



Tax & Financial Guide

Business and Personal ACCOUNTING, TAX,
SOFTWARE & FINANCIAL PLANNING SERVICES

New Retirement Plan For Higher Income Employees

Effective January 1, 2006, there is a new retirement savings option, the Roth 401(k). It combines elements of both traditional 401(k)



Fourth quarter Federal tax estimates are due January 17, 2006 and state tax estimates are due either January 17, 2006 or December 31, 2005. Please get your income and expenses to our office by December 20, 2005. Call us if you aren't sure when to pay your state tax estimate.

Please call our office to discuss any of the items in this newsletter that may pertain to you.



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Charitable Contributions

The Katrina Emergency Tax Relief Act of 2005 contains tax breaks for victims of the disaster as well as for individuals and businesses helping in the recovery.

The Katrina act provides deductions for people who provide housing to evacuees. The shelter has to be in your principal residence, free of charge, for at least 60 consecutive days. If you need more information pertaining to this, contact our office.

Larger Deduction

Charitable contributions are normally limited to 50% of your adjusted gross income. Donations to qualified charitable organiza-

tions and Roth IRAs.

Higher income employees have not been able to use Roth IRAs because of the income restrictions and contribution limits. By adopting Roth 401(k) plans, highly compensated employees will now be able to save up to \$15,000 per year, \$20,000 for those 50 and older.

Roth 401(k) participants will be able to make contributions on an after-tax basis, earnings will accumulate tax-free, and distributions at retirement would be tax-free. Contributions are simply made through payroll deductions.

Employee contributions to a Roth 401(k) may be matched by a participant employer on a pre-tax basis but must be invested in a traditional 401(k).

As with any IRS plan, there are some restrictions and tax consider-

tions between August 28, 2005 and December 31, 2005 are not subject to this income limitation.

This provision does not require a connection with Hurricane Katrina. Any and all cash contributions made after August 27, 2005 and before January 1, 2006 qualify for the increased contribution deduction.



ations that may or may not affect your situation. Call us for details on what's best for you.



Tax Planning & Preparation

We will be sending out our tax organizers the first week of January 2006. If you would prefer to have yours e-mailed to you, make sure we have your current e-mail address.

If you paid any person or business that is not a corporation \$600 or more during 2005, you may need to issue them a 1099-misc. These payments must have been made in the course of your business or rental property activities.

If you need us to prepare these forms for your distribution to the Internal Revenue Service, the state, and the recipients, please contact our office by January 16, 2006. 1099s must be issued by January 31, 2006.

Our offices will be closed December 15 and 16. We will be attending classes each day in order to keep up with all the tax law changes.

Murphy Financial Services, Inc. web site is at www.murphyEA.com If you misplace your newsletters, or your information sheets that I have given you (i.e. contributions, enrolled agents, etc.), you will be able to find them on the web site.

Please note that our e-mail address is: info@murphyea.com.

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information only to IRS or state authorities and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.



An IRS Service To Avoid

While the IRS has always had the authority to prepare tax returns for taxpayers who did not do their own, they've seldom done it. Now the IRS is not only planning to start preparing tax returns, it will also have its computers produce an "automated substitute for return" for non-filers.

When the IRS prepares a substitute return, they simply list your

income and withholding. They don't include your business expenses, rental property expenses, or itemized deductions *because they don't know what they are.*

Your amount due will, most likely, be higher than if your return included the proper deductions. If you have a refund coming based on the IRS "automated substitute for return", you'd probably have a larger refund with a correctly prepared and filed return.

If you want to file an accurate tax return, don't let the IRS prepare it.

Tax Scofflaws Beware

Effective January 3, 2006, Wisconsin will implement a new state law that may be embarrassing to some. It will list on the internet taxpayers who owe money to the state.

When the state sent letters

warning businesses and residents of the new law, 20 companies and two individuals agreed to pay the state \$2 million they owed to keep their names off the internet. There's still \$771 million in back taxes due Wisconsin.

Wisconsin joins Illinois and several other states in posting the names of offenders who owe unpaid taxes.

Change Your IRA?

You may want to consider converting part or all of your traditional IRA to a Roth IRA before year-end. To determine whether this is a good idea, we need to look at your taxable income for 2005.

If your IRA is in stocks or investments that have decreased in value, this could be a good time to transfer your IRA savings to a Roth IRA before the stock market makes a comeback and the value of your IRA increases.

With a Roth IRA, distributions from the money you contributed are tax-free. Distributions from earnings on your contributions are also tax-free if you've held the account for five years and are at least 59-1/2 years old. Another advantage over traditional IRAs is that Roth IRAs require no minimum distribution at 70-1/2 years old.

IRS Changes Mileage Rates

Due to the increases in gasoline prices, the IRS changed mileage rates effective September 1, 2005. They are as follows:

2005 rates	Jan-Aug	Sept-Dec
Business	40.5¢	48.5¢
Medical	15	22
Moving	15	22
Charitable	14	14

Make sure you have a mileage log which records the

date, number of business miles, where you went, and the business purpose.

If you used a vehicle while providing donated services to a charity for relief related to Hurricane Katrina, you can compute the charitable mileage deduction using a standard mileage rate equal to 70% of the business rate in effect on the date of contribution.

Happy Holidays and Best Wishes for a Healthy and Prosperous New Year!



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