

THE LEDGER

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TO LOWER YOUR 2005 TAX BILL, SPEND SOME TIME ON YEAR-END TAX PLANNING

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The end of the year is quickly approaching. That means it's time to do some year-end tax planning. Here are a few moves you might consider to cut your 2005 tax liability.

Accelerate some itemized deductions.

For example, if you planned on making charitable donations early in 2006, make them in 2005 instead. Add up all those miles driven to scout meetings, for the church, or for any other charitable group; they may be deductible at 14¢ a mile. Pay any remaining 2005 real estate taxes and state income tax before December 31, 2005.

If you've had some big unreimbursed medical bills in 2005, pay as many as possible before the end of the year in order to exceed the percentage limitation on medical expenses.

You may decide to deduct the 2005 sales taxes you paid if they exceed state and local income taxes you paid. If so, consider purchasing big ticket items before the end of the year.

Offset capital gains.

If you are going to have capital gains from stock sales or capital gain distributions from mutual funds, look at your portfolio and consider selling off losers to offset these gains. You can take up to \$3,000 in capital losses in excess of your capital gains.

Maximize your 401 (k)

Contribute the maximum allowed to your 401(k) or other retirement plan. The benefits are two-fold: current taxable income

is reduced, and you enjoy tax deferral on the plan growth.

Look into speeding up business purchases

If you're in business, look at next year's planned purchases. Does it make sense to accelerate those expenses into 2005? Also, you can expense \$105,000 of equipment you buy in 2005.

Don't forget to keep track of your business miles for a deduction of 40 1/2¢ a mile. Set up a retirement plan by year-end (deadline for a SIMPLE plan is October 3), and usually you don't have to put the money in until the due date of your 2005 tax return, including extensions. Contact us for a year-end tax planning review.

FORM FOLLOWS FUNCTION

YOUR BUSINESS STRUCTURE CAN CHANGE YOUR TAX PICTURE

Should your business be a proprietorship, corporation, partnership, or some other entity? Each form has advantages and disadvantages. Business situations change, and so do tax laws. This time of year may be a good time to review your business's current structure to be sure it is still your best choice.

In proprietorships and partnerships, income and losses are reported on your personal tax return, and earnings are subject to self-employment tax. You are generally personally liable for business liabilities.

With a corporate structure, your liability is generally limited to corporate assets and amounts you guarantee. Minuses? Income is taxed twice – once at the corporate level and again when you receive dividends. Any salary you are paid is subject to employment taxes.

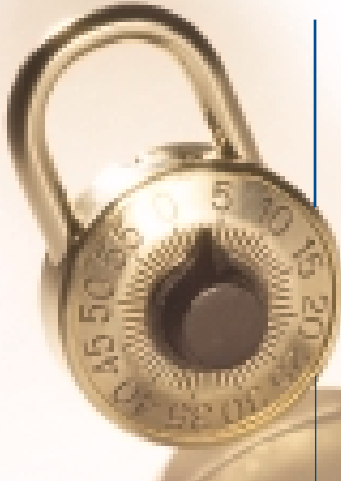
Small corporations can elect S corporation status. Generally, S corporations pay no federal income tax.

The corporation's income or loss is reported on the shareholders' tax returns and is not subject to self-employment tax. However, if you are also an employee of the corporation, your wages are subject to employment taxes. An S corporation can provide you with limited liability.

Another entity is the limited liability company (LLC), which offers the limited liability of a corporation and the tax treatment of a partnership. No one choice is best for every business. It's important to regularly evaluate whether it's time for a change in your business form.



HOW MUCH DO YOU KNOW ABOUT SOCIAL SECURITY?



Social security reform is in the news this year. Just how much do you know about social security and the benefits you may receive? Take this short quiz and see.

Question 1:

When can you begin receiving social security retirement benefits?

Question 2:

What is your full retirement age?

Question 3:

How much less will you receive at age 62?

Question 4:

Are there any other penalties for electing to start social security benefits at age 62?

