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Quill

NEWSLETTER



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Runyon
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and Business Consultants

RKO WELCOMES NEW PARTNER

RKO is pleased to announce that Donald C. Gaudet, Jr. has joined the partner group as of July 1st.

Don joined the Firm in 2000 and leads our Non Profit Department, as well as our professional continuing education program. He is a Husson College graduate and has over 13 years of public and private accounting experience.



TAXPAYER BILL OF RIGHTS

by Beth Mullin, Senior Accountant

The "Taxpayer Bill of Rights", better known as TABOR, is a citizens' initiative which will be voted on this November. According to advocates of the proposed legislation, TABOR was developed to enable taxpayers to directly control and approve all modifications to state and local government spending. Specifically, the plan is designed to curb Maine's continuing rise in the level of taxation, which is far greater than the national average.

The proposed legislation considers the effect of population increases and inflation on the budget, and incorporates a (1) growth allowance, based on population increases, and (2) an inflation rate adjustment, based on the Consumer Price Index (CPI). The plan is tailored after Colorado's state constitutional amendment, passed in 1992. According to the Maine Townsman (December 2005), "As both a tax limitation system and an expenditure limitation system, the Colorado version of TABOR was acknowledged as the strictest system of limiting governmental operations in the nation."

According to TABOR advocates' dedicated website, www.taxpayerbillofrights.com, "TABOR makes it tough to raise your taxes, forces government to save for a rainy day and sends all the money above the limit back to you."

It doesn't appear that municipalities have the same enthusiasm as advocates of the plan. Maine municipalities are governed by Charters and by-laws which dictate the budgetary and rate setting processes. Many community leaders feel that this legislation goes against the very democracy that the local communities have vowed to uphold. Others fear the impact on the current budgets. Research performed by MMA indicates that 172 municipalities (35%) and an equivalent percentage of school systems will be forced to cut their budgets if this legislation is approved.

Key aspects of TABOR:

- Municipalities and districts are required to create two new funds to return excess tax dollars to taxpayers: (1) a Budget Stabilization Fund, or "rainy day" fund; and (2) a Taxpayer Relief Fund.
- TABOR would replace the LD-1 spending limitation formulas with the following (for all counties, municipalities and school districts):
 - A population-based growth limitation formula at the local level;
 - A year-to-year budgetary growth allowance; and
 - A limited override of local growth limitation.
- A 2/3rd's "super-majority" will be required at a town meeting, to be followed by mandated town-wide referendums, before any tax or fee can be increased.

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YET AGAIN - CHANGES TO THE INTERNAL REVENUE CODE! (THE TAX INCREASE PREVENTION AND RECONCILIATION ACT)

By: Amy Rossignol, Supervisor

In the midst of all the pressure that Congress has faced over the past couple of months in regards to immigration reform and high energy prices, Congress managed victory with a new tax bill before entering into the summer season. This new bill is referred to as the "Tax Increase Prevention and Reconciliation Act" and was signed into law by President Bush on May 17, 2006.

TIPRA will account for approximately \$70 billion in net tax cuts. Due to the Act's extensive number of pages, we will only cover a few of the highlights that we think may be of particular interest to our clients.

Some of the more pertinent features of TIPRA include:

- **Continuation of the lower dividend and capital gains tax rates:** In 2003, Congress lowered the maximum dividend and capital gains tax rates for most individuals to 15% for qualifying taxpayers. These lowered tax rates were due to terminate in 2008. However, TIPRA extends these lower rates for an additional two years, expiring in 2010.
- **AMT Relief:** Alternative Minimum Tax was enacted to ensure that the wealthy would not escape paying taxes. Unfortunately, that tax has made its way down to the middle-income taxpayers. As a means of relief, Congress, through TIPRA, has established temporary relief for 2006 by increasing the AMT exemption amounts. Under TIPRA, AMT exemption amounts will increase from \$58,000 to \$62,550 for married individuals filing jointly and from \$40,250 to \$42,500 for single individuals.

Another important item to note is that AMT disallows certain personal credits that individuals often may have such as: dependent care credit, and Hope and Lifetime Learning education credits. These credits were often limited, to the extent that an individual had regular income tax liability in excess of the AMT tax. With TIPRA, these credits will be allowed to offset the entire regular and AMT liability through the end of 2006.

