



Attention KAF Clients

Please submit your individual tax return information as soon as possible.

If your 2005 individual tax return information is not received at KAF by Monday March 6, 2006 or there is outstanding information from third parties, it may be necessary to request an extension of time to file

Roth 401(k) Contributions



As of January 1, 2006 existing 401(k) plans had the option to allow "Roth" 401(k) contributions. Roth 401(k) contributions are similar to normal 401(k) contributions in many ways. The amounts that can be contributed are the same for both plans and the plans operate and function identically. However the differences for the Roth are that there is no tax deduction for any employee contributions and also that qualified contributions to these plans may be withdrawn tax free, much like a Roth IRA. Unlike a Roth IRA there are no income limitations on the ability to contribute to the Roth 401(k).

There are many considerations to be weighed if you decide whether or not to contribute to a Roth 401(k). While employers are allowed to offer such a plan, they are not required to. If you have questions about how your current employer's plan works or whether this is offered, you should consult your plan administrator. If you own a business and would like to consider implementing a Roth 401(k) plan, or if you would like advice regarding whether this is a good idea for you to contribute to, please call KAF.

Tax Tip - Gift Taxes

Form **709**

Department of the Treasury
Internal Revenue Service

Taxpayers who have given gifts exceeding \$11,000 in value to a single individual must report the total gift amount to the Internal Revenue Service (IRS). The giver may owe taxes on the gifts. The recipient, however, does not have to report or pay taxes on the value of the gift, generally. Individuals who need to file a gift tax return should use Form 709: United States Gift (and Generation-Skipping Transfer) Tax Return.

Gifts include money and property. If someone uses property and the owner of the property doesn't expect to receive something of equal value in return, that is also a gift. Selling something for less than market value, making an interest-free or reduced interest loan may also be gifts. Tuition or medical expenses paid directly to an educational or medical institution, however, are not gifts. Gifts to spouses who are U.S. Citizens, charities, and political organizations do not count against the annual limit, either.

The limit for gifts given to spouses who are not U.S. Citizens has been increased to \$117,000 this 2005.

Other changes occurring during 2005 affecting gift taxes include: filing Form 8892, Application for Automatic Extension of Time to File Form 709 and/or Payment of Gift/Generation-Skipping Transfer Tax. Predeceased parent rules used to determine an individual's general assignments for certain transfers occurring on or after July 18, 2005 have been amended. The lifetime exemption for generation-skipping transfers (GST) remains \$1.5 million.

Please be aware that husbands and wives cannot file a joint gift tax return. Community property given as a gift is considered to be two gifts, each representing half the value of the property, given by both individuals.

Finally, only individuals are required to file gift tax returns. Individual beneficiaries, partners and stockholders may be liable for GST if their portion of a gift by a trust, estate, partnership or corporation exceeds the \$11,000 value limit.

Applicable Federal Rates

March 2006



	Short Term	Mid Term	Long Term
<i>Annual</i>	4.58%	4.51%	4.68%
<i>Semi annual</i>	4.53%	4.46%	4.63%
<i>Quarterly</i>	4.50%	4.44%	4.60%
<i>Monthly</i>	4.49%	4.42%	4.59%
Adjusted AFR for Original Issue Discount (Code Sec. 1288(b))	3.15%	3.50%	4.23%
Code Sec. 382 Adjusted Federal Long Term Rate			4.23%
<i>Long Term Tax exempt rate</i>			4.36%
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%

2005 Electronic Filing Requirements Provided



The Massachusetts Department of Revenue has announced new electronic filing requirements and technical amendments to the existing requirements applicable to the state's corporation excise or personal income tax. As of January 1, 2006, a corporation or S corporation with any single or combined amount of gross receipts, sales, or other income, as reported on Federal Forms 1120, 1120-A, or 1120-S, greater than \$100,000 must file and pay its Massachusetts corporation excise tax electronically.

