

January 2006

Dear Business Client:

Most of the tax changes related to businesses were either brought about by the hurricanes or were not actually changes at all, but rather extensions of prior tax provisions.

- **Equipment Expense Deductions:** The maximum amount of equipment purchases qualifying for this election is \$105,000 for 2005 and \$108,000 for 2006 – and currently includes off-the-shelf software. Remember that SUVs have been capped at \$25,000. Note that the limit is scheduled to drop back down in 2008 to \$25,000. (Vermont has also accepted these deduction limits.)
- **Domestic Production Activities Deduction:** This is a new deduction in which you may be able to deduct up to 3% of your qualified production activities income. Only certain types of income qualify and the rules and the calculations are rather complex. Some businesses will receive a modest deduction but with a substantial amount of work involved.
- **Katrina Relief:** There are tax benefits available for businesses that were either affected by the hurricanes or which made any contributions to the relief efforts.
- **US-Canada Exchange Rate:** Average rate was \$1.2115 Cdn = \$1.00 US.
- **Net Operating Loss:** Carryback period is currently two years – and with a carryforward of up to 20 years.
- **Standard Mileage Rate:** Changes to 44.5¢/mile in 2006 (was 40.5¢ for Jan – Aug. 2005 and 48.5¢ for Sept. – Dec. 2005).
- **Pensions:** 401(k) type elective deferral limit increases to \$15,000 (from \$14,000 in 2005); catch-up contributions for those age 50 or over by end of 2006 are \$5,000 per year; maximum SIMPLE deferral limit remains at \$10,000 with catch-up of \$2,500 for 2006.
- **Social Security Taxes:** The wage base rises to \$94,200 (was \$90,000 in 2005); there is still no wage cap for Medicare taxes.

Because of the extent of the many changes, these explanations are very general in nature. Please contact us if you wish to discuss them in more detail, or feel free to visit our website at www.herrickltd.com.

If you purchased assets or supplies out-of-state, on-line, or through mail order, without paying sales tax, you must self-assess the State tax and remit it to your State's Department of Taxes. Also, remember that each independent contractor who earned \$600 or more in 2005 should be sent a 1099-MISC Form (this rule applies to all non-incorporated contractors and all attorneys, incorporated or not).

Our standard engagement letter is enclosed along with our checklist. Please answer the questions in italics in the checklist, sign the blue letter, and return both to us.

As always, we look forward to working with you and please call if there are any questions.

Sincerely,

Herrick, Ltd. CPAs