- **"Kiddie" Tax:** The "kiddie" tax is a tax that was created to prevent wealthy parents from shifting their investment assets to their children, in hopes of avoiding high taxable income. Congress caught on to this technique and quickly created the "kiddie" tax as a means to prevent

what could be a potential problem. As a result, children under the age of 14, who had more unearned income than twice the allowed standard deduction for a dependent (typically \$1,400), were taxed at their parents' tax rate. If unearned income was below the threshold, the income was taxed at the kid's tax rate which was often times significantly lower than their parents'. Under the new law, the age limit will increase from 14 to 18. The investment income limitation for 2006 will be \$1,700.

- **Section 179 Expensing:** Section 179 expensing allows a taxpayer to deduct as an expense the cost of new or used tangible personal property rather than depreciating it over its useful life. The maximum dollar amount allowed to be deducted annually for 2006 will be \$108,000. Prior to TIPRA, the typical \$100,000 (adjusted for inflation) deduction was due to terminate at the end of 2007 and revert back to a maximum deduction of \$25,000. The section 179 expensing rules will remain intact through 2009.
- **Income Limitations on Roth Conversions - Gone!** Beginning in 2010, there will no longer be any income limitations on Roth IRA conversions. Under past rules, only taxpayers with modified AGI of \$100,000 or less could convert a regular IRA into a Roth IRA. Typically, a taxpayer who makes deductible contributions to a regular IRA gets a deduction in the year of contribution for dollars he puts in and his earnings grow tax free. Any money that is withdrawn, however, is subject to the taxpayer's tax rate. Under a Roth, the taxpayer gets no deduction for the contributions they put in, but the money grows tax free and there is no tax paid on the withdrawals. With the new law, the taxpayer will have to pay taxes on the money they withdraw from their regular IRA's prior to the conversion, but once it is in the Roth, the taxpayer will not pay tax on the money or its earnings. To make the law more appealing, Congress allows the taxpayer to spread the tax owed on the conversion over a two year period (2011 and 2012).

Although some of these new changes are bound to be revised, the opportunity will exist for taxpayers to take advantage of some of these new tax savings. Finally, as always, effective tax planning this year should include careful examination of these various tax breaks when reviewing your personal circumstances as well as your business goals.

ACCOUNTING AND FINANCIAL REPORTING FOR POLLUTION REMEDIATION OBLIGATIONS

By Jen Conners, Senior Accountant

The Governmental Accounting Standards Board (GASB), in a continuing effort to improve the comparability of governmental entity financial statements, has issued an exposure draft on accounting for pollution obligations. Currently, governmental entities are already responsible for environmental clean up, but there is no clear guidance as to when a liability should be recognized on financial statements. Therefore, GASB is working on that very issue. The result of the new requirements would be that governmental entities would have to recognize a pollution remediation liability sooner than the current statements require.

There are a number of specific scenarios which would result in the government having to calculate and report this liability.

Besides recognizing the liability in the financial statements, the governmental entity would have further disclosure requirements in the footnotes to the financial statements.

Currently, if this proposed exposure draft becomes an issue statement, implementation would be retroactive, but only if governmental entities have enough information to apply the requirements to prior periods. Otherwise, all governmental entities would be required to apply the requirements in the first fiscal year beginning after June 15, 2007. The full text of the exposure draft can be accessed at the GASB website, <http://www.gasb.org>.



ELECTION YEAR GUIDANCE FOR PUBLIC CHARITIES

By: Mike Dubois, Principal

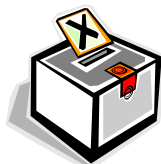
Earlier this year the IRS reported results of examinations made of 82 public charities and during almost three quarters of those exams found some level of prohibited political activity. While many of the prohibited transactions were isolated, one-time occurrences, others were serious enough to warrant the IRS to move to revoke the charities' tax-exempt status.

In addition to reporting the results of the examinations conducted in connection with the 2004 election cycle, the IRS has launched an educational and enforcement effort targeted to the 2006 election cycle. Their goal is to combat prohibited activity and ensure that complaints and referrals received from the public are reviewed expeditiously, consistently and fairly.

The rules for public charities vary depending on the scope and nature of their activities. Generally, the activities to watch are a) lobbying activities and b) political activities.

