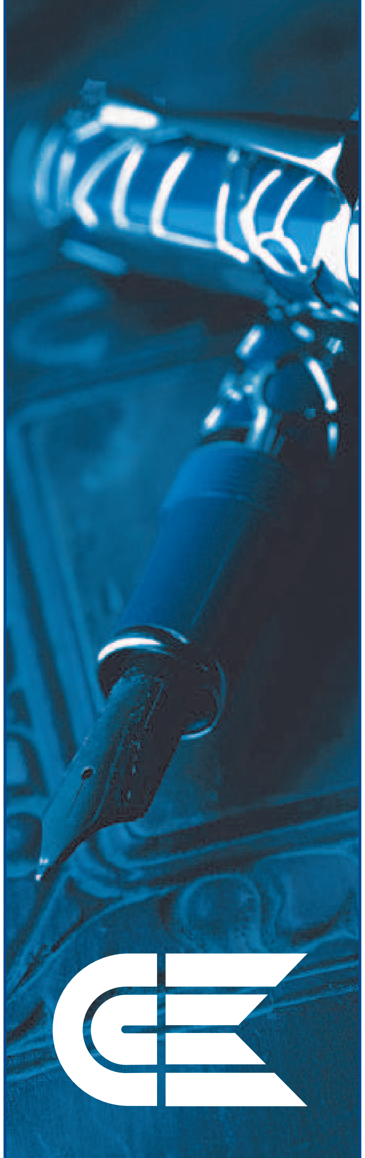
THE LEDGER

VOLUME 11, NUMBER 2 ■ SECOND QUARTER 2006

IN THE LEDGER:



CONSIDER A HEALTH SAVINGS ACCOUNT TO MANAGE MEDICAL EXPENSES

After Congress passed the Medicare Prescription Drug and Modernization Act of 2003, many employers started offering health savings accounts or HSAs. These accounts are again on Congress's docket: President Bush has proposed expanding key elements of HSAs, such as increasing the amount of money people can deposit annually in their accounts. Even if the proposed changes are not made, now's a good time to revisit these health savings accounts and to consider, or reconsider, whether one might be right for you.

How HSAs Work

Here's how an HSA works. First, you buy a high-deductible health insurance policy, which can be available either from your employer or a private insurer. To qualify for an HSA, you need a policy with an annual deductible of at least $1,050 for an individual or $2,100 for a family.

Next, you set up an HSA on your own or through your employer. You contribute pretax dollars to this account throughout the year, up to your policy's deductible amount, with a $2,700 limit for individuals and a $5,450 limit for families. If you're age 55 or older by the end of 2006, you can contribute an additional $700 this year. When medical bills come due, you withdraw tax-free dollars from your HSA to cover out-of-pocket costs until your insurance coverage kicks in.

Benefits of an HSA

Why should you consider an HSA? First, health insurance premiums tend to be lower on policies with high deductibles. That means you can take the money you save from lower premiums and use it to fund your HSA.

Second, unlike flexible spending accounts (FSAs), you aren't required to "use it or lose it" every year. The account can grow indefinitely.

Third, like a 401(k) or an individual retirement account, the money in an HSA can be deposited in mutual funds or other investments, and earnings on the account aren't taxed.

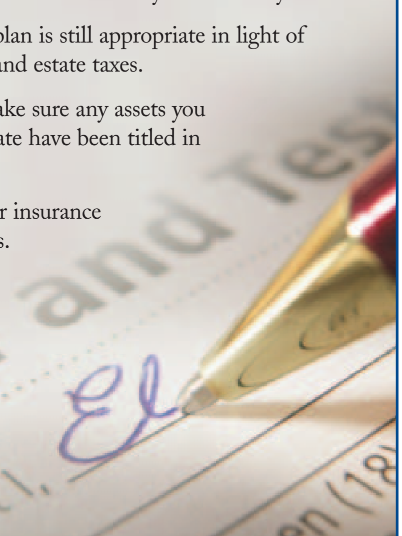
CONTINUED ON PAGE 2

ESTATE UPDATE CHECKLIST

The amount exempt from estate tax increased this year from $1.5 million to $2 million, and the top estate tax rate dropped from 47% to 46%. Also, the annual amount you can give to any individual without paying gift tax increased from $11,000 to $12,000.

If you haven't yet reviewed your estate planning in light of these changes, now is the perfect time to do so. Use the following checklist to make your review process easier.

- ☐ Review your will and make sure it still reflects your wishes.
- ☐ Consider the effect on your plan of any births, deaths, marriages, divorces, or disabilities among family or other beneficiaries.
- ☐ Check that your named executor is still capable and willing to do the job.
- ☐ Review your living will and make sure your wishes about medical treatment in the event you become terminally ill are clearly stated.
- ☐ Ensure that your estate tax plan is still appropriate in light of any changes in estate value and estate taxes.
- ☐ If you have a living trust, make sure any assets you acquired since your last update have been titled in the name of your trust.
- ☐ Review your beneficiaries for insurance policies and retirement plans.
- ☐ Make sure your insurance coverage is still appropriate.



