Meisel, Tuteur & Lewis P.C.
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

Our Perspectives

"Thoughts From Outside the Box"

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Dear Clients & Friends:

It's hard to believe another season has flown by. We experienced our busiest summer in years and have responded to this by hiring new employees and adding new education courses to our curriculum to ensure our staff is prepared to meet your every need.

Also, as part of our ongoing strategic plan, over the next few months we will be introducing new services and upgrading our "look." Stay alert for more value-added information to arrive in your mailboxes over the coming weeks.

As always, don't hesitate to call should you have any questions.

Very truly yours,

Michael S. Lewis, CPA
Managing Shareholder

Meet the Roth 401(k): A New Spin on the Traditional 401(k) Plan

By Michael Mikos and Andrew Rothstein

The Roth 401(k) is a new type of retirement account scheduled to take effect in January 2006. The new plan combines features of the Roth IRA with the Traditional 401(k) plans.

Let's discuss the differences.

The **Roth IRA** has been a popular choice for retirement savings because it allows individuals to invest after-tax dollars and make tax-free withdrawals at retirement. However, it does have its limitations. The maximum contribution to a Roth IRA is $4,000, and income thresholds exist. Singles making more than $110,000 and married couples with AGI of more than $160,000 are not eligible to contribute to a Roth IRA.

The **Traditional 401(k)** remains the most used employer-sponsored retirement plan. It is a good option for higher income employees because there is no income threshold. Contributions are limited to $15,000 per year and are pre-tax, making them subject to taxation when they are withdrawn at retirement.

The new plan, the **Roth 401(k)**, will allow a contribution of up to $15,000 *after-tax* with no income limitation. This means that participants can take distributions *tax-free* after age 59½.

Contributions to both a Traditional 401(k) and a Roth 401(k) at the same time will be permitted; however, the maximum contribution limit of $15,000 to the combined accounts remains.

As usual, certain rules do govern the plan. Since the Roth 401(k) will be treated as an elective deferral plan, participants must designate their contributions as Roth 401(k) contributions prior to the date

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Charitable Retirees Entitled to Tax Benefits

By William Angelo

Numerous tax advantages can be gained by giving the benefits from qualified retirement plans and/or individual retirement accounts (IRAs) to a qualified not-for-profit organization.

First, let's look at what occurs when the funds are distributed to non-charitable beneficiaries.

In contrast to other assets, retirement benefits can not be passed to non-charitable beneficiaries free of income tax. Beneficiaries may owe federal income tax of up to 35% as well as possible state income tax. Furthermore, retirement funds owned at death may be subject to substantial federal and state estate taxes.

For example, an individual who inherits stock valued at $300,000 from his or her parent, who originally purchased the stock for $100,000, will not have to pay income tax on the $200,000 appreciation. Retirement benefits, however, *are* subject to both income

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Dramatic Increase in the Standard Mileage Rate

By Franco Fallone, CPA, MST

Breaking from tradition this year, the IRS has announced a special adjustment to the optional standard mileage rate schedule.

In response to the recent dramatic gas price increases, the IRS has increased the optional standard mileage rate by 8¢ to 48.5¢ per mile for all business miles driven between September 1 and December 31, 2005. Additionally, the rate for computing deductible medical and moving expenses between September 1 and December 31, 2005 has been raised from 15¢ to 22¢ per mile.

The purpose of the mileage allowance deduction is to replace 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.

The standard mileage rate may not be used for a purchased auto if it was previously depreciated using a method other than straight-line for its estimated useful life, if the taxpayer depreciated it using MACRS, or if the vehicle is used for hire, such as a taxicab. In addition, the standard mileage rate may not be used if five or more autos are owned or leased by the taxpayer and used simultaneously (such as in fleet operations).

The mileage allowance method for a leased auto may be used if it, or a FAVR allowance method, is used for the entire lease period (including renewals). Note that if the lease period began before '98, this rule applies only for the post-'97 portion of the lease period (including renewals).

Regardless of whether a vehicle is owned or leased, the reimbursement is treated as a tax-free, accountable, plan reimbursement so long as the employee substantiates the time, place, business purpose, and mileage of each trip.

It is important to note that the rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14¢ per mile.

Mileage rates are typically updated each year in the fall, effective for the following calendar year. IRS Commissioner Mark W. Everson said that with many predicting a decline in gas prices over coming months, the IRS will hold off on setting the 2006 rate until closer to January. Everson did state 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.”

If you have any questions as to how these rates may affect you or your business, please contact a professional at Meisel, Tuteur & Lewis, P.C.

