

Advantage

2nd Quarter 2006

REDUCING YOUR TAX LIABILITY

If your total itemized deductions exceed 2% of your adjusted gross income, you may be eligible to significantly reduce your tax liability. This can be accomplished by deducting unreimbursed business expenses. Unreimbursed business expenses include only "ordinary and necessary" business expenses which fit one of two criteria:

- Expenses customary in a field of trade
- Business or professional expenses that are appropriate and helpful, though not necessary

These can include:

- Travel, transportation, meal or entertainment expenses
- Supplies, small tools or safety equipment
- Uniforms
- Required protective clothing
- Dues to professional organizations
- Subscriptions to professional magazines
- Certain job hunting expenses

- Certain expenses for the business use of a home
- Certain educational expenses

Taxpayers wanting to deduct business expenses must be able to substantiate the time, place, business purpose and the amount of the expense. Receipts should be maintained for any expense of \$75 or more.

RESPONDING TO IRS NOTICES

If you receive a notice from the Internal Revenue Service, immediately read the entire notice and respond by the date required. Even if you feel that the IRS notice is erroneous, or the IRS has not yet recorded your payment/form, make sure you respond. Always attach a copy of the notice when corresponding, and send it certified mail, return receipt requested. If you are unsure how the problem occurred, call the IRS to discuss it, and also request a transcript, to determine what happened. (Don't assume the phone call will correct the problem, always put it in writing.)

If the notice appears to be sent in error, explain exactly what happened, for example, they applied a payment to a wrong quarter, and explain exactly what needs to be done to correct it. The longer you wait or ignore a notice, the more penalties and interest will accrue.

If you are in error, and need to file a form, and/or send in payment, respond to the notice, explaining your intent of compliance as soon as possible. If you feel that you have made an error, or there were unavoidable extenuating circumstances, write a letter requesting abatement from the penalties. Having a good prior record of timely filing and payments will increase your chance of getting the penalties abated.

Make sure to maintain copies of all of your correspondence with the IRS, including your enclosures of proof, for an audit trail. If you do not receive a response from the IRS in 6-8 weeks, do not assume that the matter is settled. Send the information again, and write "2nd Response" on it. If you find you are unable to settle the matter, you can contact your local IRS Taxpayer Advocate, by logging on to www.irs.gov/advocate, and finding your state's local advocate.

Always bear in mind that your own resolution to success is more important than any other one thing.

-Abraham Lincoln

CORRECTLY USING A PETTY CASH FUND

It is not always convenient to write a check for every expense made in your workplace. Therefore, most offices set up a type of petty cash fund. A petty cash fund provides the necessary funds for small cash payments to those individuals who cannot wait for a normal check reimbursement (such as the postman for a postage due package). It may be as simple as an envelope in a drawer or as formal as a lockbox in a closet.

There are several things to consider when establishing a petty cash fund. First, who will maintain it? One person should be selected to oversee this cash. This individual (the custodian of the fund) will be responsible for the cash and its use. Secondly, where will the money be kept? The funds should be kept secure at all times. Next, the dollar amount of the fund needs to be determined. This will depend on the needs and activities of the office. Review the last six months and determine what expenses have been reimbursed that would best be handled with cash.

With these preliminaries decided, you can establish the fund. A check should be issued to the custodian of the fund and an asset account called "Petty Cash" should be set up. That check will be cashed and small bills and coins will be placed in the predetermined location. As the money is used, it should be accounted for on some kind of form that identifies who received cash, when, how much, and for what. Every request should be submitted with all possible receipts to substantiate the cash.

At all times, the total cash available in the petty cash fund, plus the receipts, must equal the beginning petty cash fund balance. When the petty cash account falls to a predetermined level, the custodian of

the fund will request a check for the total of the vouchers/receipts which will bring the petty cash account back up to the original balance. The bookkeeper or treasurer of the business will charge the check against the appropriate expense accounts for which the money was used (i.e. postage, office supplies, etc.)

This fund should not be used for cashing pay checks, making loans or advances, or paying wages to temporary employees. If the custodian of the fund needs reimbursement, it would be beneficial to everyone if the request and transaction was witnessed and initialed by another person.

Periodically, someone other than the custodian of the fund should review the account. This should be done unannounced and with the custodian present. This will assure that the fund is being used properly and that there is no misuse of the monies. If at any time the custodian determines that the fund is not in balance, the bookkeeper or treasurer should be informed as soon as possible.

ENERGY TAX INCENTIVES ACT OF 2006

Under the IRC Section 179a, purchasers of new hybrid cars were able to deduct as much as \$2,000 during the 2005 tax season. However, new legislation makes it possible to deduct as much as \$3,400 for hybrid vehicles purchased on or after January 1, 2006.

The credit amounts are determined under a complicated set of rules. Therefore, taxpayers will need to rely on information presented by the manufacturers in order to determine the exact amount they can deduct. Since manufacturers are eager to make sure their vehicles qualify, they have begun releasing the hybrid vehicle certifications and their credit amounts.

The Ford Motor Company released a

statement on April 7, 2006 stating the following credit amounts for their cars:

- 2006 Ford Escape Hybrid: Front WD: \$2,600 and 4 WD: \$1,950
- 2006 Mercury Mariner Hybrid 4 WD: \$1,950

Toyota Motor also released a statement on April 7, 2006 with the following credit amounts:

- 2005 and 2006 Toyota Prius: \$3,150
- 2006 Toyota Highlander 4WD and 2WD Hybrid: \$2,600
- 2006 Lexus RX400h 2WD and 4WD: \$2,200

The IRS has also noted that the earlier consumers buy their hybrid car, the better their tax credit will be since the full credit is only available for a limited time. Once the manufacturers sell more than 60,000 vehicles, the tax credits associated begin to diminish.