Question 5:

Do you get extra benefits if you start receiving social security after your full retirement age?

Question 6:

Are social security benefits taxable?

THE ROAD AHEAD

WHAT'S MORE IMPORTANT – SAVING FOR CHILDREN'S COLLEGE OR YOUR RETIREMENT?

A college education. Retirement. What do these major life events have in common?

One shared characteristic is that each comes with a price tag. Here's another: If you have school-age kids, you might be facing the challenge of having to decide which goal to save for. They're both important. So how do you make the choice?

Here are some suggestions that can help you reach a sensible solution.

Eliminate excuses for not making a decision.

Procrastination can be costly. For example, to accumulate \$100,000 in five years, you'd have to deposit a little over \$1,500 every month in an account that earns 4%. But with a ten-year time horizon, assuming the same return, you can build up \$100,000 by socking away less than half that amount, or approximately \$700 per month.

What you need to know: Estimate the total amount required for both goals, how much time you have, and how

much cash you'll need to set aside on a regular basis.

Expand your resource horizon.

Once you've computed the expense side of the equation, figure out how much you can afford to save. You may find that, with one pool of income and two goals, there's not enough money to fully fund both goals.

But who says you have to pay for everything yourself? Turn an obstacle into an opportunity by searching out alternatives. For instance, while your income in retirement may be dependent in large part on your savings, there are plenty of options for paying college tuition.

Where to look: Investigate the possibility of advanced placement credits while your child is still in high school. Other potential sources of help include scholarship prospects, federal work/study programs, and summer internships.

Adopt a flexible approach.

Broadly speaking, you have three alternatives for divvying up your

available savings between the two goals. You can save for retirement only, save for college only, or opt to do both.

Yet within each alternative are creative strategies. As an illustration, you could start out by saving strictly for retirement, shift toward saving for college when your child reaches a certain age, then switch back after graduation.

Caution: Be careful of falling into the deadline trap. It's likely your kids will attend college before you retire. Since the tuition deadline is closer, you might be tempted to reduce or eliminate retirement plan contributions in the early years of your savings plan in order to focus on education savings.

But consider this: A typical retirement will generally last longer and cost more than your child's education. By putting college tuition first, you could end up with less than you need in your retirement nest egg. Instead, take your overall time horizon into account.

For assistance with the numbers, give us a call.



HEED THE FIVE LESSONS THAT SUCCESSFUL BUSINESSES HAVE LEARNED

The challenge facing every business owner is to make your business as successful as possible. Here are five lessons successful businesses have learned. Heeding them could increase the profitability of your own business.

ONE. Distinguish your product or service. Your business needs to stand out from the competition. If you don't know what makes your product or service unique, customers won't either, and they won't develop any loyalty toward your company. Identify what makes you unique and keep telling everyone about it. Include it in your training of employees, and focus on it in all of your marketing and sales efforts.

TWO. Pay attention to troubles with cash flow. If you actually run out of cash, that's a disaster. But a business can also suffer if it's chronically short of cash or if cash

flow is unpredictable. A written cash flow projection can help you spot potential problems and take corrective action before it's too late. If you aren't able to prepare an accurate cash flow projection on your own, contact us for assistance. It may be one of the best investments your business will ever make.

THREE. Empower your employees. If you insist on making every decision, your employees will feel frustrated and unchallenged. Customer service will suffer because employees are not able to act quickly and decisively to solve customer problems. Give employees responsibility and decision-making power, and you'll increase productivity, reduce employee turnover, and improve customer satisfaction.

FOUR. Manage your growth. A growing business might not

seem like a problem, but many companies stumble as they get larger. While you're managing today's business, it's important to keep an eye on where you're heading. If it looks like you're going to need additional capital, employees, or office space down the road, put the plans in motion as soon as possible.

