THE LEDGER

Volume 10, Number 4 ■ Fourth Quarter 2005

IN THE LEDGER:

Tax Relief Passed Following Gulf Disaster

Congress acted quickly to pass tax relief for victims of Hurricane Katrina. President Bush signed the bill into law on September 23, 2005. Most provisions are intended to benefit victims of the disaster, but some tax breaks apply to all taxpayers. Here's an overview of the major provisions.

Relief for Victims

If your home was in the Katrina disaster area and you suffered a loss, you can withdraw up to $100,000 from your retirement plans (IRA, 401(k), etc.) without paying the usual 10% early withdrawal penalty. Other breaks may allow you to avoid or spread out taxes on the withdrawal. The law also increases the amount that victims can borrow from their pension plans.

Katrina victims can choose to use their 2004 income to calculate their 2005 child tax credit or earned income credit. This may provide a bigger credit for lower-income victims whose 2005 income or household status has changed because of Katrina.

Victims generally have until February 28, 2006, to file returns or pay taxes that would be due before then.

The law also removes limits on the amount that victims can deduct for a casualty loss. The previous rules still apply to non-Katrina losses.

Employer Tax Breaks

Employers can claim the Work Opportunity Tax Credit if they hire someone who lived in the core disaster area. The credit

CONTINUED ON PAGE 2

Cray Kaiser on the Move

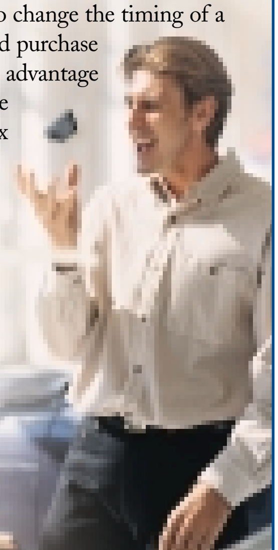
Effective December 12, Cray Kaiser's main office will be moving to 1901 South Meyers Road, Suite 230, Oakbrook Terrace, IL 60181 to better serve our clients. The phone and fax numers will remain the same. *Make a note of it!*

New Tax Credits Ahead

If home improvements or a new car are in your future plans, you need to know about the tax credits created by the recent energy bill. Signed by President Bush on August 8, 2005, the Energy Policy Act of 2005 includes tax breaks intended to promote energy conservation. Among the provisions that could affect you are the following:

- Beginning in 2006, the current $2,000 tax deduction for the purchase of a hybrid vehicle will be replaced by a tax credit of up to $3,400. The law also provides credits for other alternative fuel vehicles.
- Energy-saving home improvements done in 2006 and 2007 may qualify for a tax credit of up to 10% of the cost, with a $500 lifetime credit limit. Qualifying improvements include such things as energy-efficient windows, insulation, and roofs.
- Installing solar-powered hot water systems may qualify for a tax credit of up to 30% of the cost.
- Contractors who build energy-efficient homes and manufacturers who produce energy-efficient appliances may also qualify for new credits.
- A new deduction for energy-efficient commercial buildings will be available for 2006 and 2007.

Call us for details on these new credits and deductions. You may want to change the timing of a planned purchase to take advantage of these new tax breaks.



INVESTMENT ALERT

BUY LOW, SELL HIGH, AND SAVE ON YOUR SAVE TAXES, TOO

As the end of another year approaches, investors should pay special attention to tax issues relating to their portfolio. Decisions made between now and December 31 can make or break performance. While the conventional wisdom of buying low and selling high still applies, investors should also buy smart and sell smart to prevent paying unnecessary taxes.

> **"If you intend to sell appreciated stock before year-end, think about selling stock that has lost value to offset the gain."**

Buy Smart

The first rule of tax-efficient investing is to maximize your 401(k) or IRA contribution. Trading securities in a tax-favored account will allow for appreciation without the drag of taxation. At a minimum, take full advantage of any matching provision offered by your employer. Otherwise, you are leaving money on the table.

Planning to buy mutual fund shares in a taxable account this year? Be alert to how the fund distributes capital gains. Because mutual funds commonly distribute taxable capital gains to shareholders late in the year, call the fund before investing to determine when distributions are planned. Otherwise, you could pay tax on gains earned before you even owned the fund – gains already reflected in your purchase price.

Sell Smart

If you intend to sell appreciated stock before year-end, consider also selling stock that has lost value to offset the gain. Keep in mind that securities owned for more than one year should not be mixed with those purchased more recently. Another option might be to wait until after December 31 to sell appreciated stock to defer the gain for one more year.

There are more strategies to consider. If you have purchased shares of a certain stock over time, you can specify which tax lots you want to sell. This way, you can sell those shares that will trigger the least amount of capital gain. There are some specific rules for designating tax lots, so be sure to get professional advice before the sale.

