

H&S Companies TAX LETTER TWENTY-THREE

Individual Highlights

Come to your tax appointment prepared.

We can mail (or even e-mail) an organizer to you. Just call and request one.



Energy Credits - for Individuals

Let's talk energy efficiency improvements on principal residences. You may be able to claim a nonrefundable personal tax credit for a percentage of qualified energy efficiency improvements installed plus energy property expenditures paid or incurred in 2006 and 2007. The credit is limited to \$500 on principal residences. So start those improvements NOW!



Personal tax credit may be available for equipment placed in your personal residence too! 30% of:

- H&S** Cost of qualified electricity generating solar water heating equipment.
- H&S** Cost of qualified electricity generating solar photovoltaic property,
- H&S** Cost of qualified fuel cell property.

Sorry, no credit allowed for equipment used to heat swimming pools or hot tubs. ☹

If you like the Roth IRA, talk to us about the Roth 401(k)

- Higher contribution limits - \$15,000 under age 50 \$20,000 50 or over
- No phase-out limitations



And compared to the traditional 401(k):

- No deduction for your contributions but tax free withdrawals.

The Roth 401(k) account option in retirement plans has become available as of 1/1/06. Check with your employer to see if they are adding it to your plan.

Hybrid Credit

In case you have not already purchased your hybrid car (*like Dan and are annoying your friends and team members about getting 50mpg*), Congress has sweetened the deal. Hybrid cars purchased after 1/1/06 are now eligible for tax credits ranging up to \$3,600!

But there is a catch...the credit actually expires after 60,000 cars per manufacturer.



Before you read this section see if you agree with these statements:

- (1) My health insurance premiums are really inexpensive
 - (2) I am not worried about escalating health insurance costs
- If you concur then reading. If not...we have an idea for you:

Health Savings Accounts (HSA)

HSA's combine a high deductible insurance plan (see below) with a savings account to pay for uncovered medical expenses. Advantages include:

- High deductible insurance plans have lower premiums
- Money put into your health savings account is deductible and can either be withdrawn tax free for qualified medical expenses or saved for retirement.

Annual deductibles:	Minimum	Maximum
Individual	\$1,000	\$5,000
Family	2,000	10,000

Contributions are limited to the lesser of the annual deductible of the health policy or:

	Under age 55	55 & Older
Individual	\$2,650	\$3,250
Family	5,250	5,850

Do you qualify? Does it make sense for you to have a HSA account? Unsure?

Please contact your insurance agent or your H&S advisor to receive further details.

Retirement

Maximum contributions to the most common plans for 2005 and 2006:	<u>2005</u>		<u>2006</u>	
	Under 50	50+ over	Under 50	50+ over
IRAs	\$4,000	\$4,500	\$4,000	\$5,000
SIMPLE Plans	10,000	12,000	10,000	12,500
401(k)/457	14,000	18,000	15,000	20,000

* Phase-out limits come into play with regard to a deductible IRA with active participation in another retirement plan, as well as for the popular ROTH IRA.

*If you are not into saving for retirement but want more tax deductions - you could consider simply increasing the amount you pay for professional fees such as H&S. ☺
(See Business Highlights)*

Business Highlights

Deduction for Domestic Production

This really is the name, we don't make this stuff up! Congress does that for us. *(And no, this does not have anything to do with the domestic (re)production deduction - for that turn to Individual Highlights!)* So what is this all about?

Beginning in 2005 a new deduction is available for primarily the following industries:

- * Manufacturing
- * Construction
- * Farming

The deduction starts at 3% for '05 and '06, doubling to 6% in '07 and then tripling to 9% in 2010.

The calculations are somewhat complex (surprise!) but generally are the lesser of 3% of qualified production activity income (gross profit less direct and indirect costs) or taxable income and can not exceed 50% of wages paid.

For those of you in these industries, we will be focusing our attention on calculating and maxing this deduction for you this year.

Prepaid Expenses in both Cash and Accrual Method Accounting

More Good News

Cash Method - New regulations may allow you to deduct prepayment of two expenses not previously allowed; rent and insurance. The new law does stipulate that the prepayment cannot extend beyond 12 months or the end of the next year.

Accrual Method *(not to be confused with "A cruel method of accounting")* - You may be allowed to prepay (up to 12 months) and deduct expenditures such as taxes, insurance and licenses. Other good news: professional fees (and this, of course, includes your most valuable advisor - H&S!) and other expenses may be prepaid and deducted if the service or property is used within 3-1/2 months after year-end. You may also be allowed to deduct (not necessarily prepaid) expenses up to 8-1/2 months after year-end under the recurring item exception.

These accounting method changes, while very complicated and sometimes requiring prior IRS approval, will be extremely useful to help minimize your tax liability. Keep in mind that accurate accounting records and proper year-end planning need to be in place to take full advantage of these regulations.

Important Facts and Figures

	2005	2006
Std. Mileage Rate 1-1to 8-31	\$0.405/mile	\$0.445/mile
9-1 to 12-31	\$0.485/mile	\$0.445/mile
Social Security Wage Base	\$90,000	\$94,200
Earnings Limit for S.S. recipients under 65	\$12,000	\$12,480
Tax Free Estate	\$1,500,000	\$2,000,000

Effective December 20, 2005 Governor Granholm signed legislation changing Michigan Single Business Tax (SBT). For tax years starting after 12-31-05, greater weight will be placed on the sales factor when calculating the apportionment formula. The legislation also includes two credits that are based on personal property taxes paid. Of course, restrictions do apply.

Energy Credits and Deductions - for Businesses too



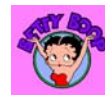
Contractors who build new energy efficient personal residences in the US and sell them in 2006 and 2007 may claim a tax credit of \$2,000 per dwelling unit.

The cost of qualified energy-saving improvements to qualifying commercial buildings in the US placed in service in 2006 and 2007 may be immediately deducted up to generally \$1.80 per square foot. Certain restrictions need to be considered to see if the improvement costs are eligible. In previous years businesses would capitalize and depreciate those improvement costs.

EXTRA EXTRA



Congress Extends LUST tax through 9/30/11



As we have said before - we don't make this stuff up - your legislators do!

Code Section 4081 (d)(3) was amended by the 2005 Energy Tax Act, bill section 1362, extending the Leaking Underground Storage Tank tax.

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