DECEMBER 2006

Quill

NEWSLETTER

During this Holiday Season, we THANK YOU for letting us work with you! Our best wishes to you for a Healthy and Prosperous New Year.

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"PHISHING" FOR INFORMATION

Ryan Brown

Each year the Internal Revenue Service (IRS) releases a list of "tax schemes" that they title "The Dirty Dozen." This list is comprised of 12 tactics that are used by people trying to take advantage of the IRS, and individuals or corporations that are trying to take advantage of other individuals filing their taxes. The IRS publishes this list with the intention of helping taxpayers avoid filing their taxes under misguided pretenses, which will end up either costing them more money in penalties and interest, or cause them large headaches because of possible identity fraud. One of the items on the "Dirty Dozen" list deals with tax "phishing" schemes.

The following two tax phishing schemes are usually conducted via email. In the first an individual disguising him or herself as a representative or agent of the IRS will send out emails telling taxpayers that they have an additional tax refund due to them because of an error on their tax return. The email usually has a link to an official-looking Web site. The Web site will solicit a taxpayers social security number and credit card, or bank information so thier account can be credited. The other tax phishing scheme involves an email alerting taxpayers that they are "under audit" and all they need to do to clear the audit is provide a few specific items. These items usually include social security and banking information. Submitting information to either of these two schemes can lead to identity theft or charges to a taxpayer's bank and or credit cards they have not authorized.

As a reminder to taxpayers, the IRS does not try to obtain information or contact taxpayers about their individual tax matters via email. If a taxpayer has any questions about the authenticity of IRS correspondence they should contact the IRS at 1-800-829-1040 or e-mail phishing@irs.gov.

IRS MILEAGE RATE CHANGES

The Internal Revenue Service has issued the 2007 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

For the calendar year 2007, the standard mileage rates for the use of a car (including vans, pickup trucks and panel trucks) are:

- 48.5 cents per mile for business miles driven;
- 20 cents per mile driven for medical or moving purposes; and
- 14 cents per mile driven for service for a charitable organization.

The mileage rates for 2006 were 44.5 cents, 18, and 14 cents per mile, respectively.

INDIVIDUAL TAX MATTERS

Tom Emery

FEDERAL

The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) and The Pension Protection Act of 2006 (PPA) each contain provisions that will impact the taxation of individuals in 2006 and beyond. The following summary lists some of the provisions of these acts that are expected to impact many of our clients. As always, Runyon Kersteen Ouellette will incorporate these provisions in the tax planning and tax preparation services that we provide for you, and are happy to discuss any specific questions that arise.

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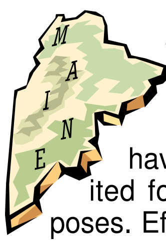
The Tax Increase Prevention and Reconciliation Act (TIPRA)
TIPRA was signed into law in May 2006. Among its provisions, the act:

- Extended the beneficial 15% tax rate on qualified dividends and capital gains.
- Extended an increased level of the dollar amount of certain business property eligible for expensing and an increased annual investment limitation through December 31, 2009. [Note - the maximum amount of cost that may be expensed in 2006 is $108,000 and the maximum investment limitation is $430,000].
- Increased the alternative minimum tax exemption amount for 2006 to $62,550 for married filing joint filers and $42,500 for single taxpayers.
- Eliminated the $100,000 adjusted gross income limitation that applied to Roth IRA conversions for years after 2009.
- Modified the rules pertaining to the taxation of the unearned income of dependent children (the "Kiddie Tax"). It is likely that a greater number of dependents will be taxed at the parents' tax rate in 2006.

The Pension Protection Act (PPA)
The PPA was signed into law in August 2006. Among its provisions, the act:

- Made permanent the favorable federal income tax treatment of Section 529 Plans used to finance college education costs. [Distributions used for qualified higher education costs will remain tax-free].
- Made permanent most of the favorable existing rules from the Economic Growth and Tax Relief Act of 2001 applicable to retirement contribution limits (including the increased contribution limits for those over age 50) and the expanded opportunities to arrange for tax-free rollovers.
- Allows, in 2008, eligible taxpayers to arrange for direct rollovers of distributions from qualified retirement plans, tax-sheltered annuities and government Section 457 plans into Roth IRAs.
- Allows, in 2006 and 2007, taxpayers who are at least 70 ½ years old to claim tax-free treatment for otherwise taxable distributions from traditional or Roth IRAs, when the IRA money is paid directly to a tax-exempt charity. An annual limitation of $100,000 applies.
- Tightened the rules on charitable deductions.
    - Effective January 1, 2007, no deduction is allowed for any cash donation unless the taxpayer has a bank record (such as a cancelled check or a credit card receipt) or a written acknowledgement from the charity.
    - Effective August 17, 2006, no deduction for the value of donated used clothing or household items unless the items are in "good" condition or better.



MAINE
Certain deductions and credits allowed for Federal income tax purposes have been disallowed or limited for Maine income tax purposes. Effective for 2006, the State has changed the rules regarding the student loan interest deduction, the add-back relating to contributions to health savings accounts and the allowable child tax credit. Specifically, student loan interest deductible on the Federal return and any contributions to health savings accounts that are excluded or deducted in arriving at the Federal taxable income will no longer be required to be added-back in arriving at Maine taxable income.

Additionally, the child care credit for Maine purposes has been increased to 25% of the Federal credit amount which is an increase from the 21.5% allowed during the past three years.

