Client UPDATE

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In this issue:

Bright ideas for cutting your 2006 taxes

The end of the year will be here before you know it. That means you should put some tax planning on your agenda now. Here are some ideas you might consider to trim your 2006 taxes.

- **Invest in dividend-paying stocks.** Because of the favorable 5% and 15% tax rates on dividend income, holding stocks that pay dividends can reduce your taxes immediately. This might make such investments more attractive than interest-generating securities, such as bonds.

- **Hold stocks long-term.** Dividends aren't the only type of income given favorable tax treatment. Long-term capital gains are also taxed at a maximum 15% tax rate. So when you decide to sell stocks, bonds, or other investments, remember that meeting the 12-month holding period for long-term gains provides significant tax savings.

- **Save for your retirement.** Make sure to

take advantage of the more liberal contribution limits to tax-deferred retirement accounts. By contributing to your employer-sponsored retirement plan, such as a 401(k), 403(b), or 457 plan, you'll reduce your taxable income, and you'll defer taxes on the account until you take future distributions. With the 2006 contribution limits raised to $15,000 for most plans, you could slash your tax bill simply by saving for the future. And don't forget: If you're age 50 or older in 2006, you can make an additional $5,000 "catch-up" retirement contribution.

- **Make your home energy-efficient.** New in 2006, you may claim a lifetime credit of up to $500 for making qualifying energy-saving improvements to your home. Qualifying expenditures include installation of certain energy-efficient insulation materials, exterior windows and doors, electric heat pumps, and central air conditioning.

- **Go solar.** Also new for 2006, you may claim a 30% credit (with certain dollar limits) for installing solar water-heating, photovoltaic, or fuel-cell equipment in your home. No credit is allowed for equipment used to heat a swimming pool or hot tub.

- **Buy an energy-efficient car.** A tax credit is available for a variety of alternative fuel vehicles. New hybrid vehicles are eligible for a tax credit of up to $3,400, depending on the vehicle's fuel-efficiency. However, this credit is limited to the first 60,000 vehicles sold this year per auto manufacturer.

- **Maximize interest deductions.** If you have car loans, credit card debt, or other loans on which the interest is generally nondeductible, consider paying off these loans with a home equity loan on which the interest is generally deductible.

These are just a few ideas that you should consider to cut your 2006 taxes. Contact our office for a review of tax-cutters to consider in your particular situation.

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In this issue:

Legislation signed in May gives taxpayers $70 billion of tax relief

After months of negotiating, Congress finally passed a bill that provides $70 billion in tax relief for American taxpayers. President Bush signed the Tax Increase Prevention and Reconciliation Act of 2005 on May 17, 2006. Here's a brief overview of what the law contains.

■ **Tax rates.** In a 2003 tax law, the maximum tax rates for dividend income and long-term capital gains were cut to 15% through 2008. The rate for taxpayers in the two lowest brackets for ordinary income was cut to 5% through 2007 and to 0% in 2008. The new law extends the lower rates through December 31, 2010.

■ **AMT.** The alternative minimum tax (AMT), a separate tax calculation intended to keep wealthy taxpayers from using tax breaks to eliminate their tax liability, has caught millions of middle-income taxpayers in recent years. To keep an additional 15 million taxpayers from having to pay the AMT this year, the new law provides higher exemption amounts. The AMT exemption for married couples filing jointly in 2006 is $62,550, and the exemption for singles is $42,500. The new law also extends through 2006 the benefit of certain personal tax credits in calculating the alternative minimum tax.

■ **Expensing.** The expensing election that allows small businesses to write off equipment costs in the year of purchase was scheduled to drop from the current $108,000 to $25,000 after 2007. The new law extends the higher expensing allowance through December 31, 2009.

■ **Roth IRAs.** Effective beginning in 2010, the new law ends the income limit for converting a traditional IRA to a Roth IRA. Higher-income tax-payers will be permitted to convert to Roths.

■ **"Kiddie tax."** Under previous law, the unearned income of children under age 14 was taxed at the parents' highest rate if it exceeded a certain amount. The new law raises this "kiddie tax" threshold to age 18.

The law contains many other tax provisions that will affect individuals and businesses. Among them are changes in the tax treatment of self-created musical works, the foreign earned income exclusion, and the domestic manufacturing deduction. Contact our office if you would like details on this latest piece of tax legislation.

