



Tzinberg & Goldenberg, P.C.

Certified Public Accountants

An Asset, Not an Expense!™



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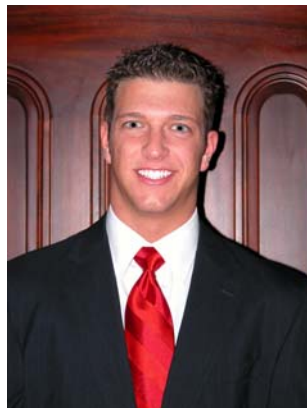
We are really delighted to introduce our new firm motto,

An Asset, Not an Expense!™

Our new firm motto sums up our approach to our clients since our inception in 1983. We continuously strive to help our clients save more money than they pay us, so that we can be a “profit center”!

There is more great news in the “What’s New at TG” department!

Alex Tzinberg, Charles’ son, joined TG as Director of Marketing. Alex is in charge of bringing in new clients, concentrating in monthly financial statement preparation with tax planning and preparation, and full payroll services.



For over twenty years, our growth has been generated entirely by your referrals—for which we are grateful. If you know someone that might benefit from our services, please call Alex at (618) 205-4026, or email him at alex@tzinberg.com.

We need your email address! Please send an email to info@tzinberg.com. THANK YOU!





Tax Collection and Audit News: Why does the IRS pick on the little guy? Recent IRS data studied non-filers, small businesses, self employed and big business. What they found was only a small percent of the so called “Tax Gap”, the difference between what taxpayers should pay and what they actually pay, relates to non-filers and big business. 80% of the Tax Gap came from small businesses and self employed taxpayers under reporting their income. That explains the onslaught of tax audit news in the past year:

- Audits of farm returns increased 74% from 2003 to 2004.
- Total Audits jumped 19% last year, and audits of high income tax payers rose 40%. The nation’s tax cops are back on the beat.
- IRS boosted audit staff for employment audits by 15%.
- The kinder/gentler IRS has been demanding taxpayers sell their home to pay the IRS.
- The IRS has announced it will close 151 service centers, and will move the agents to enforcement.
- The IRS selected S corporations for a “National Research Compliance” audit program for the coming year, specifically looking for corporations that pay shareholders wages under \$10,000 per year.
- The telefile tax program was eliminated; the resources were shifted to enforcement.
- On November 4, 2005, IRS Commissioner Everson announced a record in enforcement results for fiscal year 2005.

If all that news didn’t ruin your day – how about this? If you worry about the cost of an IRS audit, you might want to take a look at our optional Tax Nuisance Notice and Income Tax Audit Protection Plan. The average tax audit lasts close to a year, even if there are good records, and fees start around \$1,000.

New Notice The IRS Requires Tax Professionals To Give You When Giving Tax Advice: In response to abusive tax shelters, the IRS recently produced Circular 230. Those regulations require us to advise you as follows anytime we give tax advice in writing: Unless otherwise specifically noted, any federal tax advice in this communication (including any attachments, enclosures, or other accompanying materials) was not intended or written to be used, and it cannot be used, by any taxpayer for the purpose of avoiding penalties; furthermore, this communication was not intended or written to support the promotion or marketing of any of the transactions or matters it addresses.

Now that you have read the new IRS notice that says basically you can’t rely on anything we say, let’s look at what has changed in tax law:

Gift Tax: Effective January 1, 2006, the maximum amount you can gift to another without any gift tax reporting increased from \$11,000 to \$12,000. As a reminder, gifts are not taxable income to the recipient and are not deductible by the donor.

Missouri Homestead Tax Credit: Missouri has added a new credit for senior citizens and disabled individuals. This is only available if your real estate property tax assessment increased by more than 2.5%, and you must get a certification from the county assessor. **Warning:** You cannot receive both the new Homestead Tax Credit and the old Senior Citizens Property Tax Credit in the same year, so be careful which you apply for. At this point the legislature has not appropriated any funding for the new credit.

Cost Segregation Studies Beware: Many tax professionals are promoting tax savings on commercial buildings by having a consultant certify the parts of the building such specialized electrical systems that might qualify for rapid depreciation. These can be a great way to save taxes on commercial real estate. However, be aware if you later intend to sell or trade this commercial property the rapid depreciation portion probably will cause higher taxes on sale, or may not qualify for a tax free exchange if you trade for other real estate.

New Energy Tax Credits for your home: Starting January 1, 2006, there is a one time \$500 tax credit for energy efficient home improvements. The credit is 10% of the cost of the improvements with an additional limit of \$200 credit for windows and \$150 credit for heating system. This credit is only available for your principal residence.

Solar Energy Tax Credit: A Tax credit of up to 30% of the cost of solar-powered hot water systems is available. Forget about that solar heater you put in for your swimming pool because it won't qualify.