If you have stock that has lost value recently, but is still considered a long-term winner, you might want to "lock in" your losses by selling and then re-purchasing the same security. You will get a capital loss write-off while maintaining your position in the stock. To avoid "wash-sale" restrictions, you must wait 31 days before buying the same security, or your tax loss will be voided.

Another smart move before year-end might be to give some stock to charity. If you are already planning to make a donation, consider contributing appreciated stock that you have owned for more than one year. You can take a charitable deduction for the market value of the stock, and you won't pay tax on the appreciation.

Now is a good time to review your portfolio and position yourself for the new year. Smart decisions now can result in tax savings later.

TAX PLANNING

TAX RELIEF FOR GULF DISASTER VICTIMS

Continued from page one

applies to jobs anywhere through year-end 2005 and to jobs within the disaster zone until August 28, 2007.

Small businesses in the disaster region can claim a new Employee Retention Credit if they keep workers on the payroll while their business is temporarily shut down.

Other Tax Breaks

If you house a Katrina evacuee free of charge in your home for at least 60 consecutive days, you can claim a special deduction. The deduction is $500 for each evacuee (excluding spouses and dependents), up to a maximum of $2,000.

The usual limits on charitable contributions don't apply to contributions made from August 28 through year-end. The change applies whether the contributions are related to Katrina or not.

The mileage allowance for Katrina-related charitable work increases to 70% of the rate allowed for business travel.

The law also removes limits on corporate cash donations for Katrina, and expands eligibility for certain food inventory and book donations.

For details on the provisions in the Katrina Emergency Tax Relief Act of 2005, give us a call at 630-953-4900.

If You're Self-Employed, Don't Overlook The Tax Breaks

When it comes to taxes, being self-employed has some advantages. Whether you work for yourself on a full-time basis or just do a little moonlighting on the side, the government has provided you with a variety of attractive tax breaks.

Save for retirement.

When you're self-employed, you're allowed to set up a retirement plan for your business. Remember, contributing to a retirement plan is one of the best tax shelters available to you during your working years. You might also qualify for a credit of up to 50% of the costs of setting up a plan (with a $500 annual limit).

Hire your kids.

If your business is unincorporated, employing your child under the age of 18 might make sense. That's because your child's earnings are exempt from social security, Medicare, and federal unemployment taxes.

This year, your son or daughter can earn as much as $5,000 and owe no income taxes. You get to deduct the wages paid as a business expense.

Deduct health insurance.

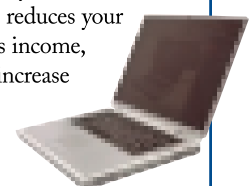
Are you paying your own medical or dental insurance? How about long-term care insurance? As a self-employed individual, you may be able to deduct 100% of the cost of these premiums as an "above the line" deduction, subject to certain restrictions.

Take business-use deductions.

Self-employed individuals can also deduct "mixed-use" items directly against their business income. Use your car for business and you can deduct the current rate allowed for business miles driven. The business-use portion of your computer purchases, Internet access, and wireless phone bills is also allowable. And if you meet the strict requirements, claiming the home office deduction makes a portion of your home expenses tax-deductible.

Accelerated expensing.

Planning to purchase new or used equipment or software for your business? You may be able to deduct up to $105,000 of the cost on your 2005 federal income tax return. The immediate expensing trims both taxable income and the amount subject to social security tax. The write-off also reduces your adjusted gross income, which could increase deductions that are calculated using this figure.



Call us if you want details on the tax breaks for self-employed individuals.

BUSINESS ALERT

Could Your Business Recover from a Disaster?

With the recent devastating hurricanes fresh in mind, every business owner should be asking whether his or her company could survive a disaster.

Every business is vulnerable to natural disasters such as fires, floods, tornadoes, hurricanes, and earthquakes. However, advance preparation can minimize your exposure in several ways. For example:

Physical Assets.

Buildings, equipment, furniture, inventories, and supplies should all be protected by adequate property and casualty insurance. Review each policy for "named perils," which are the disasters covered (such as floods or earthquakes). If your location is prone to one of the "perils" not listed, consider expanding your coverage or buying an additional policy to include it.

Records.

Missing records can make it hard to quantify your disaster losses. Duplicates of financial statements, customer lists, inventories, and other important data should be maintained in a secure off-site location and updated regularly.