Lobbying activities include attempts to influence legislation at the federal, state or local levels by contacting, or urging the public to contact, members or staff of a legislative body for the purpose of supporting or opposing specific legislation. Lobbying activity does not include conducting non-partisan educational meetings, preparing and distributing educational materials or generally considering policy matters in an educational manner.

Political activities include direct or indirect involvement in a campaign for, or against, any candidate running for federal, state or local office. Involvement includes contributions to a campaign fund, public statements of position that favor or oppose a candidate and allowing a candidate to use a charities assets or facilities without giving other candidates equal access.



While the IRS strictly prohibits "political activities" by public charities, "lobbying activities" are allowed as long as they are not a "substantial part" of the charities total activities. The IRS code provides a mechanical method to calculate and measure annual "lobbying" expenditures. If the charity exceeds certain annual limits, it may be subject to a 25% excise tax on the excess lobbying expenditures.

Consider the following examples of activities that could be considered political intervention and subject to IRS regulation: distribution of materials that encourage voting for a particular candidate; religious leaders using the pulpit to endorse or oppose a certain candidate or issue; charities using their web site or links to other web sites to support or oppose a candidate or issue; disseminating voter guides that encourage support for a particular candidate; placing campaign signs on a charities' property; and giving improper preference to certain candidates by allowing them to speak at functions or gatherings.

If you are involved with a public charity in any way, keep the above in mind as the 2006 election cycle heats up, and as always, if you have any questions, give us a call.



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It's worth noting that the 2/3rd super-majority is one of the biggest concerns among community leaders, based on the time, effort and cost that would be associated with every proposed fee or tax increase. Further, both the current legislation (LD-1) and the Colorado version of TABOR allow for local authority for establishing mill rates and calculating fees for specific services, while the proposed TABOR has no such allowance.

With the Governor's Bill (LD-1) already in effect, the question remains for local government - how would this legislation change the budgetary process?

Proponents of the legislation concede that the State's ranking would not appreciably change under TABOR until after 2017, however they tout that the change will be faster and more dramatic than the changes estimated under LD-1. This initiative has been compared to the November 2004 Palesky initiative which aimed to "limit property taxes to 1 percent of the assessed value of property." Opponents are quick to note that the Palesky initiative showed strong support in early polls, as does TABOR, however that initiative was defeated by voters. Only time will tell how taxpayers will react to the TABOR ballot question in November.

FDIC-INSURED DEPOSITS FOR RETIREMENT: NOW GUARANTEED UP TO \$250,000

For the first time in more than 25 years, Congress has raised the limit on the federal deposit insurance coverage that protects your retirement savings.



The new law provides up to \$250,000 of deposit insurance for retirement accounts - the combined total of the traditional and Roth IRAs (Individual Retirement Accounts), self-directed Keoghs and certain other retirement accounts an individual may have on deposit at an FDIC-insured bank or savings institution, up from \$100,000 previously. In general, self-directed means the consumer chooses how and where the money is deposited.

FDIC insurance coverage for self-directed retirement accounts applies primarily to certificates of deposits or "CDs," which are deposit accounts typically held for anywhere from one month to five years. These accounts also are insured to \$250,000 separately from any other deposits you may have at the same institution. The higher coverage took effect on April 1, 2006.



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PROMOTIONS AND NEW FACES



Last year Peter Hall joined RKO as a supervisor. He had a number of years of experience in public accounting, most recently with another local firm. His background includes work in the nonprofit, municipal and tax industries and, since arriving at RKO, he has become an important member of our nonprofit team. The partner group is pleased to announce his promotion to manager effective July 1, 2006. Congratulations Peter!



Derek Laverriere joined RKO in July as an assistant accountant. He finished his BA in Accounting at St. Anselm College in Manchester, New Hampshire past this spring. Derek enjoys camping, golfing, and baseball and ran in this year's Boston Marathon.



Ryan Brown came back to RKO as a staff accountant in June. Ryan worked here as an intern during the summer and fall of 2004. Ryan has worked through three tax seasons through his college internship program. He wanted to move back to Maine and continue his career focusing on tax preparation and research. Although he will assist on audits through the summer and fall, his primary focus will be the tax department.

Congratulations to Jennifer Hight, a manager in our Waterville office, and her husband Corey on the arrival of their new baby boy. Jackson was born on August 17, 2006.



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