



E-News Update

January 2006

S Corporations Under IRS Microscope

"The use of S corporations has exploded" IRS Commissioner Mark Everson said. The growth of S corporations over the past 20 years is phenomenal. In the past 20 years, S corporations have grown to be the most common form of doing business in the U.S. Almost 60 percent of all corporate tax returns were filed by S corporations in 2002.

Last year's big tax cut, The American Jobs Creation Act of 2004, made S corporations even more attractive. The new law raised the number of permissible S corporation shareholders from 75 to 100. It also allows family members to elect to be treated as one shareholder.

Because of this "explosion", the IRS is launching a new audit study in the area of S corporations and will randomly audit 5,000 selected S corporation returns from tax years 2003 and 2004. To put this perspective, these 5,000 returns that will be selected for examination by the IRS represent only 0.60 percent of the current S corporation population.



Massachusetts E-File Requirements for 2005 Filing Season



Beginning January 1, 2006, corporations with gross revenues over \$100,000 must file and pay their corporate excise tax electronically. The partnership E-File requirements remain the same. Partnerships meeting certain income thresholds or with 25 or more partners must E-File. The income threshold is met with \$50,000 or more in gross income or \$100,000 or more received from the sale of stock and securities. The partnership loss threshold is reached when the partnership has, in one tax year, \$50,000 or more in ordinary loss from trade or business activities or \$100,000 or more in losses from the sale of stock and securities. Once the E-File requirement is met by a corporation or a partnership, it must continue to E-File and pay electronically even if it does not meet the thresholds in subsequent years.

Massachusetts 2002 Capital Gain Tax Refunds

You may remember that up until April 30, 2002, capital gains were subject to several Massachusetts capital gains tax rates based on the holding period of the asset. Sales completed after that date were taxed at a flat 5.3%. Due to a recent court decision, Governor Mitt Romney signed a bill to retroactively delay the 5.3% capital gains tax rate until January 1, 2003. Effectively, taxpayers who realized capital gains in the last eight months of 2002 may qualify for a full or partial refund. To see if you might qualify for a refund, review your 2002 Individual Massachusetts tax return, Schedule D, Page 4, Line 23g. Effected taxpayers must file for an abatement before June 30, 2006 and delays in processing should be expected. Refunds over \$1,000 will be paid out over four years and no interest will be paid on any refund.



If KAF prepared your 2002 return and you are affected, you will be receiving a letter addressing your refund amount within the next few weeks. If we did not prepare your 2002 return, please review your Massachusetts return or contact us with any questions.

Applicable Federal Rates (AFR)

January 2006



	Short Term	Mid Term	Long Term
<i>Annual</i>	4.38%	4.48%	4.73%
<i>Semi annual</i>	4.33%	4.43%	4.68%
<i>Quarterly</i>	4.31%	4.41%	4.65%
<i>Monthly</i>	4.29%	4.39%	4.64%
Adjusted AFR for Original Issue Discount (Code Sec. 1288(b))	3.17%	3.56%	4.36%
Code Sec. 382			4.36%
Adjusted Federal Long Term Rate			4.40%
<i>Long Term Tax exempt rate</i>			4.40%
Low income Housing Credit (Code Sec. 42(b)(2))			
<i>70% present value</i>			8.07%
<i>30% present value</i>			3.46%
Valuation Tables (Code Sec. 7520)			5.40%
Deemed Rate of Return for Transfers to Pooled Income Funds Code Sec. 642(c)(5)			3.80%

Corporate Annual Report Filing Change

Due to increasing litigation surrounding CPA firms regarding the unauthorized practice of law, KAF will no longer prepare or file corporate annual reports for our clients.



Corporations have the ability to file the Massachusetts corporate annual reports online at

https://corp.sec.state.ma.us/corp/loginsystem/login_form.asp?FilingMethod=I.

If you do not currently have an online account with the MA Secretary of State's office, you can also create one at this website. Is it actually cheaper to file your report online, the annual fee will be reduced from \$125 to \$109 if you file online.

If you operate in New Jersey, that state will now only accept its annual reports online. It will no longer accept New Jersey annual reports as an attachment to the New Jersey corporate tax return. The website to file this annual report is <http://www.state.nj.us/njbgs> and the fee is \$50. Please note that New Jersey also requires that the fee be paid electronically.

Again, we regret that we can no longer offer these additional services to our clients but we must comply with the law.

If you have any questions or if we can be of further assistance please call us 781-356-2000.

KAF Identity Theft Seminar






Presented by: **Donna K. Sinor, JD, CLU, ChFC**
Assistant Vice President and Director, Advanced Markets Columbus Life

When: Wednesday, February 1, 2006

Where: Lantana, Randolph, MA

Time: Registration: 7.30 a.m.
8:00 - 10:00 a.m. - Program and Q & A

Issues to be discussed:

-  **What is Identity Theft?**
-  **Accessing Your Risk**
-  **How to Protect Yourself**

Cost: Free!

RSVP on or before January 25, 2006: Becky Dowd
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