BUSINESS ALERT

Check Out These Disability-Related Tax Breaks

A variety of tax breaks are available to help disabled taxpayers cope with the financial burdens of disability. Tax relief falls into three categories. First, many types of disability payments are exempt from taxes. Second, disabled taxpayers can deduct a number of special expenditures related to their disability. Finally, some special tax credits are available. Businesses that improve access for the disabled are also eligible for tax credits and deductions.

For Businesses

For example, business owners who pay an interpreter to assist the hearing-impaired could qualify for a tax credit. The cost of services, materials, and equipment purchased to assist the visually impaired or those with other disabilities may also qualify for credit.

The credit, which reduces the taxes you owe, can be as much as $5,000, and you can carry unused amounts forward to future returns. Your company is eligible if prior-year gross receipts were no more than $1 million or you employed no more than 30 full-time workers.

You might also be able to take advantage of the barrier removal deduction when you make your company's vehicles, walkways, parking lots, and other facilities user-friendly and convenient for the disabled.

This deduction lets you claim up to $15,000 per year for certain modifications to business property you own or lease. The benefit: Instead of depreciating the cost of these changes, which spreads the deduction over a longer period, qualified expenses can reduce taxable income in the year you pay for them.

For Individuals

On your personal return, if your spouse or dependent has a disability, you might be able to claim a dependent care credit for caregiver and other expenses you pay so you can work. In this situation, the usual under-age-13 rule for dependents does not apply. The credit can be as much as 35% of your expenditures, subject to certain restrictions.

Disabled taxpayers can usually deduct some or all of the cost of home improvements made to relieve their disability. This covers items such as access ramps, wider doorways, stair lifts, or even a special air filtering system.

Other tax law provisions relating to disabilities include relief from penalties for early withdrawals from retirement accounts, special adoption credit rules for eligible children, and the exclusion from income of certain disability payments. If you would like more details on tax breaks for the disabled or for those helping the disabled, give us a call at 630-953-4900.

RETIREMENT PLANNING

Health Savings Accounts

Continued from page one

Fourth, as long as they're used for qualified medical expenses, withdrawals from an HSA are tax-free. If you withdraw funds from an HSA before age 65 for non-medical expenses, the withdrawals are subject to a 10% penalty and income taxes. Those aged 65 or older can make withdrawals without penalty for non-medical purposes, but the withdrawals are subject to income tax.

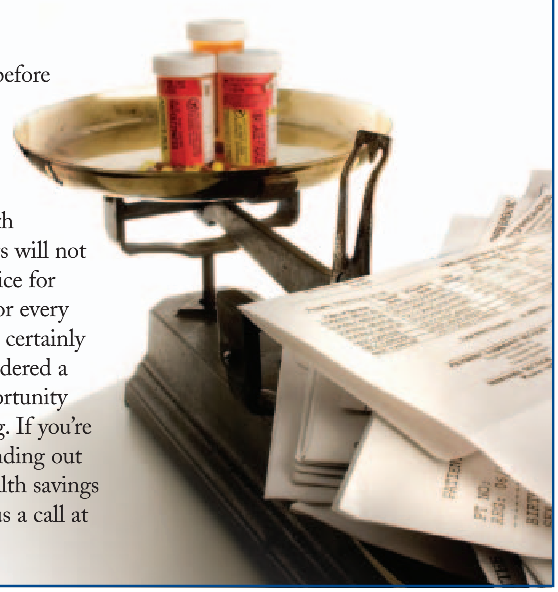
Finally, HSA accounts are portable. If you switch jobs, you can take your HSA with you.

Factors to consider

On the other hand, you may not want to sign up for an HSA. If you generally have health expenses that just meet your current deductible, you may end up paying more out-of-pocket expenses with an HSA.

Moreover, it takes discipline to fund an HSA account. Lower health insurance premiums generally mean higher take-home pay. If you're likely to spend those extra take-home dollars instead of contributing them to an HSA, you may want to think twice before switching to a high-deductible policy.

While health savings accounts will not be the best choice for every business or every individual, they certainly should be considered a tax-saving opportunity worth exploring. If you're interested in finding out more about health savings accounts, give us a call at 630-953-4900.



Do Some Tax and Financial Planning Before You Say "I Do"

Ask the typical June bride and groom what's included in the wedding plans, and they probably won't mention a thorough tax review. Yet, the tax and financial aspects of getting married are not to be taken lightly. This is the traditional time of year for weddings, and if you're planning to marry, take the time to consider the following issues.

Tax Penalties

Marriage causes many tax regulations to take effect retroactively; that is, if you were married on December 31, some rules apply as if you were married for the entire year. For instance, the total annual wages of both spouses are combined on a joint return regardless of when the wedding took place. Because two wage-earners filing jointly will often pay more tax than if they filed as singles, this can cause a tax problem that needs to be addressed. You may need to increase your withholding or estimated tax payments, or you could face penalty and interest charges on underpaid taxes.

