S. "Bud" Watson, II
Bonita A. Weber
Elizabeth Z. Woodward
Jennifer K. Wright

In our last Newsletter (Fall 2006) we discussed key charitable contribution provisions included in the Pension Protection Act of 2006. In this issue we summarize some of the more noteworthy changes impacting retirement plans.

Improvements to 401(k) and Other Pension Plans. The Act includes qualified plan changes intended to make retirement saving easier for employees:

- The maximum vesting schedule for employer discretionary contributions was reduced to a 6 year graded schedule or a 3 year cliff schedule.
- Rules were added to make automatic enrollment in a 401(k) more attractive to plan sponsors.
- The following previously-enacted enhancements that were set to expire in 2010 were made "permanent":
 - Higher annual contribution limits for 401(k) plans

- Catch-up contributions for those 50 or older
- Higher deduction limits for profit sharing plans
- Roth 401(k) options
- Tax credit for low-income workers for retirement contributions up to \$2,000.

Enhancements to IRAs. The Act makes a number of changes to traditional and Roth IRAs, including, most significantly:

- Starting in 2007, tax-free rollovers are permitted from a deceased person's IRA or qualified plan account to a non-spousal beneficiary's IRA. A new IRA, which must be titled "decedent's name FBO beneficiary's name," will need to be established to receive the funds. Rolled over funds should not be commingled with an existing IRA because the inherited IRA will have different distribution rules. This change will enable much longer distribution periods for some qualified plan beneficiaries.

• **Kathy Jaeger**, hjaeger@ddfky.com

Reminders - W-2, 1099, and 1042-S Filings for 2006

As the time for reporting certain 2006 payments approaches, we'll review with you some of the filing requirements for 2006 W-2, 1099, and 1042-S forms.

First, very briefly, Form 1042-S relates to reporting amounts paid to foreign persons that are subject to withholding. Please refer to the IRS Instructions for Form 1042-S or consult with us for further guidance on this subject.

The 1099 forms most commonly required are:

FORM	Type(s) of Payment
1099-DIV	Dividends
1099-INT	Interest
1099-MISC	Services, Rents, Royalties
1099-R	Distributions from Retirement Plans and IRAs

Most payments to corporations are exempt from 1099 reporting requirements. Payments to partnerships, LLCs, and LLPs are not exempt. Also, payments totaling (by payee) less than \$600 are exempt from 1099-MISC reporting. Payments made by cash, wire transfer, check, and credit card are all includible in 1099 reporting.

W-2 and 1099 forms are required to be filed on a calendar year basis regardless of a business's fiscal year. 2006 forms are required to be provided to employees/payees by **January 31, 2007**, with copies to the Federal government by **February 28, 2007**. IRS Publication 1220 is a reference for 1099 preparation and filing information.

Employers filing 250 or more W-2s are required to submit them to the Social Security Administration (SSA) on magnetic diskette or electronically. To register for electronic filing or to get more information, go to www.socialsecurity.gov/employer and click on "How to File." Pre-registration is required, and it takes 10-14 days to receive a password. Please note, however, that Kentucky has a more stringent requirement: Kentucky employers with 100 or more employees during the year are required to magnetically or electronically report wage and tax information. Pre-registration is required; www.revenue.ky.gov has additional information.

Businesses required to file 250 or more of any one type of Form 1099 must file on magnetic media or electronically. Form 4419, *Application for Filing Information Returns Electronically*, must be filed at least 30 days before the due date of the forms.

continued on page 3

Reminders - W-2, 1099, and 1042-S Filings for 2006

continued from page 2

Electronic filing also is available for smaller businesses. To promote use of electronic filing, the government has given electronic filers a later filing deadline for both W-2 and 1099 forms: **April 2, 2007**. Please note, however, that the employee's/payee's copy still needs to be distributed by **January 31, 2007**.

New for 2006 Forms

W-2's have two new codes. New code AA, box 12 was added to report Roth contributions to a Section 401(k) plan. New code BB, box 12 was

added to report Roth contributions under a Section 403(b) salary reduction agreement. IRS added a separate entry field to box e (employee's name) on Form W-2 for suffix names such as "Jr." or "Sr.". Employee instructions were added to Copy 2. IRS added a checkbox for new Form 944, Employer's Annual Federal Tax Return, to box b of Form W-3. Small employers may file Form 944, Employers Annual Employment Tax Return, instead of filing Form 941 each quarter. To file Form 944 the annual liability for withheld income tax, social security and Medicare tax must not exceed \$1,000.

