



DEAN, DORTON & FORD

CPAs • Business & Financial Advisors

NEWSLETTER

SUMMER 2006

Favorable Capital Gain and Dividend Rates Extended

The most noteworthy recent federal legislative tax news is enactment of the Tax Increase Prevention and Reconciliation Act (TIPRA), signed by President Bush on May 17, 2006. TIPRA has these main provisions:

- TIPRA extends preferential tax rates applying to dividends and long-term capital gains (generally, 15%), previously scheduled to expire after 2008, through 2010.
- TIPRA increases the alternative minimum tax (AMT) exemption for married and single people to \$62,550 and \$42,500, respectively, for 2006. These exemptions were \$58,000 and \$40,250, respectively, for 2005, but would have decreased without the TIPRA change. Note that this is only a one-year relief provision.
- As additional AMT relief, TIPRA extends for one year the ability of individuals to apply certain nonrefundable personal tax credits: for dependent care, the elderly and disabled, and certain education credits, against AMT, as well as against regular tax.
- TIPRA will allow individuals, beginning in 2010, to convert traditional tax-deferred IRAs into tax-free Roth IRAs, regardless of their income levels. Under current law, such conversions are only allowed if AGI does not exceed \$100,000. Observe that this change is treated as a revenue raiser, because it is believed that conversions will occur and result in greater taxes in the short-term. However, such conversions will tend to occur only when taxpayers believe they will save taxes in the long-term.
- TIPRA extends the Section 179 amounts - a \$100,000 deduction limit with a \$400,000 phase-out threshold (adjusted for inflation) - through 2009. The Section 179 deduction and phase-out threshold amounts were scheduled to revert to \$25,000 and \$200,000, respectively, after 2007.
- TIPRA requires that payers of tax-exempt interest report the interest to payees in the same manner as interest paid on taxable obligations, effective beginning this year.
- For many years, the "kiddie tax" applied to tax most investment income of children under age 14 at their parents' marginal tax rates. Under TIPRA, beginning this year, the "kiddie tax" provisions will apply to children under age 18.

Please contact us if you have questions about how these provisions may impact you.

• Doug Dean & Leigh McKee

Economic Indicators—What Do They Mean?

Business and economic news often is interspersed with references to various surveys and statistical analyses - collectively, economic indicators - which measure aspects of our current or prospective economic conditions. Here is a summary that may help you understand some of the more common indicators and a reference to their Websites if you'd like to know more.

Gross Domestic Product (GDP) - This is a national measure of the market value of goods and services produced by labor and property in the United States. In 1991, GDP replaced gross national product (GNP) as the primary measure of U.S. production. www.bea.gov

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Tax Developments for Employers

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IRS increases staffing to find employment tax evasion

The IRS has added new staff specifically charged with auditing employment tax issues. They will be looking for situations where employers are paying their workers in cash to avoid payroll taxes and for unreported tip income. They also will be auditing employers' classifications of workers as employees or independent contractors. Please contact us if you would like any "pre-audit" advice on these issues.

IRS eases filing rules for very small employers

Beginning this year, employers who have annual federal withholding and payroll tax liabilities of \$1,000 or less will be able to file and pay their taxes once a year on Form 944 - Employers Annual Federal Tax Return, instead of on quarterly Form 941 - Employer's Quarterly Federal Tax Return. The following employers cannot

file Form 944: employers who have not been contacted by the IRS about this new option, household employers (who file Schedule H with their Form 1040), and agricultural employers (who file Form 943). If the IRS did not contact your business and you think you may qualify, you may contact the IRS at 1-800-829-0115.

New requirements for Kentucky Unemployment Insurance filings

If you have 10 or more employees, you must file your quarterly Kentucky Unemployment Wage and Tax Report, Form UI-3, electronically, beginning this year. The website for filing electronic reports is <https://kewes.ky.gov>. To access the Account Login page, you will need to choose the Submit Quarterly Tax Report button. If you need a password, you may email des.uit@ky.gov or call 502-564-2168. If you already file these reports electronically, this new requirement will not impact you.

• Pam Crouch and Angela Hollearn

What Businesses Need to Know About Payments to Non-U.S. Residents

Generally, businesses operating in the U.S. are required to withhold 30% U.S. tax on payments to nonresident aliens of the following U.S.-source income:

- interest
- dividends
- rents
- royalties
- nonemployee services performed in the U.S.

Payors generally are not required to withhold on payments to nonresident aliens for purchases of property other than direct or indirect U.S. real estate holdings.

Additionally, partnerships are required to report and deposit withholding payments quarterly on foreign partners' share of the partnership's U.S. income - whether or not the income is actually distributed.

Penalties for failure to comply with these rules can be steep.

To identify nonresident payees, look for:

- A foreign address or payments made to foreign locations.
- An EIN beginning with "98."
- Something other than Inc., LLC, LP, or other U.S. business entity designations at the end of a business name - e.g., PLC, Ag, or SA.

If you find any of these indicators, you must withhold 30% on all payments of the above types unless you have additional documentation on a W-8 series form.

The withholding tax is required to be deposited in a manner similar to payroll tax deposits. The penalties for late deposit are similar—and potentially very high.