The Department provides line references to Federal Forms 1120, 1120-A, and 1120-S for purposes of calculating the electronic filing threshold. The Department also requires a corporation or partnership subject to the electronic filing mandate to continue to file electronically even if it does not meet the electronic filing threshold in subsequent years. Further, the Department may require practitioners subject to the electronic filing mandate who have a high percentage of paper filers to retain documentation of their client's preference for paper filing. However, the Department instructs taxpayers to continue to refer to Technical Information Release, 04-30, Massachusetts Department of Revenue, October 24, 2004, for most electronic filing requirements.

Calculation of the Electronic Filing Threshold:

A corporation with income totaling more than \$100,000 on the following lines of Federal Form 1120 or 1120-A must file and pay the state's corporate excise electronically:

- gross receipts or sales (line 1 or line 1c);
- dividends (line 4);
- interest (line 5);
- gross rents (line 6);
- gross royalties (line 7);
- capital gain net income (line 8);
- net gain from the sale or exchange of business property (line 9); and
- other income (line 10);

An S corporation with income totaling more than \$100,000 on the following line of Federal Form 1120S must file and pay electronically:

- gross receipts or sales (line 1c);
- net gain from the sale or exchange of business property (line 4); and
- other income (line 10).

Electronic Filing in Subsequent Years

Any corporation or partnership that has reached the electronic filing threshold and is required to file and pay electronically in one year must continue to file and pay electronically in subsequent years regardless of its maintenance of the filing threshold.

Paper Filing Documentation

The Department may require practitioners subject to the electronic filing mandate who have a high percentage of paper filers to retain documentation of their clients' preference for paper filing. A practitioner filing 100 or more original Massachusetts Forms 1 and 1-NR/PY during calendar year 2005 or in subsequent calendars must file electronically unless a taxpayer specifically directs the practitioner to file a paper return. A practitioner notified by the Department must obtain a taxpayer signature on a separate form directing the practitioner to file a paper return. Technical Information Release 05-22, Massachusetts Department of Revenue, December 15, 2005.

CCH Multistate Corporation Income Tax Review - February 2, 2006 - Issue No. 107

Tax Planning - It's Not too Late for 2005 SEP



Once the clock strikes midnight on December 31, most tax planning opportunities for the year disappear. However, a significant one remains for business and sole proprietors - a simplified employee pension plan or SEP.

One great thing about a SEP is that a deduction can be claimed even though the SEP is established and funded after year-end. This tax saving opportunity is particularly valuable for closely-held businesses and sole proprietors who have not previously set up a retirement plan

for the business.

To get you up to speed quickly, we've outlined the basic SEP rules below that can help guide you through the various requirements:

- Contributions to SEP's are deductible by the employer and excluded from the employee's income.
- There are several ways to establish a SEP but the simplest is to adopt a model IRS agreement using Form 5305-SEP. Many mutual funds, banks and other financial institutions offer this simple plan.
- A SEP must be adopted and contributions made by the due date, including extensions, for filing the employer's tax return for the year the plan is to be effective. Thus, a sole proprietor can establish and contribute to a SEP for 2005 as late as October 16, 2006, if he/she extends his/her 2005 Form 1040 to that date.
- Certain participation and nondiscrimination rules apply if a business has multiple employees.
- There is no requirement that a contribution be made each year.
- Contributions are made to traditional IRA's set up by eligible employees.
- For 2005, the contribution limit is the lesser of \$42,000 or 25% of the employee's compensation (up to a maximum compensation of \$210,000)
- For self-employed persons, compensation is defined as self-employment (SE) earnings less the individual's own SEP contribution and SE tax deduction. This effectively reduces the contribution percentages that apply to the sole proprietor's net SE earnings. For example, the following SEP contribution percentages apply to net SE income less the deduction for half of the SE tax:

Plan Contribution %	Rate for Self-Employed Person
25%	20.0000%
20%	16.6667%
15%	13.0435%
10%	9.0909%
5%	4.7619%

- Deductible contributions can be made even after the employee or sole proprietor turns age 70 1/2.
- Employees are immediately vested in contributions made to their IRA's.

