

Thomas, Judy, and Tucker, P.A.

Welcome to the October 2005 Thomas, Judy & Tucker, P.A. newsletter. If you prefer to have this newsletter e-mailed, please call our office at (919) 571-7055 and give us your e-mail address, or e-mail it to us at heather.dickson@tjtpa.com

As part of our mission statement, Thomas, Judy & Tucker P.A. is committed to giving back to the community. Last month, on Friday September 23, 2005 we landscaped and resealed the parking lot at Neighbor to Neighbor. They are a non-profit organization that seeks to strengthen the lives of children, youth and families in downtown Raleigh through positive recreational and education programs such as basketball, reading, writing, math, Latino/Hispanic outreach and college scholarships.



STAFF WEDDING BELLS

Congratulations to **Will Vaughn**, Tax Senior Staff Accountant, who married Meredith Burleson on August 27, 2005. Congratulations also to **Christyn DeBellis**, Audit Staff Accountant, who married Matt Vanaman on September 17, 2005. Meredith and Matt are both CPAs with other firms in Raleigh.

PROFESSIONAL ACCOMPLISHMENTS

Michael Feldbusch has been promoted to tax manager. Michael joined us in 1998 and has worked in both tax and audit. Thank you Michael for your loyalty and contributions to the growth of TJT.

NEW STAFF

- ❖ We welcome **Jim Tiller** to our staff as a Tax Manager. Jim comes to us from Ernst & Young and brings with him ten years of tax and audit experience. Jim and his wife, Sharon, have two young sons, Blake and Adam.
- ❖ TJT would like to welcome **Angie Gangemi** as a new staff accountant on the tax team. Angie has prior accounting experience with another firm in Raleigh and worked for Crossroads Ford. Angie is training to run a marathon in Atlanta Thanksgiving day.
- ❖ We also would like to welcome **Will Howie** as our new student intern. Will is a senior at North Carolina State University, majoring in accounting. Will plans to pursue his Masters in Accounting. He is president of the student Wolfpack Club. Will is from Waxhaw, NC.
- ❖ **Deena Bodo** has joined TJT as an account coordinator in the Outsourced Accounting Division of the firm. Deena was previously an account manager with Capitol Broadcasting Companies in Raleigh for the past 10 years. She brings experience in the real estate and not-for-profit areas.

CREDIT REPORT

Consumers need to review the information reported by credit reporting agencies to verify that it is accurate. As of September 1, 2005, you can obtain your credit reports free of charge.

A recent amendment to the federal Fair Credit Reporting Act requires each of the nationwide credit reporting companies to provide consumers with a free copy of their credit reports once every twelve months. A credit report contains information on where you live, how you pay your bills, and whether you have filed for bankruptcy, been sued or arrested.

Equifax, Experian, and Trans Union, the three nationwide credit reporting companies have set up one central Web site, toll free telephone number and mailing address through which consumers can order a free annual credit report. To order a copy of your report, go on line to www.annualcreditreport.com, call (877)322-8228 or complete the annual credit report request form and mail it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. You can print the request from: <http://www.ftc.gov/bcp/online/include/requestformfinal.pdf>. Do not contact the three credit reporting companies individually. You need to provide your name, address, Social Security number and date of birth. If you have moved in the past two years, you may have to provide your previous address. To maintain the security of your file, each credit reporting company may ask you for some information that only you would know, like the amount of your monthly mortgage payment.

If you get an email or see a pop up ad claiming it is from www.annualcreditreport.com or any of the three credit reporting companies, do not reply or click on any link in the message – it is most likely a scam since the companies will not be sending out emails asking for personal information.

If you request your report online, you should be able to access it immediately. Reports requested via the toll free number or by mail should be processed and mailed to you within 15 days.

INDIVIDUALS CAN RECEIVE SIX-MONTH AUTOMATIC FILING EXTENSIONS

In 2006, individuals will be able to receive an automatic six-month extension for filing their federal income tax returns. Currently, a four-month extension is received by filing Form 4868. The change will make the federal extensions the same as the six month extension North Carolina grants.

FLEX SPENDING ACCOUNT Use it or Lose it Rule Relaxed

Notice 2005-42 allows employers to modify their flexible spending arrangements (FSAs) by extending the deadline for reimbursing health and dependent care expenses for up to 2½ months after the end of the plan year. Previously, employees were required to “use or lose” FSA funds by the end of the plan year and any unspent funds were forfeited.

However, during this 2½ month grace period, the plan cannot permit the unused benefits or contributions to be cashed out or converted to any other taxable or nontaxable benefits. For example, unused amounts elected to pay or reimburse medical expenses in a health care FSA may not be used to pay or reimburse dependent care or other expenses incurred during the grace period. The excess, if any, of unused benefits or contributions from the preceding plan year over expenses for qualified benefits incurred during the grace period cannot be carried forward, and is forfeited.

