

Advantage

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FIDUCIARY RESPONSIBILITIES

By Marcia L. Marien, CPA

Are you on a retirement board? An investment committee? A trustee of a private trust? Do you know what your responsibilities are? Do you know that you can be held personally liable for what you do or don't do in this capacity?

The professionals at Marien + Company had an eye-opening seminar this month given by Steven Parmelee, AIFA, and President of the Westport Benefits Group. Steve is an Accredited Investment Fiduciary Auditor (AIFA), a designation he earned from the Center for Fiduciary Studies.

A fiduciary is defined as someone who has the legal responsibility for managing someone else's money. The courts have said "a pure heart and an empty head are not enough" in *Donovan vs. Cunningham* at the 5th Circuit Court. Steve gave us an overview of the **Uniform Standards of Care** that are expected of every fiduciary:

- Know standards, laws, and trust provisions
- Diversify assets to specific risk/return profile of client
- Prepare investment policy statement
- Use "prudent experts" (money managers) and document due diligence
- Control and account for investment expenses

- Monitor the activities of "prudent experts"
- Avoid conflicts of interest and prohibited transactions

If you are not sure you are complying with each of these standards, please give us a call. We can arrange for a meeting with Steve for you or your organization.

RETIREMENT PLAN LIMITS FOR 2006

401(K) Plans - \$16,000

SIMPLE Plans - \$10,000

IRA Contribution - \$4,000

COMMONLY MISSED DEDUCTIONS FOR BUSINESS OWNERS

By Thomas O. Marien, CPA, MBA, CVA

As the end of the year approaches, tax planning should be on everyone's mind, especially those who own businesses. If this applies to you, the following article may be of particular importance. This year, along with your standard set of deductions, take the time to make sure the subsequent list of commonly missed business deductions has been taken advantage of:

Home Office Deduction: People who use part of their home as an office may be able to deduct part of the related expenses based on the percentage of square footage their office occupies. Related expenses can include mortgage interest, property taxes, and even utilities.

General Business Expenses: Any general expenses, such as office supplies, paid for with personal money.

Communications Deduction: Expenses incurred as a result of business use of personal telephones, cell phones, and internet access.

Personal Assets Converted to Business Use: Any personal assets that were contributed to your start-up business, at a depreciated fair market value.

Meals and Entertainment: Business entertainment expenses paid for with personal funds, subject to limitations.

Self-employed Health Insurance: 100% of self-employed health insurance premiums.

Automobile Expenses: Business use of a personal vehicle, at a rate of 40.5 cents per mile between January and August, and 48.5 cents per mile from September through the end of the year.

For small business owners, it is important to keep track of all personal funds used to keep the business running. Well kept records of these expenses can be an invaluable tool at the end of each year. As always, please feel free to let us know if you need any assistance with your year end tax planning.

FOR THE FIRST TIME EVER, MEDICARE OFFERS PRESCRIPTION BENEFITS

By Oktay Gurz, MBA

If you are eligible for Medicare in 2006 you may feel overwhelmed by the decisions with which you are currently faced. Make sure to read our easy guide to choosing the policy that is right for you.

Medicare (Part A & Part B) is a federally funded program for everyone over 65 and for people with disabilities. Beginning January 1, 2006, Medicare will cover prescription drugs for the first time. Traditional Medicare covers two things only: hospital services, and Doctor/outpatient visits. For those of you who currently have Traditional Medicare, you are required to choose a supplementary Prescription plan (Part D) by May 15, 2006.

Medicare prescription plans will vary widely. As an example, one typical new Medicare stand-alone plan might require you to pay costs such as these:

- \$32 monthly Premium
- \$250 Deductible
- 25% of all annual Prescription costs between \$250 and \$2,250
- 100% of all annual Prescription costs between \$2,250 and \$5,100
- 5% of all drug costs over \$5,100 until the year end. The deductible and out-of-pocket requirements start all over again each year.