FIVE. Keep in touch. In today's economy, your markets, your competitors, and the needs of your customers can change overnight. Try to keep up with the news of your industry through trade publications, as well as the occasional conference or

convention. Scour your market for new competitors, and never stop paying attention to your customer or client. A good way to get customer feedback is simply to ask how your business is doing, either through face-to-face meetings or customer satisfaction surveys. Don't overreact to negative comments, but do try to

identify real problems and take appropriate action.

Running a profitable business takes skill and vision. For assistance with any of your business concerns, contact our office.

We're here to help.



SOCIAL SECURITY QUIZ ANSWERS

Answer 1:

You can collect benefits as early as age 62, but benefits will be lower than the amount you could receive at full retirement age.

Answer 2:

If you were born before 1938, your full retirement age is 65. Individuals born after 1959 won't qualify for full retirement until age 67. If you were born between 1938 and 1959, your full retirement age is somewhere in between.

social security benefits for every \$2 you earn over the limit (\$12,000 for 2005).

Answer 5:

Yes. For each year you wait to begin collecting social security, you receive a bonus.

you receive from other sources (e.g., wages, pension, interest). If your benefits are taxable, you can file Form W-4V with the Social Security Administration and have income tax withheld from your benefit checks.

ON THE MOVE

In recognition of their continued advancement of skills and their commitment to our clients, we are proud to announce the the promotions of the following staff:

Kimberly Vinyard, CPA, MST—to Senior Accountant from Staff Accountant.

Brian Kot—to Senior Accountant from Staff Accountant.

Answer 3:

If your full retirement age is 65, you will receive 80% of the normal amount. You will receive only 70% of the normal amount if your full retirement age is 67.

Answer 6:

This depends on the amount of income

Answer 4:

If you still work and you earn too much, you'll forfeit \$1 in



IRS ACTIVITY

IRS certifies cars for \$2,000 deduction

You can take a clean-fuel tax deduction if you buy a hybrid gas/electric car. The maximum deduction for 2005 is \$2,000, and it is an "above-the-line" deduction. (Beginning in 2006, this deduction is replaced by a tax credit for hybrid vehicles.)

Models that have been certified by the IRS include the 2005 Toyota Prius, Ford Escape Hybrid, Honda Insight, Honda Civic Hybrid, and Honda Accord Hybrid. The 2006 Lexus RX 400h and the 2006 Toyota Highlander Hybrid will also qualify for the deduction.

FSA's given grace period

Flexible spending accounts (FSAs) allow taxpayers to set aside funds each year to pay for unreimbursed medical expenses and dependent care costs with pre-tax dollars. The difficulty for some has been trying to estimate how much these expenses will be for an entire year.

A close estimate was important because if too much was set aside and not used up by year-end, the excess was forfeited.

A recent rule change will make things a bit easier for taxpayers using these accounts. The IRS will now let employers modify their FSAs to extend the reimbursement deadline for a given year until March 15 of the following year.

No more W-4s, says IRS

Under previous regulations, employers were required to send the IRS employee withholding forms (Form W-4) that claimed more than ten exemptions or that claimed complete exemption from withholding when \$200 or more in weekly wages was expected.

Under new rules, employers will be required to submit a Form W-4 only when specifically requested by the IRS. Other information returns, such as W-2s, will be used by the IRS to spot withholding problems.

BY THE NUMBERS

IMPORTANT DATES FOR FALL 2005

September

September 15

Due date for the third installment of 2005 individual estimated tax. (Send to the IRS with Form 1040ES.)

September 15

Deadline for filing 2004 tax returns for calendar-year corporations that had an automatic extension of the March 15 filing deadline.

October

October 3

Deadline for businesses to adopt a SIMPLE retirement plan for 2005.

October 17

Deadline for filing 2004 individual tax returns on second extensions.

October 17

If you converted a regular IRA to a Roth IRA in 2004 and now want to switch back to a regular IRA, you have until October 17, 2005, to do so without penalty.

October 17

Deadline for filing 2004 partnership and limited liability company returns on second extensions.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Consult us for details and assistance in applying this general information to your specific situation.



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