Please let us know if we can help you with any of these matters.

• Leigh McKee & Flora Djojo

Economic Indicators—What Do They Mean?

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Money Supply (M2) - This is the total of all money that a country has in circulation. www.federalreserve.gov/releases/h6

Consumer Price Index (CPI) - This measures fluctuations in prices paid for goods and services. In essence, it measures cost-of-living changes. www.bls.gov/cpi/home.htm

Producer Price Index (PPI) - This measures the average change over time in prices that domestic producers receive for their output. Three stages of production are measured: crude, intermediate and finished goods. www.bls.gov/ppi/home.htm

Consumer Confidence Index - This monthly indicator is based on a representative sample of 5000 households and is considered the leading gauge of public confidence in the health of the U.S. economy. Respondents are asked how they feel about business conditions, the labor market, consumer spending, economic growth, and employment/financial expectations six months into the future. www.consumersresearchcenter.org

Current Employment Statistics (CES) - This monthly survey captures information from approximately 160,000 businesses and government agencies, representing about 400,000 individual worksites.

This measure provides detailed industry data on employment, hours, and earnings of workers on non-farm payrolls. www.bls.gov/ces/home.htm

Retail Trade Sales and Food Services Sales - This indicator tracks monthly U.S. sales, measuring personal consumption across retail industries (excluding automobile), and tracks growth or decline in consumer spending. www.census.gov/cgi-bin/briefroom/BriefRm

Housing Starts - This measures the number of privately-owned single-family and multiple-unit buildings under construction in a given month. www.census.gov/cgi-bin/briefroom/BriefRm

Manufacturing and Trade Inventories and Sales - This is the combined value of trade sales and shipments by manufacturers, and the combined values of inventories and business sales. Inventory rates provide insight into the growth or contraction of the economy. www.census.gov/cgi-bin/briefroom/BriefRm

S&P 500-Stock Index - Companies are included in this index based on their market size, liquidity, and industry group. This is a benchmark of overall U.S. equity market performance. www.spglobal.com

• Elizabeth Woodward

New Communication Options for the Mobile Professional

Receiving corporate e-mail remotely on a handheld device that serves as a cell phone is not a new concept. These “smartphone” devices traditionally have been marketed to large organizations due to the high cost of implementation and support. Recently, the demand for mobile e-mail communication from small- and medium- sized businesses and from individuals has grown dramatically. A recent study indicates that the demand for smartphones has doubled since last year, and will account for 15% of all cell phone sales this year. As a result, wireless providers are now heavily marketing solutions such as Blackberry and Treo to anyone who is in the market for a cell phone.

Smartphones come with software that offers limited e-mail integration, allowing users to send and receive messages from their corporate e-mail account. Users can create calendar entries while in the field, but these entries aren't reflected on their calendars back at the office until the phone is synched with the PC. The lag-time between smartphone entry and synching with the PC can result in scheduling conflicts.

Microsoft has entered the mobile communication market by including a more robust solution, one that is included at no extra cost in their

highly popular Exchange 2003 e-mail server software. It allows users to send and receive e-mail and provides better synching technology by updating a user's e-mail, calendar, and contacts “on the fly.” The user's device is synched with his or her Microsoft Outlook by utilizing the cell phone provider's wireless network. As a result, new calendar entries, contact updates, and sent e-mails are pushed back to the user's PC almost immediately. New messages and calendar events sent to the person also are remotely synched to the device over the cell phone network. Other product offerings such as Blackberry Enterprise Server and GoodLink allow users to sync their corporate e-mail to a smartphone device. These offerings are similar to the Microsoft solution, but require additional server software.

Every organization has different mobile e-mail requirements. DDF Technology can help you select and implement the mobile e-mail solution that is right for your business. To learn more about mobile e-mail solutions, our computer network support, software implementation, or spam killing services, please contact Chris Jones at (859) 425-7685 or info@ddftech.com.

People News

Professional and Community Activities and Accomplishments

The matters discussed in these articles provide general information only. You should consult with us about your specific situation before undertaking action based on such general information.

Kathy Jaeger is Treasurer of The Girl Scouts Wilderness Road Council.

Jason Miller, head of our Technology Consulting Group and a Berea College graduate, was the guest speaker for the 2006 Berea College Labor Awards Banquet.

In April, **Chad Criswell**, **Heather Adkins**, and **Jody Warner** spoke at the University of Kentucky's Nonprofit Leadership Initiative "Nonprofit Dollars and Sense" workshop.

New People at Dean, Dorton & Ford

Chris Mahler has joined DDF as part of the Client Accounting & Payroll Services (CAPS) group. Chris, who has Bachelor of Science degrees in Accounting and Computer Information Systems from Union College, brings over 11 years of work experience to the firm.

Keith Jones, who recently graduated from Eastern Kentucky University with a Bachelor of Science degree in Computer Electronic Networking, is working as a Network Administrator with the Technology Consulting Group.



**2006 Winner
Best Places to Work
in Kentucky**

*DDF Employee direct lines and email addresses
are as close as a mouse click away:*
www.deandortonford.com/staff3.html

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