All plans are from private companies and vary from locale to locale. Medicare promises at least two plans for every area in the country. If you have prescription drug coverage now, you should have received a letter from your current plan telling you how your plan compares to the Medicare alternative. The letter should have arrived between September and November 2005.

Choosing the right plan can seem overwhelming. In order to simplify the process, follow these important steps:

- Start with the list of the prescriptions you need.
- Choose a plan and check whether your prescriptions are covered on its list of drugs which is called a "formulary".
- Repeat that process with another plan and compare them to see which one covers more of your prescriptions.
- Be sure to also compare their premium and co-payment structures for your drugs.
- Lastly, ensure that the plan you choose has a participating pharmacy in your area.

To avoid a lifetime insurance premium penalty, you have to make a decision by the end of the enrollment period, which is May 15, 2006. If you fail to do so, you will pay an additional 1% of the premium for each month you went without coverage from June 2006 through the month you do enroll. This penalty will not apply to people who have prescription coverage elsewhere. For example, people who choose to keep working full time past the age of 65 and receive coverage through their employment will not be subject to the penalty because they are not without coverage.

If you are currently without Prescription coverage and are eligible in 2006 be sure to choose a plan by May 15th. A few percentage points may not seem like a very big penalty, but it will be applied to your insurance premiums for the rest of your life.

If you are going to achieve excellence in big things, you develop the habit in little matters. Excellence is not an exception, it is prevailing attitude".

- Colin Powell

TAXABLE FRINGE BENEFITS

By Peggy Dougherty, CQA

Most people do not realize that there are many different types of fringe benefits which are provided to employees that the IRS considers to be taxable wages. One example is the automobile that an employer provides to their employee which the employee uses for any personal use, including the commute to and from work. There are several different ways to value the use of this automobile. They include:

Lease Valuation Rule – Under this rule, you determine the value of the automobile you provide to an employee by using its annual lease value.

Cents-Per-Mile Rule – Under this rule, you determine the value of the vehicle you provide to an employee by multiplying the standard mileage rate by the total miles the employee drives the vehicle for personal purposes. Remember that this year the standard mileage rate changed on September 1 to 48.5 cents per mile, up from 40.5 cents per mile for January through August. This method has restrictions based on the value of the vehicle and number of miles driven.

Commuting Valuation Rule – Under this rule, you determine the value of a vehicle you provide to an employee for commuting use by multiplying each one-way commute by \$1.50. This vehicle can not be used for personal use except for de minimis personal use, such as a personal errand on the way between a business delivery and the employee's home.

Each of these methods have rules that apply and restrictions for their use. Please consult the IRS Publication 15-B – Employer's Tax Guide to Fringe Benefits or call your accountant.

Another one of the more common taxable fringe benefits is the health insurance that is paid for a more than 2% shareholder of an S corporation.

Marien + Company LLC

CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

Although health benefits are not a taxable fringe benefit for employees, a more than 2% shareholder of an S corporation is not considered an employee for this purpose. The amount of the health benefit, less any contribution by the 2% shareholder for the health insurance, is subject to federal and state income tax withholding. It is not subject to Social Security, Medicare or FUTA taxes.

The value of these fringe benefits have to be included on the employee's W-2 and reported on the Form 941 that is filed quarterly. Applicable taxes should be withheld from the employee as appropriate.

Please feel free to call our office if you should have any questions.

You can now register online for any of our Classes. Go to www.MarienCPAs.com and click on Events + Classes to sign up.

NEW LEGISLATION INCREASES ENERGY TAX CREDITS

By Thomas O. Marien, CPA, MBA, CVA

There are three brand new tax credits you should know about that resulted from recent legislation. The first is a credit of up to \$500 total over the 2006 and 2007 tax years for homeowners who install nonbusiness energy property. This could include any energy efficient items such as:

- Doors
- Windows
- Insulation
- Heat Pumps
- Central Air Conditioning
- Water heaters

The second is a residential alternative energy credit for 30% of eligible solar water heaters, electricity equipment, and fuel cell plants. The maximum

credits are:

\$2,000 per year for each type of solar equipment

\$500 for each .5kW of capacity for fuel cell plants installed each year

If you are planning to take advantage of these energy tax credits, please keep in mind that they will only apply to property that is ready and available for use after December 31, 2005. If it looks like you may get your energy efficient material installed before then, be sure to delay.

