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SENT VIA E-MAIL

Dear Client,

The 2005 tax year is coming to an end, and it's time to think about actions you and your business should take by the end of the year, and planning that should be done for the future, to minimize taxes.

The qualified production activities deduction went into effect in 2005 and affects most businesses. For tax years beginning after December 31, 2004, businesses can deduct a percentage of their income derived from certain qualified production activities within the United States. Qualified production activities income is not limited to manufacturing, but also includes income derived from sources such as certain natural resource production activities, film production activities, construction activities, and engineering and architectural services.

Because of the rapid rise in gasoline prices during the year, the IRS increased the optional business standard mileage rate for the last four months of 2005 to 48.5 cents. This is an eight cent increase from the 40.5 cent rate that was in effect for the first eight months of the year. For 2006, the IRS has set the rate at 44.5 cents per mile.

If your business is eligible for the work opportunity credit and you are considering adding employees eligible for this credit near the end of 2005, it may be advantageous to hire those employees before the end of the year. This is because the work opportunity credit generally expires for individuals hired on or after January 1, 2006.

The research activities tax credit also expires at the end of 2005.

Qualified leasehold and improvement property and qualified restaurant property placed in service after 2005 must be depreciated over 39 years, rather than the 15-year depreciation period allowed for property placed in service in 2005.

The Energy Policy Act of 2005 contains provisions that may benefit your business next year. Construction-related firms may be able to take advantage of a new business tax credit for the construction of new energy-efficient homes substantially completed after 2005. Available to all types of businesses in 2006 is a solar tax credit for the cost of new property that is used to generate solar energy for electricity, heating or cooling, or for certain types of geothermal energy. The Act also provides new motor vehicle credits for qualified fuel cell motor vehicles, advanced lean-burn technology vehicles, qualified hybrid motor vehicles, and qualified alternative fuel motor vehicles placed in service after 2005.

The electric motor vehicle credit, however, is reduced from \$4,000 to \$1,000 beginning next year and the clean-fuel vehicles deduction expires next year. Also, the Act requires that, generally, after August 8, 2005, if multiple amortizable intangibles are sold in a single transaction or series of transactions, the seller must calculate the recapture of these intangibles' amortization as if all were a single asset. Thus, any gain on the disposition is recaptured as ordinary income to the extent of ordinary depreciation deductions previously claimed on any of these intangibles.

Beginning in January 2006, employers can offer Roth 401(k) plans. Similar to Roth IRAs, contributions to such plans will be taxable to participating employees, but earnings and post-retirement withdrawals from these accounts will be tax-free.

The maximum 401(k) contribution eligible for tax deferral in 2005 is \$14,000, plus an extra \$4,000 "catch-up" contribution for those who are 50 or older. For 2006, the maximum contribution eligible for tax deferral is \$15,000. The catch-up contribution amount is \$5,000.

The Katrina Emergency Tax Relief Act of 2005 encourages charitable giving. For eligible charitable cash donations by individuals, it provides an election to lift the 50 percent adjusted gross income limit and phase-out rule. These individual donations may be to any charity. Corporations may elect to waive the 10 percent income limitation for cash donations, but only if the contributions are related to the relief effort. Donations from August 28, 2005 through the end of the year are eligible for this treatment.

Stricter rules are in place in 2005 for donation of vehicles to charity. Under these rules, if the claimed value of a donated vehicle exceeds \$500 and the charitable organization sells the vehicle without any significant intervening use or material improvement, the amount of the deduction is limited to the sale proceeds.

Repairs to your house may save you taxes next year. Two new residential energy credits are available under the Energy Policy Act of 2005--the non-business energy property credit and the residential energy efficient property credit. These credits are available for the following types of energy-efficient property that meet eligibility requirements: (1) exterior doors; (2) heat pumps; (3) water heaters; (4) central air conditioners; (5) furnace or hot water boilers; (6) fans used in natural gas, propane, or oil furnaces; (7) insulation material or an insulation system specifically and primarily designed to reduce the heat gain of a dwelling unit; (9) exterior windows (including skylights); (10) qualified property for producing solar electricity; (11) qualified solar water heating property; and (12) qualified fuel cell property.

If you own a condominium or cooperative, these credits are also available. For repairs made by your condominium association or cooperative corporation, they may be available on a pro-rated basis.

"High-income" taxpayers may be able to take a larger amount of itemized deductions in 2006. That is because the reduction in itemized deductions for high-income taxpayers starts to phase out beginning next year.

On the other hand, taxpayers may no longer elect to deduct state and local sales taxes in lieu of state and local income taxes after 2005.

The deduction for qualified higher education tuition and related expenses is scheduled to terminate for tax years beginning after December 31, 2005. Also next year, educators will no longer be able to deduct up to \$250 of certain classroom material in computing adjusted gross income.

In addition, non-refundable tax credits, with a few exceptions, can no longer be used to offset alternative minimum tax liability for tax years after 2005.

In light of these developments, as well as an array of new or revised IRS rulings and regulations that may affect you or your business, it is important that you contact our offices, so we can discuss the impact of these changes. If you have any questions or would like more information, please let me know.

If you are projected to owe additional income tax, a tax projection can help determine which tax-minimizing strategies should be used before the end of the year to reduce or eliminate any tax due. If you are due a refund, we can ensure your tax return is filed as early as possible, to allow you to receive your refund and enjoy your money more quickly.

Sincerely,

Kristine A. Amador, CPA

Circular 230 disclosure. Pursuant to regulations of the U.S. Department of Treasury, it is required that we advise you that the above and any attachment thereto is not intended to be used and cannot be used by the taxpayer for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code on the taxpayer, or to promote, market, or recommend to another party any tax-related matters addressed herein.