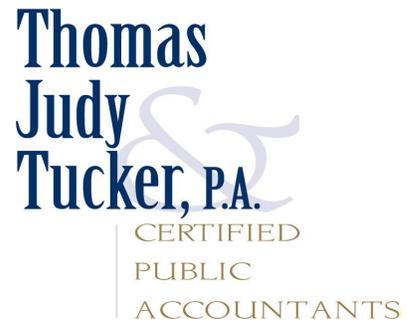


- New Tax Bill signed into Law
- Potential New Estate Tax Bill
- 2006 Filing season sets new records
- New Vehicles certified for Hybrid Tax Credit
- NC Department of Revenue Audit Exposure



The Accountants' Corner

Staff News New Staff Accomplishments Growth

Growing TJT family

Congratulations to **John Broadfoot**, staff accountant, and wife **Marla** who welcomed **Marilyn Winslow Broadfoot** into the world April 20, 2006. Marilyn weighed 8 lb and 21 ½ inches long.

We'd also like to congratulate **Geri Lail** and her husband **Marty** on the birth of their second son. Just weeks after moving out west, **Matthew Scott** was born June 22, 2006. Matthew weighed 9lbs 2 oz and was 20 ½ inches long.

Departures

We regretfully announce that **Ernie Jackson** has left TJT for a new position with one of our clients. Ernie has been an integral part of Thomas, Judy & Tucker, P.A. for the past several years. His wisdom and leadership will be missed. We wish him well in his new venture.

Congratulations

We would like to congratulate **Jessie Blalock** for passing the CPA exam in June. She joined our tax team 3 years ago as an intern from NC State. Jessie graduated last year with a BS in Accounting and has since been pursuing her CPA license. Congratulations on a significant accomplishment!

New staff

Cathy O'Toole is the newest member of our administrative team. Not only is she the pleasant voice on our end of the phone, but she brings with her seven years of accounting firm knowledge. Cathy and her husband, **Mike**, live in Raleigh along with their 2 boxers.

Jeff Stuart joined our firm as a staff accountant on our audit team in June. He worked for Price Waterhouse for 10 months after moving to the area from Boston.

Heather Dixon has joined our Administrative team. She is a graduate of UNC - Chapel Hill and brings with her many years of administrative experience. Heather and her husband, **Tom**, are expecting their first child in December.

Jill Luther joined the Outsource Accounting Division as an intern from NC State. She will graduate next year with a Bachelor in Business Management in finance with a minor in accounting.

Nicole Gorden also joined the Outsource Accounting Division. She enjoys weightlifting, rollerblading and spending time with her 7 year old daughter, **Stefanie**.

Brittany Thomas has joined our tax team as an intern from NC State. She is currently working on her BS in Accounting and will graduate December 2007.

Erica Heinrich joined our tax team and has relocated from Oklahoma City. She is a graduate of the University of Central Oklahoma and enjoys kickboxing, horseback riding and going to the beach.

New Tax Bill Signed Into Law on 5/17/06

As of 5/17/06, the Tax Increase Prevention and Reconciliation Act was signed into law. The highlights of the bill include the following:

- The AMT exemptions for 2006 were increased to \$62,550 for married filing jointly and \$42,500 for single taxpayers. Unfortunately, there is still no long-term relief or solution to the AMT issue.
- The 15% dividend and long-term capital gain tax rate was extended until 2010. It was set to expire at the end of 2008.
- The ability for small businesses to immediately write off new assets placed in service during the year under Section 179 was increased to \$108,000 as long as no more than \$430,000 in assets were placed in service during 2006.
- After 2009, all taxpayers will be able to convert IRAs to Roth IRAs regardless of adjusted gross income. Previously, taxpayers with AGI in excess of \$100,000 could not convert their IRAs. Taxpayers who convert in 2010 can elect to recognize the conversion income all in 2010 or average the income over the next two years.
- The age for the kiddie tax rules has been increased to 18 from 14. This is the age where the child's unearned investment income must be taxed at the parents' tax rate which is usually higher.

AFRs For August 2006

The Applicable Federal Rates for August 2006 have been Announced. Selected rates are as follows:

Period for Compounding

Term	Monthly	Quarterly	Annual
Short-term (0-3 Years)	5.13%	5.16%	5.26%
Mid-term (4-9 Years)	5.09%	5.11%	5.21%
Long-term (over 9 years)	5.23%	5.26%	5.36%

Potential New Estate Tax Bill

There is encouraging news in the area of estate taxes. While there has been a lot of discussion and vocal support for eliminating or reducing the estate tax in Washington for a number of years, no new legislation has been passed since 2001. That may change during 2006. The House has been working on a compromise bill to reduce estate taxes permanently.