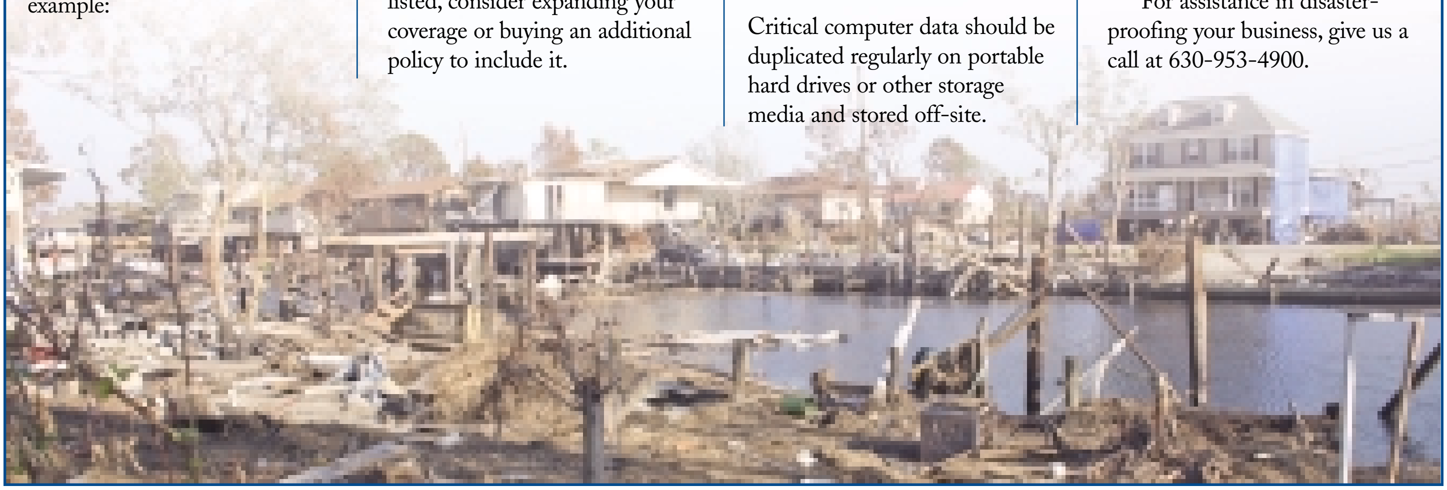
Computers.

Critical computer data should be duplicated regularly on portable hard drives or other storage media and stored off-site.

Recovery.

Consider buying "extra expense" insurance to cover relocation costs for a quick post-disaster recovery. Also, you should identify alternative sources of operating assets (such as furniture and equipment lessors), and investigate other possible business locations.

For assistance in disaster-proofing your business, give us a call at 630-953-4900.



IRS ACTIVITY

Mileage rates increased for 4-month period

The IRS has responded to rising gasoline prices by increasing the standard mileage rates taxpayers may use for deducting business, medical, and moving mileage. The increased rates will apply for driving done from September 1, 2005, through December 31, 2005.

The business mileage rate increases to 48.5¢ a mile, up from 40.5¢ a mile for the previous eight months of 2005. The new four-month rate for medical and moving expenses is 22¢ a mile, up from 15¢ for the previous eight months.

The rate for driving in connection with charitable activities remains at 14¢ a mile, a rate set by law and not subject to IRS adjustment. However, recent legislation increased the rate allowed for charitable driving related to Hurricane Katrina to 70% of the business mileage rate, effective through 2006.

IRS form created for vehicle contributions

The IRS has released Form 1098-C, a new form to be used by organizations in reporting taxpayers' charitable contributions of vehicles, boats, and airplanes. The form can also be used to provide the donor taxpayer with the "contemporaneous written acknowledgment of the contribution" that is required by the tax law.

New per diem rates issued

The IRS has issued new per diem rates for business travel. The new rate for travel to high-cost areas is $226 per day, up from the previous rate of $204. The rate for travel to any other locality within the U.S. is $141, up from $129. The meal and incidental expense rates have been increased to $58 for high-cost areas and to $45 for other areas.

By The Numbers

IMPORTANT DATES FOR WINTER 2005-2006

January 2006

January 17 –
Due date for the fourth installment of 2005 estimated tax.

January 31 –
Employers must furnish W-2 statements to employees. 1099 information statements must be furnished by banks, brokers, and other payors.

January 31 –
Employers must file 2005 federal unemployment tax returns and pay any tax due.

February 2006

February 28 –
Payors must file information returns (like 1099s) with the IRS.

February 28 –
Employers must send W-2 copies to the Social Security Administration.

March 2006

March 1 –
Farmers and fishermen who did not make 2005 estimated tax payments must file 2005 tax returns and pay taxes in full.

March 15 –
2005 calendar-year corporation income tax returns are due.

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.

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

PRESORT
STANDARD
US POSTAGE
PAID

Wishing you and yours all the best for a safe and successful 2006

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