• **Angela Hollearn**, ahollearn@ddfky.com

Tax Developments for 2007

FICA Base - Annual compensation to which Social Security applies increases from \$94,200 for 2006 to \$97,500 for 2007. The Medicare tax continues to apply to all compensation.

Social Security Benefits - Individuals who have not attained full retirement age will begin to lose Social Security benefits if they have earned income exceeding \$12,960 in 2007, up from \$12,480 in 2006.

Adjustments for Retirement Accounts - The maximum annual addition to a defined contribution plan increases from \$44,000 to \$45,000 for 2007. The maximum amounts that individuals can elect to contribute to employer-sponsored plans and IRAs increase (in some cases) for 2007 as shown below. In addition, individuals who are age 50 or older by the end of the tax year may invest "catch-up" contributions in these accounts in the amounts shown below.

YEAR	IRAs		SIMPLE Plans		Other Employer Plans	
	Annual Contribution	Make-Up Contribution	Elective Deferral	Make-Up Contribution	Elective Deferral	Make-Up Contribution
2007	\$4,000	\$1000	\$10,500	\$2,500	\$15,500	\$5,000
2006	\$4,000	\$1000	\$10,000	\$2,500	\$15,000	\$5,000

The maximum amount of compensation that can be considered as the base for retirement plan contributions increases from \$220,000 in 2006 to \$225,000 in 2007.

Nanny Tax Threshold - Payments to a household employee will not be subject to reporting or FICA taxes if less than \$1,500 for 2007, unchanged from 2006.

Estate and Gift Tax Credits and Exclusions - The amount of taxable transfers above which federal estate taxes will be payable remains \$2,000,000 for 2007, and the amount of taxable gifts above which gift taxes will be payable remains \$1,000,000 for 2007. The generation-skipping exemption also

remains \$2,000,000 for 2007. The annual exclusion for gifts per donee remains \$12,000 for 2007.

Standard Automobile Mileage Rates - The standard rates per mile for deducting automobile expenses are adjusted as follows:

	2007	2006
Business	\$.485	\$.445
Charity work	.14	.14
Medical	.20	.18

NOTE RE: 529 PLANS

Tax Advantages of 529 College Savings Plans are Now Permanent - Qualified Section 529 plan distributions (distributions used for qualified higher education expenses) will continue to be tax exempt, even after 2010 when the exemption was set to expire, based on provisions included in the Pension Protection Act of 2006.

People News

Professional and Community Activities and Accomplishments

Elizabeth Woodward is serving as a Commissioner of the LFUCG Parking Authority Board.

David Richard, Chris Jones, and Heather Adkins made presentations at the 4th Annual University of Kentucky Nonprofit Leadership Initiative.

David Richard presented to the Association of Fundraising Professionals - Bluegrass Chapter about Sarbanes-Oxley.

David Richard and **Charlie LeBoeuf** participated in a Lunch & Learn for the UK Nonprofit Leadership Initiative on auditing.

Kathy Jaeger has joined the United Way Finance Committee.

Mike Shepherd was appointed to the Lexington Clinic Foundation's Board of Directors.

Paula Hanson has been elected to a three year term on the Board of Commerce Lexington, for which she will serve as Treasurer in 2007.

Angela Hollearn is serving on Lexington Christian Academy's High School Parent Teacher Partnership Board.

The matters discussed in these articles provide general information only. You should consult with us about your specific situation before undertaking action based on such general information.

DDF Employee direct lines and email addresses are as close as a mouse click away:
www.ddfky.com/staff3.html

New People at Dean, Dorton & Ford

Debbie Lynch and **Doug Pham** have joined DDF as members of the Office Services Team.

Ozlem Fritz has joined DDF after earning her degree in Translation and Interpreting from Bosphorus University in Istanbul, Turkey and graduating from Eastern Kentucky University with an accounting degree.

Sally Nolan has joined our Client Accounting and Payroll Services staff. Sally brings with her 20 years of bookkeeping experience working in both public accounting and industry.

Amanda Jo Thompson, who earned her master's degree in accounting from UK, has joined our firm after working with Fifth Third Bank, most recently as a Corporate Treasury Management Client Specialist.

Ashley Hays, Benjamin Judd, and Andrea Mullins are joining DDF in January after earning accounting degrees from the University of Kentucky.

Retirement

Candy Boldrey, who has worked with our Technology group and on employee benefit plan administration services, is retiring after working the last six years with DDF.

6



**2006 Winner
Best Places to Work
in Kentucky**



DEAN, DORTON & FORD

CPAs • Business & Financial Advisors

106 West Vine Street, Suite 600 • Lexington, KY 40507

PRSR STD
U.S. Postage
PAID
Permit #1
Lexington, KY