The Permanent Estate Tax Relief Act of 2006 would increase the lifetime exemption amount to \$5 million per person and would be transferable to a surviving spouse. Estates valued between \$5 million and \$25 million would be taxed at the capital gains rate (currently 15%, set to increase to 20% in 2011). Estates worth greater than \$25 million would be taxed at twice the capital gains rate (currently 20%, set to increase to 40% in 2011).

The bill also includes a tax provision to allow a 60% deduction for qualified timber capital gains for corporations. Currently, those gains are taxed at the corporate tax rate of 35%. This addition to the estate tax bill was an effort to garner more votes and put the estate tax issue behind us.

While we can't say that this bill will definitely pass, it has more merit and potential than anything proposed recently. This should be taken into account if you are currently working on your estate planning and if the Permanent Estate Tax Relief Act of 2006 is signed into law, then you should consider meeting with your advisors to make sure your estate plan works well with all applicable laws.

NC Department of Revenue Audit Exposure

Based upon our recent audit experiences and information released by the NCDR we want all of our clients to be aware of the increased potential for a NCDR audit of income, franchise, sales/use tax and/or escheat compliance.

The NC Department of State Treasurer has several auditors that are focusing on the escheat compliance area. Unclaimed or abandoned property that is required by North Carolina statute to be remitted to the Unclaimed Property / Escheat Division within certain time tables falls within the escheat audit arena. Outstanding disbursement checks related to accounts payable, payroll, deposit refunds and other unclaimed disbursements fall into this category and may be required to be remitted to the escheat division.

Our recent experience with these particular audits is quite disturbing. If your company has never filed a

"report for unclaimed property" then the statute of limitations does not apply. Unfortunately in that case the escheat division is assessing taxpayers for amounts that should have been remitted over extended periods of time. In one case we have observed an assessment dating back to 1985. In this case the auditors are using an experience rating to assess for years in which information no longer exists. Interest and penalties can be substantial even on small deposits dating back twenty or more years.

We recommend that you review your policy for abandoned property and contact us regarding any questions you may have. This information is intended to make you aware of the trend of increased North Carolina audits and to remind you of the importance of good supporting documentation in the event you have to experience an audit of any kind.

Honda Vehicles Certified for New Hybrid Tax Credit

An alternative motor vehicle income tax credit is available for qualified fuel cell motor vehicles, advanced lean-burn technology motor vehicles, qualified hybrid motor vehicles and qualified alternative fuel motor vehicles purchased after 2005. The credit amount is computed differently for each type of vehicle. Here are the recently approved credit amounts for Honda Motor vehicles:

- 2006 Honda Civic Hybrid CVT Model \$2,100
- 2005 Honda Civic Hybrid (SULEV) MT Model \$1,700
- 2005 Honda Civic Hybrid (SULEV) CVT Model \$1,700
- 2005 Honda Insight CVT Model \$1,450
- 2006 Honda Insight CVT Model \$1,450
- 2005 Honda Accord Hybrid AT Model \$1,300
- 2006 Honda Accord Hybrid AT Model \$650

Toyota Motor Sales and Ford Motor Company also sell vehicles which have qualified for the new hybrid tax credit. The credit is fully deductible until the manufacturer sells 60,000 total qualifying vehicles regardless of model. As of 3/31/06 Toyota had sold 41,779 and Ford had sold 6,192.

You can locate additional information at the following: [Hybrid Cars and Alternative Motor Vehicles](http://www.irs.gov/newsroom/article/0,,id=157632,00.html) or <http://www.irs.gov/newsroom/article/0,,id=157632,00.html>.

2006 Filing Season Set New Records

The 2006 tax filing season set a number of records (through 4/21/06):

- **70 million** returns e-filed (up 6% compared to prior year)
- **50 million** returns prepared by tax professionals (up 9% compared to prior year)
- Nearly **20 million** taxpayers filed from home computers (up 18% compared to prior year)
- IRS has issued **85 million** refunds (averaging \$2,237 each) with more than 53 million issued via direct deposit (up 7% compared to prior year)