FORM 990 TAX TIDBITS

Tom Emery

Form 990 is the informational return filed by non-profit organizations. Many of these organizations have just completed or are currently in the process of compiling the information necessary to complete the form for their fiscal years that began in 2005.

A Few Changes to Note
The number of Form 990 pages has increased and there are additional questions and disclosures pertaining to activities and relationships with current and former officers, directors and key employees. The additional disclosures are in keeping with the IRS's increased interest into exempt group's executive pay practices.

The IRS is also asking about foreign grants paid and any interests in foreign countries as well as the existence of gaming activities (raffles, bingo games, etc.). Furthermore, the accompanying Schedule A, applicable to 501(c)(3) organizations, now requires information on payments to independent contractors in excess of $50,000 for "non-professional" services in addition to professional services and asks if there were any contributions of qualified real property interests received (another area receiving increasing IRS scrutiny in recent years).

Electronic Filing
Most exempt organizations were able to electronically file their 2005 Form 990 or 990-EZ as well as their first extension request.

For tax years ending on or after December 31, 2006, exempt organizations with total assets of $10 million or more (down from $100 million in 2005) and that file at least 250 returns (including individual W-2 Forms, quarterly 941 Forms, and the 990) are required to file Form 990 electronically. In addition, private foundations and charitable trusts will be required to file their Form 990-PF electronically regardless of their size, if they file at least 250 returns.

Note that amended or "final" (the last return required for an organization suspending operations) returns cannot be electronically filed nor can second extension requests.

Additional Changes to Come

Under the Pension Protection Act of 2006, tax-exempt organizations that formerly had no obligation to file an annual Form 990 (because their annual gross receipts were normally under $25,000) will need to annually provide, in electronic form, certain information to the IRS. Failure to file the required notice or a Form 990 for three consecutive years will result in the revocation of the Organization's tax-exempt status. The information to be provided will include evidence of the continuing basis for the organization's exempt status. The new filing requirement applies to annual periods beginning after 2006.

Additionally, Form 990-T, Exempt Organization Business Income Tax Return, will be available publicly with respect to returns filed after August 17, 2006.

DISASTER RECOVERY PLAN

Laura Bryant

Does your company have a disaster recovery plan (DRP)? A DRP is a set of written procedures that should be followed if an unexpected event occurs. It is not just a backup of files that are stored off site. A DRP requires management to review each job within the business and document what the job entails in detail (what software is used, who else he or she works with, etc). Developing an effective plan is not an easy task. It can be very costly and time consuming to cover all aspects of your business.

First and foremost, you should try to designate one person to be in charge of compiling all the data and grouping it appropriately. This person should also be in charge of developing the list of procedures that will be followed by employees. To make this job as easy as possible, its a good idea to use a standard format. Make sure each department has a designated manager (with an alternate) to oversee employees within that department. Don't forget to cover all areas within each department such as administrative functions, computer backups, temporary office location, and equipment. Once the written documentation and procedures have been established, it is good practice to run through your plan at least once a year, if not more, just to make sure things will go smoothly if a disaster does occur. It will also give employees a chance to see what their responsibilities are during a crisis.

The following paragraph describes some recommended steps you should follow during the recovery process. The first thing to remember is that communication is a key element. Make sure to inform all employees of the status of the situation and establish lines of communication (telephones, third party answering service, etc.) as soon as possible. Secondly, inform vendors, banks, and payroll services where the business will be temporarily located. Set up temporary office space, which should include office equipment, furniture, computers, and office supplies. The next step should be to recover as many records as possible from your location once accessible. The damage that documents and equipment would sustain could be from a variety of sources. Probably the most common are water and fire damage. The recovery of items may sound hopeless, but surprisingly, there will be some that are repairable. If the source is fire damage, check the filing cabinets to make sure they aren't hot before opening, and if some documents have burnt edges, photocopy them. If the source is water damage, there are everyday items that can be purchased to help save some of the documents. When assessing equipment it may be helpful to color code items, with the colors specified within your plan, for status determination.

Here are some tips that Hurricane Katrina survivors have learned:

- ⇨ Establish online bank accounts with banks outside your city and state.
- ⇨ Have a wireless internet card in or attached to your computer (laptop) and keep your computer with you.
- ⇨ Learn how to send text messages from your cell phone. When the phone lines are either down or busy, text messages may get through.
- ⇨ Carry your passport and a copy of your business license with you.

Although creating a plan is comprehensive and time consuming, in most cases it will be very beneficial to you, your business, and others. It will help minimize confusion and will answer the question, "What do we do now?" No matter how big or small your company is, don't think that it couldn't happen to you….because it could!

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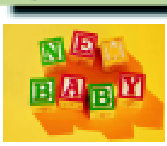

Tom Emery, his wife Celeste and family welcome Marinna Grace Emery. She was born October 22, 2006. Congratulations!

MAINE RESIDENTS PROPERTY TAX AND RENT REFUND PROGRAM

Over 200,000 Maine households now qualify for property tax and rent refunds.

You may qualify for a refund if:
- You do not have a spouse or dependent(s) and your 2005 household income was $77,000 or less; or
- You have a spouse or dependent(s) and your 2005 household income was $102,000 or less

AND
- Your 2005 property tax was more than 4% of your 2005 household income; or
- The rent you paid in 2005 was more than 20% of your 2005 household income

NOTE: Low-income Seniors do not need to meet these requirements

Notice on Your Personal Data: *RKO has not, and will not sell personal data to anyone. Likewise, RKO prepares all of its clients' tax returns in house; none are shipped to other firms or foreign countries.*

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