



TAX GUIDE



Tricia Suit / The Sunday Challenger

ON THE MONEY: Andrew Modrall, Martin Horwitz and Scott Malof offer advice on tax planning and preparation, as well as financial planning.

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MODRALL: At the state level for 2005, Kentucky has made pass-through entities - S-corps, LLCs, limited partnerships - subject to the corporate income tax. These are entities that previously didn't pay income taxes at an entity level but paid at the personal level.

MCNEILL: A single member LLC is considered a sole proprietor for tax purposes, but not in the state of Kentucky. We're different from the rest of the country.

MODRALL: It gets worse. Kentucky now has its own version of the alternative minimum tax. So now Kentucky is going to make sure that business pays at least \$175 and you may pay the regular corporate income tax rate or a percentage of sales or a percentage of gross profit. The owner does get that amount credited on their personal income tax return.

HORWITZ: This really could drive business away. Take an example - you've got a company that makes \$500,000. You have a shareholder who lives in Kentucky and a shareholder who lives in Florida. That half-million will be taxed at 7 percent. The person living in Kentucky gets a credit for the tax paid, but the investor in Florida is now paying 7 percent under the rules that he wouldn't otherwise be paying and doesn't get a credit. The solution is that you just incorporate somewhere else.

MALOF: Kentucky came up with the new tax rules for business effective the beginning of 2005, Ohio came up with a similar tax on gross receipts for every entity. But Ohio business owners don't get a pass-through credit like they do in Kentucky.

MODRALL: The Ohio

tax on gross receipts will be a killer to retailers such as gas stations and grocery stores that operate on slim margins.

Who Needs a CPA?

CHALLENGER: In conclusion, with storefront tax preparers and \$40 tax software packages available, who should use a CPA and why?

MODRALL: Anyone who owns multiple investments or their own business needs a CPA. I pick up several clients every year who I can save money after they use Turbo tax. It's a great program but not if you don't know what you're doing.

HORWITZ: I'm not an accountant, I'm an attorney. Half my time I do planning and the other half is controversies with the IRS, but it's very important to use talented tax preparers and advice because the difference in planning and not planning is tremendous. You really need to have three advisors - a financial advisor, your tax advisor, and an attorney to plan collectively. The consequences both short and long-term can be tremendous to your after-tax wealth accumulation.

“My favorite saying is don't let the tax tail wag the business dog. First, let's make the economic decision, then make the tax decision.”

— Scott J. Malof,
Mountjoy & Bressler

MCNEILL: I don't think people understand the difference between tax preparation and tax planning. They don't think that just because someone is preparing their return, they're not planning. The real benefit comes from planning.

HORWITZ: Quality services don't cost money. They save money.

MALOF: You need to do front-end planning, not back end.

MCNEILL: One of the best things that happened in my office this year is we restructured a transition plan for a small company that was moving ownership from the father to the son. We saved a bundle on taxes while still doing what the client wanted. Everyone won except the government. That's the value of a CPA.

“The most overlooked tax deduction is poor recordkeeping. People don't keep adequate records. If they did, they would save more money.”

— Mackey McNeill,
The Advisory Team

MODRALL: I just let people know that if their personal situation has evolved to the point where they need tax software, they probably need a tax advisor.

CHALLENGER: Anything you would want to tell people concerned about their taxes?

MCNEILL: Don't make tax-driven decisions. Make good financial decisions. So many people get caught in saving taxes, but at what cost? Look at the big picture.

MALOF: My favorite saying is don't let the tax tail wag the business dog. First, let's make the economic decision, then make the tax decision.

HORWITZ: Get advice before you make your substantial decisions. Often we have to clean up something that clients do.

MCNEILL: Also, remember the privilege of making money is paying tax.

CHALLENGER: What's something positive we can finish with?

MODRALL: Every once in a while, the IRS makes a change that is beneficial to taxpayers and they've just done that. For very small businesses that withhold taxes for their employees, the IRS now allows taxes to be paid annually instead of quarterly. Use the new Form 944.

HORWITZ: There's also form 9465. If you owe under \$25,000 the IRS allows you to pay over five years without having to provide financial information. Also, if you can't pay, you can charge it with a convenience fee of 2.49 percent (at) 800-2-PAY-TAX.

New Tax Laws May Provide Added Benefits

By Jerry Bressler, CPA, CVA
For The Sunday Challenger

In the aftermath of Hurricane Katrina, Congress rushed to pass the Katrina Emergency Tax Relief Act of 2005 to provide additional tax relief. Most of the provisions, such as waiving penalties for pre-59 1/2 retirement plan distributions and waiving the floor on deductible casualty losses, are for those directly affected by the disaster. Other provisions, which relate to charitable giving, have broader applicability.

The American Jobs Creation Act (AJCA) ushered in the largest business tax reform since 1986. This tax act began as a phase-out of the export subsidy, but it eventually mushroomed into a major tax law benefiting most businesses and some individual taxpayers. Congress devoted a portion of AJCA to a new deduction for manufacturers. The term “manufacturer” has been broadly defined to cover more types of businesses than just traditional manufacturers. The deduction applies to domestic production activities, but with no export requirement. Many more businesses will be able to claim this deduction than could claim the export exclusion under prior law.

Another significant change to the tax law involves nonqualified deferred compensation plans. The breadth of compensation plans impacted is huge. The rules will have an influence on distribution events, elections regarding time and form of payment, and funding of benefits. They also prohibit accel-

eration of benefit payments.

And, of course, Congress couldn't resist the opportunity to further tweak individual itemized deductions. For example, AJCA includes a new election that allows you to choose between deducting state and local income taxes and deducting state and local sales taxes for 2004 and 2005.

The law also extends the increased Section 179 expensing deduction amount and allows faster depreciation on qualified leasehold improvements.

Working Families Tax Relief Act (WFTRA) extends a number of individual tax breaks, including the \$1,000-per-child tax credit, the expanded 10 percent tax bracket, and the increased alternative minimum tax (AMT) exemption amount. Increasing the 15 percent tax bracket range and standard deduction amount on jointly filed returns provides marriage penalty relief for a while longer.

Although such breaks may not make a significant dollar difference on your tax return, they will benefit millions of taxpayers across our nation. Moreover, WFTRA also extended some business credits.

Congress and the IRS are still pondering many of the provisions of these laws. We may see some tax breaks further extended, and we will definitely see more guidance on the manufacturer's deduction and nonqualified deferred compensation.

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