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In this issue:

Offering a good benefits package could be good for your business

To motivate or reward your employees, consider giving them a tax-free benefit. The cost of certain benefits can be nontaxable to employees and tax-deductible to your business. Offering as many tax-free benefits as your business can afford might also help you hire and retain the workers you need. There's often a lot you can do at little or no cost to your business.

- **Insurance.** Start with the traditional benefit of health insurance. Consider adding term-life insurance coverage, which is tax-free to employees up to $50,000 of coverage, and long-term disability insurance.

If your employees are required to contribute to the cost of health insurance, allow them to make their contributions with pre-tax dollars, saving them income and payroll taxes. The company also saves on its share of payroll taxes.

- **FSAs.** Another option is to provide flexible spending accounts (FSAs), which allow employees to set aside pre-tax dollars to pay for unreimbursed medical expenses or child care expenses. Technology is making it easier for small companies to manage FSAs in-house rather than using outside vendors to administer the accounts.

- **Retirement plan.** Even small businesses should consider offering some form of retirement plan. Some plans require employer contributions, but not all of them do. Choose the plan that fits your company. It's important to provide a vehicle for employees that both reduces their taxable income and builds tax-deferred savings.

- **Other benefits.** A number of other fringe benefits offer tax advantages or are tax-free to employees. For example, you can now offer your employees a salary reduction option to pay for transportation benefits such as parking or bus passes, within certain limits. Employees benefit from lower taxable income and lower payroll taxes. Other fringes, such as education assistance, job training, dependent care assistance, or adoption assistance, can be tax-free to employees if offered as part of a properly structured program.

Most of these benefits must be provided equally among all your employees. If you discriminate in favor of certain key or highly compensated employees, the benefits could be taxable to them.

For a review of the fringe benefits you might want to offer your employees, give us a call.

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Keep employees informed

Surveys show that employees tend to underestimate the amount of money that their employer is spending on employee benefits. It's up to you to get them to realize their paycheck is only part of the compensation they are receiving as employees.

Make your employees aware of their total compensation package. After all, your employees can't appreciate all those extra dollars the company pays if they don't know about them.

In conjunction with preparing an employee's W-2 for 2006, prepare a list of the amounts that make up his or her total compensation package. You might find it a good idea to go over each employee's total benefits package during the employee's annual review.

Your benefits summary should include such items as the following:

Salary	$_____
Bonus	$_____
Pension plan contribution	$_____
Deferred compensation	$_____
Medical and dental insurance	$_____
Life insurance	$_____
Disability insurance	$_____
FICA (social security & Medicare)	$_____

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Worker's compensation	$_____
Unemployment insurance	$_____
Total wages and benefits	$_____

Also include the number of paid vacation days, personal days, sick days, and the value of employer-provided benefits such as work clothing, parking, and meals.

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In this issue:

Couples: Take these six steps to financial harmony

Most people need help from time to time with their finances, and this can be especially true for couples. Partners often struggle with differing perspectives about money, and these differences can affect spending, saving, budgeting, and other financial decisions. Regardless of these differences, however, the following tried-and-true guidelines can help any couple achieve greater financial stability and security.

1. Organize your finances. Get a handle on your income and spending. How much are you really spending on those dinners out? Many widely available financial software programs can help you track finances and provide insight into your spending habits. By reviewing how you spend money, you can focus on potential problem areas.

2. Set goals. How much will you accumulate in bank accounts and investments over the next three years? Five years? Ten years? Have you anticipated future expenses? Say, for example, you're dreaming of a vacation in Europe for your anniversary. You'll want to start saving now so you won't need to finance the trip with credit cards.

Speaking of debt, it's a good idea to set goals for becoming debt-free. Generally, you should pay off high-interest credit cards first, then concentrate on installment loans, then the mortgage.

Consider also refinancing that adjustable rate interest-only mortgage to a fixed-rate mortgage. At some point, most couples live on a relatively fixed income. You should plan for the day when mortgage payments are only a memory.

3. Build an emergency fund. Setting aside money for emergencies makes sense. Life can throw us curveballs, and it pays to be ready. How much is enough for emergencies? As a general rule, set aside three to six months of gross income in easily accessible accounts, such as savings or money market accounts.