For more tax planning angles on SEP's and other retirement plans, please call KAF at 781-356-2000.

Quick Tips - Quickfinder Newsletter - January, 2006 - V 3.1

2005 Tax Returns Due Dates and Extensions



The following table summarizes the due date and extension rules for various 2005 returns and makes for a quick, handy reference guide during tax season.

Return	Taxpayer	Due Date	1st Ext. Form	Length 1st Ext.	2nd Ext. Form	Length 2nd Ext.	Signature Required
709/709A	Individuals	4/17/06	4868*	6 months	None	N/A	None
990	Nonprofits	5/15/06	8868 Part 1	3 months	8868 Part 11	3 months	organization rep., qualified practitioner or certain others
1040	Individuals	4/17/06	4868	6 months	None	N/A	None
1041	Estates/Trusts	4/17/06	7004	6 months	None	N/A	None
1065	Partnerships	4/17/06	7004	6 months	None	N/A	None
1120	C Corps.	3/15/06	7004	6 months	None	N/A	None
1120S	S Corps.	3/15/06	7004	6 months	None	N/A	None
5500	Employee Benefit Plans	7/31/06	5558**	2 1/2 months	None	N/A	None

*If gift tax is due, Form 8892 must also be filed to pay the tax. If the taxpayer's Form 1040 is not being extended, use Form 8892 instead of Form 4868.

**An automatic extension of time to file Form 5500 until the due date of the federal income tax return of the employer will be granted if all of the following conditions are met: (1) the plan year and the employer's tax year are the same; (2) the employer has been granted an extension of time to file its federal income tax return to a date later than the normal due date for filing the Form 5500; and (3) a copy of the application for extension of time to file the federal income tax return is attached to Form 5500.

Preventing Identity Theft (Part 2 of 3)



A recent report stated that 1 in 8 adults were victims of Identity Theft. Assessing your risk potential and changing behaviors can protect you from becoming a victim of Identity Theft. Following are the 9 high risk areas and a few ideas to protect your identity.

Social Security Number

- a. Guard it closely
- b. Before providing, ask if another ID can be used
- c. Never verbally provide your number to anyone

Checks

- a. Have only 1st initial and last name printed on your checks
- b. Use your Work phone number
- c. Use a P.O. Box as your address
- d. Use only the last 4 digits of an account number on your checks on the memo line
- e. Close all inactive accounts

Credit Cards

- a. Monitor your credit report annually
- b. Match receipts with statements
- c. Destroy all old or expired credit cards
- d. Close inactive accounts

Mail

- a. Put your mail on "Hold" at the USPS when traveling
- b. Do not mail bill payments from your home mailbox
- c. Check with the USPS if you do not receive mail for 2 days or more

At Home

- a. Invest in a diamond or cross cut shredder
- b. Keep copies of driver's license and credit cards in a safe & secure place in case they are stolen
- c. Instruct children on what information they can give or not give over the phone

Telephone

- a. Do not say the word "yes" when a caller uses your name to verify whom they are speaking to; thieves tape this and make illegal purchases
- b. Never give personal information over the phone

Computer

- a. Regularly update virus protection
- b. Use a firewall program
- c. Only use a secure Web site browser that scrambles information sent
- d. Use a "Wipe" utility program to erase personal information when discarding it

ATMs

- a. Look at ATMs closely before using. Thieves are attaching skimming devices
- b. Memorize PIN, never write it on the back of the card
- c. Always shield the keypad

Passwords

- a. Do not use numbers associated with personal information such as birthdays, addresses, anniversary, social security number, phone number, etc
- b. Do not use name or names of family members or friends
- c. Never tell anyone or write it down

Please contact KAF if you have any questions on Identity Theft or if you would like KAF to conduct a seminar for your associates or employees regarding Identity Theft at 781-356-2000.

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