FSAs are usually offered through cafeteria plans, but they do not have to be. If offered through a cafeteria plan, the grace period must apply to all participants in that plan, not just to those who choose FSA benefits.

Employers can adopt the 2½ month grace period for the current (2005) and future plan years by amending the plan document before the end of the current plan year. In addition, employers may provide a “run-out” period after the end of the grace period, as they already could after year end, during which expenses incurred during the plan year and the grace period may be paid or reimbursed.

SALES AND USE TAX

The 2005 North Carolina General Assembly has enacted legislation that provides for a short-term extension of the additional ½% state Sales and Use Tax until the 2005 Regular Session Appropriations Act becomes law. Legislation is still being considered that may further extend the additional ½% state tax. The additional ½%, resulting in a total state rate of 4½%, was scheduled to expire on June 30, 2005. As a result of the extension of the additional ½%, the combined general state and county tax rate will remain at 7% in all counties except Mecklenburg County, where the combined rate will remain at 7½%.

KATRINA TAX RELIEF ACT

While the physical devastation associated with Hurricane Katrina is confined to Louisiana, Mississippi and Alabama, the entire nation has been affected. The Emergency Tax Relief Act of 2005 has implications for our clients.

Tax Break for those providing temporary housing

Anyone providing rent-free housing to Hurricane Katrina victims for at least 60 days will be able to take a tax deduction of \$500 per person, up to a maximum of \$2,000.

Incentives for Charitable Contributions

People who donate cash to a bona fide charity supporting Hurricane Katrina relief efforts will be able to deduct the entire amount. Normally, the amount you can deduct is limited to 50% of your AGI. This is further reduced because itemized deductions are phased out at higher income levels.

This measure also waives the 10 percent income limitation on corporate donations to charity. As a result of this Act, individuals or corporations that make charitable contributions in cash will be able to deduct 100 percent of the amount, provided the donation is made before January 1, 2006.

Tax Break for Using Your Personal Vehicle

Volunteers who use their own vehicle in charitable work can deduct 14¢ per mile. Through the end of this year, the Act raises the mileage deduction for Katrina aid workers to 34.2¢ per mile. Furthermore, if a volunteer is reimbursed for mileage by the charity, they will not have to pay income tax on that amount.

If you were affected by Hurricane Katrina and would like more information on the Act, please do not hesitate to call our office.

AFRs FOR OCTOBER 2005

The Applicable Federal Rates for October 2005 have been announced. Selected rates are as follows:

Term	Monthly	Compounding	
		Quarterly	Annual
Short-term (0-3 years)	3.82%	3.83%	3.89%
Mid-term (4-9 years)	4.01%	4.02%	4.08%
Long-term (over 9 years)	4.31%	4.33%	4.40%

DONORS WILL BE ABLE TO MAKE LARGER TAX-FREE GIFTS IN 2006

The annual gift tax exclusion will rise to \$12,000 next year, up by \$1,000 over the current amount. The increase is due to inflation. Thus, couples can give anyone up to \$24,000 next year free of gift tax and without having to tap their \$1-million lifetime gift tax exemption. These gifts offer an easy way to reduce your estate. In 2006, a couple with three married children and five grandchildren can decrease their estate by \$264,000 if they give \$24,000 to each child, spouse and grandchild.

STANDARD MILEAGE RATE INCREASES BY 8¢ FOR LAST FOUR MONTHS OF 2005

In response to the recent dramatic gas price increase, the IRS has announced that the standard mileage rate has increased 8¢ to 48.5¢ a mile for all business miles driven between September 1 and December 31, 2005, up from 40.5¢ for the first eight months of 2005. The rate for computing deductible medical or moving expenses between September 1 and December 31, 2005 is boosted to 22¢ a mile, up from 15¢ for the first eight months of 2005.

The mileage allowance deduction for business use of an auto replaces separate deductions for lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance and license and registration fees. The taxpayer may, however, claim separate deductions for parking fees and tolls connected to business driving.

IRS Commissioner Mark W. Everson said that with many predicting a decline in gas prices over coming months, the 2006 rate will not be set until closer to January. Everson said that next year's rate could be lower than 48.5¢, adding "While gasoline is a major factor in the mileage figure, other items enter into the calculation of mileage rates, such as the price of new vehicles and insurance."

INDIANA TAX AMNESTY

The Indiana Department of Revenue is observing tax amnesty from September 15 to November 15, 2005. They have identified a number of NC taxpayers who owe money to the state of Indiana. To learn more, please log onto www.in.gov/dor/amnesty.

We are committed to keeping you informed on tax and financial developments and the opportunities they present for you and your business. Please call us if you should have any questions.

*Very truly yours,
Thomas, Judy & Tucker, P.A.*