4. Save for retirement. If you can participate in a retirement plan such as a 401 (k), you should definitely try to contribute up to the amount matched by your employer. The earlier you start saving, the more you'll accumulate. It's that simple. Individual retirement accounts (IRAs) are another great place to sock away retirement savings.

5. Review your insurance coverage. You should generally carry at least enough term life insurance to pay off the outstanding balance of your mortgage, so your spouse or other survivors won't be burdened with large mortgage payments. Catastrophic health insurance is also a must. It's a good idea to review your insurance coverage every year or so, to make sure the coverage keeps up with your changing circumstances.

6. Do some estate planning. Even if you don't have kids, it's a good idea to ask an attorney to draft a will and set up a financial power of attorney. This helps ensure that your assets are distributed according to your wishes in the event of death or incapacity.

Although couples often fret over differences about financial matters, by agreeing to follow some basic guidelines, they can enjoy long-term financial security together.

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In this issue:

Too much company?

It seems that the recent failure of Enron and other corporations did not teach workers the primary rule of investing: diversify your investments. A recent study revealed that workers still hold too much of their company's stock in their retirement accounts.

As a general rule, you should avoid being too heavily invested in any one company's stock. When that company is also your employer, your risk of loss increases. A downturn for your company will not only diminish your portfolio, it could adversely affect your next raise or bonus. It might even cost you your job.

You may believe the additional risk is okay, because you know your company and its industry. Or you think you'll see problems coming before it's too late. Unfortunately, there's no guarantee that you will detect problems sooner than anyone else.

Your company may provide incentives for you to acquire its stock, such as purchase discounts, matching, or stock options. You may feel these incentives are too good to pass up, but keep them in perspective. For example, even a hefty stock discount can quickly disappear in a market downturn, and a discount or other incentive may not be worth the risk of overweighting your portfolio with company stock.

If more than 10% of your total investment portfolio is in your company's stock, you may want to reduce your holdings or take other measures to diversify. Don't risk your financial future by putting too many of your "eggs" in your company's "basket."

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In this issue:

Combat pay counts for IRAs

On May 29, 2006, President Bush signed the Heroes Earned Retirement Opportunities Act, a new law that will permit combat pay, which is usually nontaxable, to count as taxable income for purposes of calculating IRA contributions. The new law is expected to give military personnel an estimated $167 million in tax benefits over a ten-year period.

IRS concedes defeat on telephone tax

After numerous losses in court, the IRS is admitting defeat on the issue of telephone excise taxes. The Service will no longer collect the 3% excise tax on long-distance telephone services. In addition, the IRS will issue credits or refunds of all excise taxes paid on long-distance service billed after February 28, 2003, along with interest.

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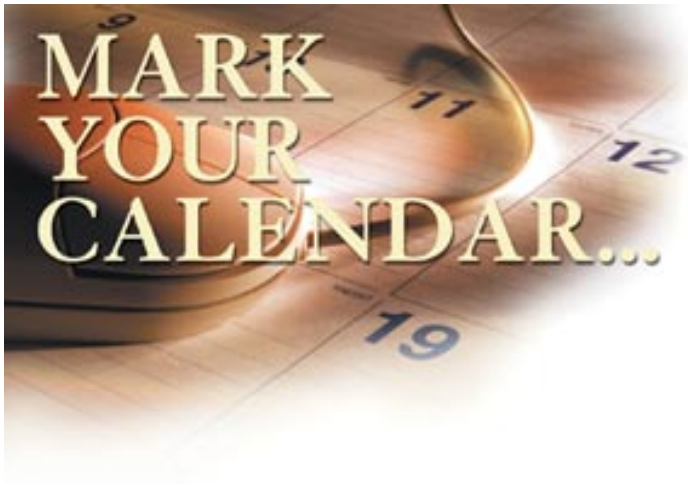

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Tax deadlines

SEPTEMBER

❑ **September 15** — Third quarter 2006 individual estimated tax is due.

❑ **September 15** — Filing deadline for 2005 tax returns for calendar-year corporations with extensions of the March 15 deadline.

OCTOBER

❑ **October 16** — Filing deadline for 2005 individual tax returns on automatic six-month extensions of the April 17 deadline.

❑ **October 16** — Deadline for reconverting a Roth to a regular IRA.

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