With gas prices continuing to rise, driving a hybrid car makes both environmental and financial sense!

UPCOMING CLASSES

June 29, 2006

Preparing Payroll in QuickBooks

July 12, 2006

How to Become a Non-Profit Organization

July 18, 2006

Preparing your ED001

Marien + Company LLC

CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

A BRIEF JOURNEY INTO ESTATE PLANNING

The first step in this long journey starts with a simple will. What is a will? A will is a written document, executed during your lifetime that outlines your desire regarding your legacy. Why is it important? It saves your loved ones a significant amount of time in the probate process.

When you die with a will, you are considered testate. When you die without a will, you are considered intestate. Some of the considerations of being intestate are as follows:

If there is:

- A surviving spouse, no children, no parents

A surviving spouse is entitled to 100% of the estate

- A surviving spouse, no children, but parents

Surviving spouse gets \$100k + $\frac{3}{4}$ of the estate, parents get the remainder

- A surviving spouse and children

Surviving spouse gets \$100k + $\frac{1}{2}$ of the estate, children get the other $\frac{1}{2}$

A will is revocable by destroying the documents and providing the proper communication to the appropriate person that you wish to cancel it.

If you die with a will, probate process has to start with an application to the court within 30 days after death. The original copy of the will has to be submitted. Probate court then holds a hearing and gives notice to all beneficiaries. Provided that there is no objection from the beneficiaries, the court appoints an executor.

The executor, aside from other fiduciary

responsibilities is required to file the final Form 1040 for the deceased.

There are ways to minimize the estate taxes. One way is to gift to your loved ones while you are still alive. The tax burden on the gift falls on the donor. If planned correctly this burden will be minimal.

Gifts have to be irrevocable. This means the donor should give up the ownership and cannot take it back. The first strategy to minimize the gift tax is the annual gift exclusion. This exclusion is \$12,000 per person per year in 2006. Assume that you would like to give your son the down payment for his house. You and your spouse can each claim one exclusion of \$12,000 for this gift for a total of \$24,000. Assuming your son is buying the house jointly with his wife, you and your spouse can claim another two exclusions for your daughter-in-law, bringing the total exclusion to \$48,000. This exclusion is not limited to family members.

When the amount of the gift exceeds the annual exclusion, the amount in excess reduces the Unified Credit (UC). UC is a lifetime credit and limited to \$1 million currently. The donor has to file a gift tax return for the gift in excess of the exclusion and document the amount of reduction to the UC. Transfers not subject to the gift tax are:

- Transfers to political organizations
- Payments that qualify for educational exclusion
- Payments that qualify for medical exclusion
- Any gifts between spouses

This article is an introduction to estate planning. For additional information or questions you might have, please contact our office.

PLANNING A BAZAAR OR RAFFLE IN THE STATE OF CONNECTICUT

In order for your organization to plan a bazaar or raffle in the State of Connecticut, it must be in business for at least 6 months.

In addition, an "Application for Permit" package must be submitted prior to promoting, operating or conducting your event. The forms that need to be completed are as follows:

- Application for a Permit to Conduct a Bazaar or Raffle (Form CGR-2)
- Statement of Active Members (Form CGR-2A)
- Bazaar Activity Worker Sheet (Form CGR-2B)

The application package should be submitted in duplicate at least ten (10) business days in advance of the effective date of such bazaar or raffle. The package has to be submitted to the Chief of Police of any municipality having an organized police department, or to the First Selectman/Mayor of any municipality in which there is no organized police department.

The Chief of Police or First Selectman/Mayor will submit your application to the Division of Special Revenue. Once the application is received and approved, the permit will be sent back to the Chief of Police or First Selectman/Mayor to be signed by them and they will contact you to pick up the permit. You must have the permit before you can hold the event.

After the event is held you are required to complete the following form:

- Charitable Games Verified Bazaar Statement (Form CGF-6)

This form should be completed within the next succeeding month. The form should be prepared in duplicate and submitted to the Chief of Police or First Selectman/Mayor at the same location where the original application was submitted. The Chief of Police or First Selectman /Mayor will forward the original copy to the Division of Special Revenue, within five (5) business days.

The above information is an overview of what needs to be done before an event. For more information on the rules and regulations of holding bazaars and raffles, please visit the State of Connecticut, Division of Special Revenue website at www.ct.gov/dosr/site/default.asp. All of the forms mentioned above are available on-line, as well as the Administrative Regulations, Operations of Bazaar and Raffles manual that lists all of the rules and regulations regarding what is and is not allowable for these events. In addition, sample copies of completed applications are available to assist you with the

application process.

FIRM NEWS

Marien + Company was featured in the national publication, the Journal of Accountancy pertaining to attracting and retaining quality staff.

In the accounting profession today, there is tremendous competition for quality accountants. This article highlights the fact that **Marien + Company** has been on the cutting edge of attracting and retaining quality staff. In recent years, we have adopted staff competency models that focus on the critical areas that professionals need to succeed in public accounting. We have been very pleased with the results. We have found that when staff members have clearly defined competency models to follow, they feel more valued, enthusiastic, challenged and ultimately motivated to succeed. If you would like a copy of this article, please contact Anita Mather at

Anita@MarienCPAs.com or (860) 886-1750.

Congratulations to Marcia L. Marien, CPA, Managing Partner on her election to the Board of Governors of the Connecticut Society of Certified Public Accountants (CSCPA).

After the completion of a successful quality control review, **Marien + Company** has been accepted to become a member of MGI, a worldwide association of independent auditing, accounting and consulting firms. Our MGI membership allows us to service our clients' needs worldwide through this association of quality firms.

REMINDER

2nd Quarter

Estimated Payments

Due June 15, 2006

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