



## **KAF Succession Planning Seminar - May 18 or 24**

Date: **Thursday, May 18, 2006**

**OR**

Date: **Wednesday, May 24, 2006**

Location: Lantana's, Randolph MA

Location: Burlington Marriot, Burlington MA

**Time:** 7:30 a.m. Breakfast & Registration  
8:00 – 10:00 Program and Q&A

(The same materials will be presented at each seminar)

**RSVP:** Becky Dowd, Director of Marketing, Email: [bdowd@kafgroup.com](mailto:bdowd@kafgroup.com) or 781-817-1112  
on or before **May 12th**.

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## **IRS Issues Warning of Identity Theft during Tax Season**



The IRS has received a number of complaints related to identity theft schemes involving the use of the IRS logo and name, and is warning consumers to be wary of e-mails and other communications purporting to be from the IRS. Consumers may be especially vulnerable to requests for personal information during tax filing season when they are preparing tax returns or awaiting refund checks.

- As a general rule, the IRS does not send out unsolicited e-mails, and never asks for PINs, passwords, or other information that can be used to access credit cards, bank accounts, or other financial accounts.
- Fraudulent websites that mimic the real IRS website have been set up to capture personal and financial information. To help deter identity theft, consumers should avoid clicking on a link to a website contained in an e-mail purporting to be from the IRS.
- A taxpayer can check the status of a refund through the official IRS website, <http://www.irs.gov/>, by providing his or her Social Security number, filing status, and the exact amount of the refund due.

Victims of identity theft often never suspect that they have been targeted by groups or individuals impersonating the IRS or other government agencies until it's too late. Identity theft is a growing problem. For more information on Preventing Identity Theft see the article below or check out our [past newsletters](#) at [www.kafgroup.com](http://www.kafgroup.com).

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## Applicable Federal Rates

April 2006



	Short Term	Mid Term	Long Term
<i>Annual</i>	4.77%	4.72%	4.79%
<i>Semi annual</i>	4.71%	4.67%	4.73%
<i>Quarterly</i>	4.68%	4.64%	4.70%
<i>Monthly</i>	4.66%	4.63%	4.68%
<b>Adjusted AFR for Original Issue Discount (Code Sec. 1288(b))</b>	3.33%	3.58%	4.25%
<b>Code Sec. 382 Adjusted Federal Long Term Rate</b>			4.25%
<i>Long Term Tax exempt rate</i>			4.26%
<b>Low income Housing Credit (Code Sec. 42(b)(2))</b>			
<i>70% present value</i>			8.11%
<i>30% present value</i>			3.47%
<b>Valuation Tables (Code Sec. 7520)</b>			5.60%
<b>Deemed Rate of Return for Transfers to Pooled Income Funds Code Sec. 642(c)(5)</b>			3.80%

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## Massachusetts Tax on Prewritten Software



The Massachusetts Department of Revenue has provided information regarding recent statutory changes concerning the sales and use tax and corporate excise tax treatment of transfers of standardized computer software ("prewritten software").

### Sales and Use

Effective April 1, 2006, all transfers of prewritten software, including but not limited to electronic, telephonic, or similar transfers, downloaded software from the Internet or transfers by "load and leave," are considered transfers of tangible personal property. Sales or use tax will apply when such software is transferred for a consideration to a retail purchaser in Massachusetts or for use in Massachusetts. Previously, sales or use tax was only imposed on sales of prewritten software delivered in tangible form such as a disk, but not on prewritten software delivered electronically or by "load and leave."

Examples of what will be taxable transfers of software include, but are not limited to, the following:

- licenses and leases of prewritten software;
- granting the right to use prewritten software installed on a remote service;
- upgrades to prewritten software, including upgrades delivered pursuant to maintenance contracts, regardless of whether the software was taxable when initially transferred to the retail customer; and
- license upgrades for prewritten software.

Transfers of custom software will generally continue to be treated as nontaxable personal service transactions. There is no change in the treatment of database or similar electronic information services available to multiple subscribers or data processing, which remain nontaxable services.

**Use Tax:** Generally, business taxpayers that download or otherwise acquire prewritten software for use in Massachusetts from an unregistered out-of-state retailer for a consideration are required to file and pay the use tax due on Form ST-9, Sales/Use Tax Return, or ST-10, Business Use Tax Return. Under some circumstances, a business purchaser may give a Multiple Points of Use Certificate to the vendor.

Individuals acquiring prewritten software for nonbusiness use from an unregistered out-of-state retailer for a consideration must pay applicable use tax due by filing Form ST-11, Individual Use Tax Return. An individual's use tax may also be paid with the Form 1, Massachusetts Resident Income Tax Return.

**Multiple points of use-exemption certificates:** Business and commercial purchasers of prewritten computer software that will be concurrently available for use in multiple tax jurisdictions must present to the vendor an exemption certificate, Form ST-12, to elect Multiple Points of Use (MPU) treatment. Upon receipt of the MPU exemption certificate, the vendor is relieved of all obligation to collect, pay, or remit the applicable tax and the purchaser is obligated to report and remit the applicable sales or use tax on its sales/use tax return.

MPU Certificates may not be used for computer software received in person by a business purchaser at a business location of the seller, such as a retail store. Also, it may not be used for software that is loaded on computer hardware prior to sale. In that situation, the sales tax sourcing rules for computer hardware determine the taxability of the transaction, regardless of whether the price for the hardware and software are separately stated.