Marriage can affect deductions, too. Combined incomes can reduce itemized deductions, such as medical expenses and casualty losses, by raising adjusted gross income (AGI). So, if one spouse has significant medical expenses, filing jointly might reduce their tax deduction. Overall itemized deductions are further reduced when AGI for 2006 exceeds $150,500. If your combined incomes exceed this amount, you might see a noticeable decline in your allowable deductions.

Tax Benefits

But marriage also has its tax advantages. A wage-earning spouse can make an additional $4,000 IRA contribution for a nonworking spouse.

Married homeowners also get double the gain exclusion, from $250,000 to $500,000, when selling their home. The only catch is that both spouses must have lived in the home for two years, and neither spouse can have used the exclusion in the previous two years. Clearly, couples that own a home should carefully plan future sales to take advantage of this tax break.

Estate taxes can be lightened by marriage. Even if only one spouse has significant assets, with planning a married couple can exempt as much as $4 million from estate tax. Also, married taxpayers can jointly make tax-free gifts of up to $24,000 per year, double the amount a single taxpayer can make.

Financial Issues

But couples share more than just their tax burdens. They also share each other's financial history. As with any joint venture, your partner's fiscal past can put you at risk. It may not be very romantic, but before the big day arrives, ask your loved one for a full disclosure of his or her financial history.

> **"Combined incomes can reduce itemized deductions, such as medical expenses and casualty losses, by raising adjusted gross income."**

Things to watch for might include the following:

- Past bankruptcies.
- Large student loans or credit card bills.
- Unpaid taxes.
- Alimony or child support obligations.

What you discover may not be pleasant, but it is better to know before rather than after the wedding. Bad news now may just mean a delay until such matters can be cleared up.

Wedding bells may be ringing soon, but before you walk down the aisle, consider an analysis of the tax and financial issues in marriage. It may just be the most important item in your wedding plans.

TAX ALERT

Roth 401(k) Clarification

Can Employers Match Roth Contributions?

The Spring issue of *The Ledger* had an article about the new Roth option in 401(k) plans.

One of the most attractive features of a 401(k) plan is employer matching of employee contributions. If an employee designates his 401(k) plan contributions as Roth contributions, the employer's matching funds must be made into the regular 401(k) of that employee. The employer cannot designate matching amounts as Roth contributions.

IRS ACTIVITY

Tax Filing Season Extended

The new six-month automatic extension available for filing 2005 tax returns is stretching this year's filing season for many. The IRS expected to receive more than 9.5 million extension forms. The automatic extension required no explanation for needing extra time to file, and it gives taxpayers until October 16, 2006, to file their 2005 tax returns. The extension does not, however, give additional time to pay any tax still due for 2005.

Buy Early for Full Credit

The Energy Policy Act of 2005 established a tax credit of up to $3,400 for the purchase of a hybrid vehicle. The IRS has now released the amount of credit allowed for the following vehicles:

- 2005/06 Toyota Prius – $3,150.
- 2006 Toyota Highlander Hybrid – $2,600.
- 2006 Lexus RX 400h – $2,200.
- 2006 Ford Escape Hybrid – $2,600; 4WD – $1,950.
- 2006 Mercury Mariner Hybrid – $1,950.

Taxpayers are reminded that they will be able to take the full credit for any model only until one full quarter after the manufacturer's sales reach 60,000 hybrid vehicles. After that point, the credit is reduced for a period, then finally eliminated.

If you're thinking of purchasing a hybrid vehicle, you may want to buy sooner rather than later in order to qualify for the maximum tax credit.

Annual "Dirty Dozen"

Each year the IRS issues an alert to current tax scams. The 2006 "dirty dozen" include a number of familiar scams, including misuse of trusts, abuse of charitable organizations, offshore transactions, and employment tax evasion schemes.

Two scams new to the list this year are claims to zero wages, disputing W-2s and 1099s that were sent to the IRS, and filing Form 843 requesting abatement of previously paid taxes. Another scam the IRS is warning taxpayers about is "phishing," where con artists e-mail taxpayers posing as the IRS in order to steal the taxpayer's financial information.

By The Numbers

IMPORTANT DATES FOR SUMMER 2006

June

June 15–
Due date for second installment of 2006 individual estimated tax.

July

July 31–
Due date for filing 2005 retirement or employee benefit plan returns (5500 series) for plans on a calendar year.

September

September 15–
Due date for third installment of 2006 individual estimated tax.

CRAY, KAISER LTD.

1901 South Meyers Road
Suite 230
Oakbrook Terrace, IL
60181

T:630-953-4900
F:630-953-4905
E:INFO@CRAYKAISER.COM

John W. Kaiser, Jr., CPA
Roger L. Reitz, CPA
James K. Scherzinger, CPA
Paul H. Bergl, CPA
James H. Slager, CPA
Deanna L. Salo, CPA