Meet the Roth 401(k): A New Spin on the Traditional 401(k) Plan

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they are contributed. These contributions are subject to the same $15,000 limit ($20,000 for taxpayers over the age of 50) as the Traditional 401(k). Employers can still provide a matching contribution, but the match must be put into a Traditional 401(k) account, regardless of where the employee is directing his or her contributions. If their plan permits, participants can also make rollover contributions from other tax-qualified plans and to other Roth 401(k) plans. Administratively, employers must maintain separate accounts for each Roth 401(k) account and for participant contributions and report contributions on employee W-2’s. Finally, distributions are treated as they are in any other elective deferral plan, which means they cannot be taken until age 59½ or upon participants’ termination, death, disability or circumstances of hardship.

Now, who benefits from using this new plan?

There are a few scenarios. #1: The Roth 401(k) fits particularly well with a highly paid individual who will be able to contribute more to his or her retirement due to the elimination of income limitations. #2: Younger employees of all salaries may benefit from having their contributions compound tax-free until retirement. #3: Individuals starting families and buying first homes often have high tax deductible expenses and lower taxable income. If such an employee has aggressive salary growth, he or she would benefit from contributing to the Roth 401(k) and paying taxes now, locking in their current tax rate. #4: From a historical perspective, current tax rates are low. Those who expect rates to rise may want to lock in today’s tax rates by contributing to a Roth 401(k) now rather than paying higher taxes upon distribution, as in a Traditional IRA.

In contrast, individuals with lower incomes and those who will be in a lower tax bracket during retirement are probably better off contributing to a Traditional pre-tax 401(k).

The decision to implement and/or participate in the Roth 401(k) plan should not be made lightly. Be sure to contact a MT&L tax professional to make certain the retirement strategy you choose is right for you.

Health Note...

Coping with the End of Allergy Season

In the United States, more than 35 million people suffer from seasonal allergies or hay fever.

Pollen from trees, molds, grass and weeds are the main culprits.

Common symptoms include:

1. Sneezing;
2. Congestion;
3. Runny Nose;
4. Itchiness in the nose, roof of the mouth, throat, eyes and ears.

To decrease your exposure to allergens follow the tips below:

1. Close your windows at night;
2. Keep car windows closed when driving;
3. On days with a high pollen count try to stay indoors;
4. Avoid mowing the lawn and being near freshly cut grass;
5. Do not hang sheets or clothes outside to dry.

If your symptoms persist, an Allergist/Immunologist may be able to determine the cause of your allergies. Numerous prescriptions and over-the-counter medications are available to help ease your symptoms.

Helping the Victims of Hurricane Katrina

As everyone knows by now, the number of families affected by Hurricane Katrina is staggering. For your reference, we have listed just some of the many organizations that are accepting food, beverage, clothing and/or financial contributions. Also, please check your local listings for agencies in your area.

American Red Cross: 800-HELP NOW; American Second Harvest: 800-344-8070; Convoy of Hope: 417-823-8998; Humane Society of US: 888-259-5431; Operation Blessing: 800-436-6348; United Jewish Communities: 877-277-2477; Disaster Psychiatry Outreach: 212-598-9995; Feed the Children: 800-525-7575; Salvation Army: 800-725-2769.

Charitable Retirees Entitled to Tax Benefits

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tax and estate tax. Although a special income tax deduction for the estate tax helps non-charitable beneficiaries, the combined income and estate tax can still be quite substantial.

Because of this double tax bite, individuals who plan to make charitable gifts should consider naming a qualified not-for-profit organization as beneficiary of their IRA or retirement plan. The following are the specific reasons:

- The retirement benefits going to the charity will not be subject to federal estate tax and generally not to state death taxes;
- The estate will not be considered as having received taxable income;
- The retirement account owner's surviving spouse, children, and others who may be beneficiaries of the estate will not be considered as having received taxable income;
- The charity will not have to pay federal income tax on distributions from the qualified plan or IRA and generally will not have to pay state income taxes.

Clearly, maximum tax savings can be realized by naming a charity as the exclusive beneficiary of one's retirement plan or IRA. However, there are options for individuals who are not in a position to leave their entire retirement benefit to a charity.

- An individual with two or more retirement plans (e.g., an IRA and a profit-sharing plan, or two IRAs) can leave one to a charity and the other(s) to family members.
- An individual with a single IRA can split it into two IRAs and leave one to a charity and the other to family. This can be achieved tax-free through a rollover or a trustee-to-trustee transfer.
- A married individual can have their benefits paid to a QTIP trust for their spouse, with a charity to receive the benefits that remain at the surviving spouse's death. When the account owner dies, the marital deduction will shield the benefits from estate tax, and when the surviving spouse dies, the remaining benefits will go to the charity free of estate and income tax.
- An individual can elect in their will to establish a Charitable Remainder Unitrust upon their death to provide a non-charitable beneficiary with a fixed annuity for a set number of years, with the remainder going to charity.