Energy Tax Credits for Business: A contractor can get a \$2,000 tax credit if, between January 1, 2006, and December 31, 2007, he builds or rehabs and sells a home that will be used as a principal residence. To qualify the home must be certified to have heating and cooling costs 50% below that of a comparable home.

IRA's Now Safe From Creditors: Under the new bankruptcy act effective October 17, 2005, creditors can no longer get access to IRA's. Pension plans have always had similar protection, but this new act expanded protection to IRA's.

New Mileage Rates: Beginning January 1, 2006, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) is:

- 44.5 cents per mile for business miles driven;
- 18 cents per mile driven for medical or moving purposes; and
- 14 cents per mile driven in service of charitable organizations, other than activities related to Hurricane Katrina relief. The standard mileage rate for computing the charitable contribution deduction for operating an auto for Hurricane Katrina relief from August 25, 2005, through December 31, 2006, is 70% of the business standard mileage rate in effect. Taxpayers can exclude from income an amount equal to the business standard mileage rate received from a charity as reimbursement for the cost of operating an auto while providing Hurricane Katrina relief during the period from August 25, 2005, through December 31, 2006. For 2006, these Katrina-related charitable rates will be 32 cents per mile for deduction purposes and 44.5 cents per mile for reimbursement purposes.

The new rate for business miles compares to a rate of 40.5 cents per mile for the first eight months of 2005, and 48.5 cents per mile for the last four months of 2005.

How much can your kids earn and not pay taxes? Paying your kids to help you on the farm or in your business is still one of the best tax deductions anywhere. This year a single child can earn \$5,150 in wages and pay no income tax, even though you claim them as a dependent on your return. Once their total income goes over \$850 they may have to pay tax on their unearned income, such as interest on their savings account, if the unearned income exceeds \$300.

Sec 179 writeoff: The limit on first year depreciation increased from \$105,000 in 2005 to \$108,000 in 2006. There are special limits on cars, pickups and SUV's.

NEW Qualified production activities deduction: As a part of the American Jobs Creation Act of 2004, we now have a manufacturing and domestic production activity tax deduction. If you produced new goods you are entitled to a special additional tax deduction for 2005 equal to 3% of your qualified production income. The big unanswered question is what qualifies as "qualified production activities". At this time engineering firms, farmers and new construction (excluding the cost of the land) clearly do qualify, restaurants do not qualify, and beyond that you will have to try and see if your business fits the pages and pages of IRS regulations. One interesting thing is that a subcontractor and general contractor can both take this deduction on the same job.

The limit that will hurt self employed and small businesses is that the new deduction is limited to 50% of the amount of wages paid. To claim this new deduction, you will have to be able to divide you sales for the year between activities that do qualify, such as new construction, and activities that don't qualify, such as remodel and repair jobs. This law passed in 2004 and the IRS just figured it out enough to issue a book of regulations last month. I think they should re-name this law the accountant's full employment act. By the way, the deduction increases to 6% in 2006, and 9% in 2010!

Payroll taxes increase AGAIN: The Social Security Administration has announced that the wage base for computing the Social Security tax (OASDI) in 2006 rises to \$94,200 from \$90,000 in 2005, an increase of 4.7%.

IRA limit increased: If you are not yet 50, the limit in both 2005 and 2006 is \$4,000, but if over age 50 the limit goes from \$4,500 to \$5,000.



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BOOST YOUR CREDIT SCORE

When you apply for a credit card, a mortgage, cable, or a job, much might depend on your credit score. A credit score is a statistical method used to determine a rating to estimate the likelihood that borrowed funds will be repaid. A low credit rating can result in the inability to qualify for a loan or a job. A substantially higher rate will apply in the event the lender accepts. The rate on a mortgage for someone with a high score might be 5%, while a low score might have to pay 10%. Because this can be so costly, we thought we would share some methods to help keep a score high.

- ◆ The most important item is no surprise—pay bills in full and on time. This represents 35% of your score.
- ◆ Missing a credit card payment, or paying the minimum due, will immediately lower scores.
- ◆ Obviously, debt collection activity or bankruptcy will have a major negative impact.
- ◆ Using a credit card to its limit will really hurt, and even using 50% or more of a limit can lower your score. This makes up 30% of your score.
- ◆ Credit history is 15% of your score. Keeping old cards open builds history and helps lower the balance-to-limit ratio.
- ◆ The final 20% of your score is divided between new accounts and diversification:
 - ◆ Acquiring new debt reduces scores, so keeping old cards is better than constantly opening new ones.
 - ◆ Someone with a variety of loans (auto, mortgage, etc.) will score better than someone with only credit cards.

Periodically check your credit report at www.annualcreditreport.com.

Thanks for the referrals! If you think this newsletter would be of interest or help to friends or associates, let us know and we will add them to our mailing list.

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