### **Corporate Excise**

The legislation also provided that the development and sale of prewritten software is considered a manufacturing activity for purposes of certain corporate excise provisions, regardless of the method of the delivery of the software. A corporation classified as a manufacturing corporation may use certain tax benefits. In addition, a corporation engaged in manufacturing but not having been so classified may qualify for certain tax benefits. A corporation engaged in manufacturing activity may also be subject to single sales factor income apportionment for corporate excise tax. Previously, corporations engaged in the development and sales of prewritten software could only be treated as engaged in manufacturing to the extent that software was delivered in tangible medium. These changes are effective for taxable years beginning on or after January 1, 2006.

*(Technical Information Release 05-15, Massachusetts Department of Revenue, February 10, 2006.)*

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## **IRS Releases 2006 Maximum Values for Personal Use of Company Vehicles**



Among the fringe benefits employers can provide to their employees, one is the use of a company car or truck. However personal use must be taxed. The IRS has issued guidelines for the maximum allowable values of vehicles first made available to employees for personal use in 2006.

### **Cents-per-mile method.**

The vehicle cents-per-mile method maximum rates are \$15,000 for a passenger automobile and \$16,400 for a truck or van. These are up from the 2005 maximum rates of \$14,800 for a passenger automobile and \$16,300 for trucks and vans.

To use the standard mileage rate, the value of the car the employee drives cannot exceed these set values. For 2006, the standard mileage rate is 44.5 cents per mile. The rate includes the cost of using the vehicle and operating expenses.

The standard mileage rate is applied each year to find the value of the fringe benefits each year. The employer must compute the value of the personal use of the vehicle. If the fair market value of the vehicle is greater than the maximum dollar amount, then the employer must use an alternative valuation method such as the auto lease valuation method, the general valuation rules or the commuting valuation rules.

### **Auto lease valuation method**

If the vehicle's fair market value is greater than the maximum limit, the benefit must be calculated by using either the auto lease valuation method or the actual valuation method. The actual valuation method requires detailed records to be kept for the cost of operating the vehicle including depreciation.

The auto lease valuation method may be simpler. The IRS publishes tables that give the annual lease value of a vehicle worth up to \$60,000. If the employee uses the vehicle for both personal and business use, the value is determined by multiplying the annual lease value by the ratio of personal use miles to total vehicle miles.

If an employer has a fleet of 20 or more vehicles, it can use the average value of all of the vehicles to determine a fleet average-value and apply this amount to the table of annual lease values. All vehicles must have a fair market value below \$19,900 for automobiles and \$21,400 for vans and trucks.

### **First use by employee**

It is important to note that the vehicle does not have to be new or first used by the business in 2006. The only requirement is that it be first used by the employee in 2006.

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## **PCAOB Extends Auditors Independence, Tax Services Compliance Timetable**



The PCAOB gives public companies and their auditors more time to comply with some not-yet-final PCAOB rules restricting the kinds of tax services auditors may provide their public company clients. Noting the SEC has not yet approved the PCAOB's latest auditor independence rules and will not complete its notice-and-comment period on them before March 31, the PCAOB says Rule 3524 will not apply to any tax services provided by public company auditors that are begun within one year after the SEC approves the PCAOB rules, where a public company's audit committee pre-approves the provision of tax services by its auditors through policies and procedures. The board also extends the implementation schedule for Rule 3523, restricting the audit firm's

provision of tax services to people in public companies that have financial reporting oversight roles, such as chief financial officers.

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## **Preventing Identity Theft (Part 3 of 3)**



You could be setting yourself up to be a victim and you may not even realize it. Every day we receive mail that has personal information imbedded in it. How many credit card offers do you receive each week? How many pieces of "junk" mail do you get that has a bar code on it? Your personal information maybe included in the bar coding.

There are some warning signs that you may have become a victim. Here are a few of them:

- Are you are getting collection calls
- You have been denied credit
- You noticed charges on bills that you did not authorize
- You are receiving bills on accounts that you did not open
- No bill for a billing cycle
- Unusual purchases on credit card accounts
- Your Driver's License has been revoked

Last month a KAF partner was at a local restaurant with KAF team members. He took his wallet out of his coat pocket, paid the bill, and then put his wallet back into his coat pocket. His coat was hanging on a hook right next to his table. Later in the day he needed his wallet again, guess what? It was gone. In just a few hours the thief or thieves had made several purchases with his credit cards. Luckily the damage was minimal because he reported the theft immediately. We can never be too careful with our information or our credit.

If you do become a victim of Identity Theft what should you do? These steps will help you to clear your name:

- File a police report
- File a report with the Federal Trade Commission
- Call ALL financial institutions, not just your credit card company
- Check your credit by getting a credit report
- Stop payments on cards and checking accounts
- Do not change your social security number
- Get a new Driver's License and cancel your old one
- Do not pay any bills that are not verifiable

### **Identity Theft Resources / Consumer Organizations**

<http://www.consumer-action.org/> – provides publication on secured credit

<http://www.identitytheft.org/> – provides assistance with resources, books, and legal aid

<http://www.idtheftcenter.org/> – provides support and assistance to victims

### **Credit Reporting Bureaus**

<http://www.equifax.com/> – 800-685-1111

<http://www.experian.com/> – 888-397-3742

<http://www.transunion.com/> – 800-888-4213

<http://www.annualcreditreport.com>

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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