If you would care to explore these issues further in regard to your own individual situation, do not hesitate to contact your tax professional at Meisel, Tuteur & Lewis, P.C.

Put Your Kids To Work

By Joshua Goldman

As a business owner, you should be aware that you can dramatically save money on both family income taxes *and* payroll taxes by employing your children. Even though you will be required to withhold income taxes on your child's wages, the tax benefits to your business and your family make it well worthwhile. Additionally, you will enable your child to begin saving money for the future.

By shifting some of your business earnings to your child as wages for services he or she performs, you are turning some of your high-taxed income into tax-free or low-taxed income. In order for your business to deduct the wages as a business expense, the work done by your child must be legitimate and the amount you pay reasonable.

For example, suppose your company is in the 35% tax bracket for 2005, and you pay your daughter $5,000 to help with office work during her summer break. Your company saves $1,750 (35% of $5,000) in income taxes, and your daughter can use her $5,000 standard deduction for 2005 to completely shelter her earnings.

You could reap further benefits by employing your daughter for a longer period of time. If, for example, she remains an employee on a part-time basis throughout the year and earns an additional $4,000 in wages, she can shelter this entire amount from tax by making a contribution to her own IRA. Plus your business would save an additional $1,400 in taxes (35% of $4,000).

Even if you pay your child more than what she can take as a standard deduction and contribute to an IRA in a given year, you will still reduce the taxes you pay. That is because the unsheltered earnings will be taxed to the child beginning at the lowest regular tax rate (10%), as opposed to the parent's higher rate (up to 35%).

This "bracket-shifting" works even if the child is under age 14 (although you would probably be paying less for a younger child's labor). The "kiddie tax" does cause a younger child's investment income in excess of $1,600 (for 2005) to be taxed at the parent's marginal rate. It has no impact, however, on the child's wages and other earned income, which can be sheltered by the child's standard deduction.

The rules regarding employing children, such as the maximum amount they can earn tax-free, do change from year to year. This may require your income shifting strategy to change as well.

If you have any questions as to how these rules apply to your particular situation, please do not hesitate to call your tax professional at Meisel, Tuteur & Lewis, P.C.

An Inside Look….

Individual Achievements

Congratulations to the following professionals for their recent promotions: Anthony Pentz, Tax Manager; Joseph Boyle, Audit Manager; Lauren Santora, Senior; and Jill Bruccoleri, Senior.

Engagements

Best wishes to Shane Orbach and his fiancé Ana Martinez, who became engaged on June 24, 2005. Their wedding is scheduled for October 27, 2006.

New Employees

We are pleased to welcome the following new Junior accountants:

Jason Doughty grew up in Maplewood, NJ and will graduate from Kean University in January 2006.

Michael Rutkowski grew up in Somerset, NJ and is a recent graduate of the University of Delaware.

Meisel, Tuteur & Lewis, P.C. was founded in 1946. The accounting professionals at our firm approach each client with a single goal: to build a solid financial foundation with that client...and then add to it with every subsequent contact. We believe in the value of relationships. We view every client relationship like a partnership and truly believe that our success is a result of yours.

Accounting and Auditing • Tax Planning and Compliance • Real Estate • Business Valuations • Personal Financial Planning • Consultants to Closely Held Businesses • Estate Planning • Litigation Support • Fraud Investigation • Economic Loss • Multi-State and Multi-National Tax Consulting • Mergers and Acquisitions • and many other valuable services

"Success is not final. Failure is not fatal. It is the courage to continue that counts."

Winston Churchill

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Special Notice

IRS Revises Rules on Written Advice

Dear Friends and Clients:

With the goal of improving ethical standards and curbing abusive transactions, the Internal Revenue Service (IRS) has prescribed a revised code of conduct for accountants and attorneys who prepare tax returns and give tax opinions. The rules affect what advice a preparer and tax advisor can give and how he or she can do it.

As such, we will include the following required "legend" on all written advice you receive from us, including letters, memoranda, faxes, and e-mails:

> "To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein."

The presence of the "legend" on our written advice does not taint the advice or the authorities on whom we relied in reaching our conclusion(s). The significance of the legend is only that if the desired tax treatment for a transaction discussed in our transmission is not sustained, the client may not avoid a penalty for negligence or substantial understatement of tax merely because the client relied on our guidance. However, even in such cases, the imposition of a penalty will not be automatic.

This new procedure in no way changes the level of care, quality, and attention we give every interaction with our clients.

As always, should you have any questions about this new procedure, please feel free to contact a professional at Meisel, Tuteur & Lewis, P.C.