Finally, the clean-fuel vehicle deduction for hybrid vehicles switches to a credit of approximately \$2,000, depending on fuel efficiency, starting January 1, 2006, so you may want to wait on that purchase as well.

All of this material can seem like a lot to remember, and the details of all of the provisions can make it even more complicated. Fortunately, you won't have to remember all of it by yourself—that's why you hire a tax professional. The two most important parts of tax planning each year are keeping good records and asking questions if they arise. We look forward to hearing from you.

SECTION 125, FSA "USE IT OR LOSE IT" REPRIEVE

By Paula Fernald, COA

A grace period has been added to the Section 125 Flexible Spending Accounts. In previous years, any unused benefits would be expunged at the end of each year. However, this year participants that have unused benefits or contributions at year end may have an additional 2½ months to incur charges, using the same benefits.

Example 1: Mary has \$200 of unused medical benefits from the 2005 year in her Flexible Spending Account. Prior to March 15, 2006, she incurs \$300 of qualified medical expenses. She can use her unused \$200 from the prior year to go toward

her \$300 expenses.

Example 2: Same scenario as above, except that Mary only incurs \$100 of qualified medical expenses prior to March 15, 2006. Mary can apply \$100 of her unused \$200, but loses the remaining \$100.

Employers that wish to adopt this grace period must amend their Flexible Spending Plan prior to the end of the current year plan. Once the plan is amended, employees can have until March 15th to incur additional expenses.

The reprieve will lend valuable time to anyone who has remaining funds in their Flexible Spending Account. Be sure to check with your employer to see if they are taking advantage of the grace period. Once you are sure your employer has amended your plan, remember to keep filing your claims. On March 15, 2006 you will lose all funds left in your 2005 account!

UPCOMING CLASSES

Excel for Beginners

When: December 8, 2005
Time: 2—4pm
Fee: \$60

Town Finance Seminar

When: January 31, 2006
Time: 7—9pm
Fee: Complimentary

Bookkeeping 101

When: February 17, 2006
Time: 9—1pm
Fee: \$60

Preparing PowerPoint Presentations

When: February 23, 2006
Time: 6—8pm
Fee: \$60

We have had a busy and exciting few months in the firm as we close out our 25th anniversary year.

Yichun "Carol" Yan, CPA!

We are pleased to announce that Carol has completed all the requirements and has earned her license as a Certified Public Accountant! She is a Senior Accountant and has been with the firm for three years. Prior to that, she was with a public accounting firm in New York City. Carol is a graduate of Southwestern University of Finance and Economics in Chengdu, P.R. China where she earned her Bachelor of Economics degree in accounting. She received her Master of Science degree in accounting from Ohio University's College of Business.

Web Site Changes at www.MarienCPAs.com

We have updated our web site to keep it current and fresh. You will find that it is updated more frequently and is more interactive. We are now offering the option to register for classes on the web site (provided there is still room!). There is also a place to provide feedback on your experiences with the firm.

ECSU ACCOUNTING FAIR

A team of three of our accountants represented the firm at the Eastern Connecticut State University's Accounting Fair. This was a chance for Tanya, Alex and Greg to talk with accounting students at ECSU about what a career in public accounting is like and answer the student's questions.

ECSU was a great host and the team was impressed by each of the students that they met.

ANOTHER ANNIVERSARY CELEBRATION

We had another 25th anniversary celebration this time with the assistance of the Greater Norwich Area Chamber of Commerce. This was a great success! The Copper Pot did another outstanding job of catering with a barbeque theme. They served up a fantastic meal of ribs, chicken, pasta, salad, mushrooms and, of course, the chocolate fountain was back! It is great to have two very hard-working and fun-loving Chambers in our area.

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