



The Update

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FROM SUE'S DESK

In a recent meeting with a sales tax auditor, she made the comment that the state of Minnesota is planning to do

a **sales tax audit** on **every business** within the next **five years**. Does this prospect send chills down your spine? Do you know your sales tax responsibilities? As your accountants, we at Sannerud, Savarese & Associates can certainly advise you on general sales tax, but ultimately you as a business owner need to know when you should be charging sales tax for your specific industry. There are some helpful fact sheets on the State of Minnesota website (www.taxes.state.mn.us/taxes/sales/index.shtml). Scroll down the page to “Publications” and you will find fact sheets for every industry. Also, please be sure to read the enclosed article on use tax.



Keep Those Phone Bills!

The federal appeals court has recently repealed the federal excise tax on long-distance telephone service. The tax dates from 1898, when the three percent tax was established as a “luxury” tax on those Americans wealthy enough to own telephone. The IRS will be issuing refunds to taxpayers as part of the 2006 tax return. The refund claims will cover all excise tax paid on long-distance service billed after 28 February 2003. Refunds will not include tax paid on local telephone service. Details related to the method and documentation needed for the refund will be coming in future issues.

New Form 944 for Small Businesses

The IRS has instituted a new form for employers who have a total annual employment tax liability of \$1,000 or less. The *Employers' Annual Federal Tax Program* (Form 944) replaces the quarterly Form 941 filing requirement for certain eligible small employers. The first returns for calendar year 2006 will be due January 31, 2007.

The purpose of the new Form 944 is to reduce burden on small business employers by establishing new rules and processes that will allow certain employers to file their employment tax returns annually and in most cases, pay the employment tax due with their return. By filing a single return rather than four per year and paying with their return, small employers will save time in form preparation.

If you are eligible, the IRS sends written notification to small employers that they are to file Form 944. Letters are sent out near February 1st of each year to newly eligible filers. Form 944 filers whose businesses grow during the year to a total tax liability of \$2,500 or more (approximately \$10,000 in wages), will need to make Federal Tax Deposits (FTD) in accordance with the current guidelines to avoid any failure to deposit penalties. They must still file the Form 944 for the year.

IRS Site Advises on Identity Theft

The IRS has recently dedicated a page of its website to combating identity theft. Individuals can access a link entitled “Suspicious E-mails and Identity Theft,” which seeks to educate taxpayers about the many scams that are being used to gain access to personal bank accounts and credit card accounts. One section of the page details the dangers of “phishing” and other e-mail-related scams which use what appear to be official IRS addresses and graphics in order to trick people into giving up their Social Security or personal identification numbers. The web page also includes links for individuals to report scams or suspicious activity, examples of scams and related sites to help individuals protect their identity. Go to www.irs.gov to view these web pages.

SALES & USE TAX 101

The state of Minnesota will be auditing every business in the next 5 years. To help you prepare for this process, we would like to offer some information on the area of sales & use taxes. Sales tax applies to most retail sales, leases, rentals and some services. Use tax applies when you buy, lease or rent taxable items or services used without paying sales tax to the seller.

Know this Website: www.taxes.state.mn.us

This is your number one source for information and updates. Make it a habit to regularly check the Minnesota Department of Revenue website. You can call or e-mail the state if you have questions regarding sales or use tax at salesuse.tax@state.mn.us or call 651-296-6181. Be aware that if you e-mail the state with a question, their written response is legally binding, whereas a phone conversation is not.

Keep It Separate

The need to separate business and personal activities is important. This point is highlighted even more in regards to sales and use tax. If you purchase items using your business credit card or checking account, that item is subject to use tax regardless if it is for personal use. This area is one being reviewed by the State of Minnesota as they audit all businesses over the next five years.

Know Your Local Responsibilities

The local tax list is growing! Be sure you are aware of the local city & county tax responsibilities. Zip codes are the deciding factor of whether you are responsible for Minneapolis or St. Paul taxes as well as county taxes. There is a listing on the state website detailing local sales & use taxes.

Keep Good Records

We always encourage thorough recordkeeping. However, one of the things you may not be thinking about is a form called ST3, a certificate of exemption. If you have a client or wholesaler who does not pay sales tax, YOU are responsible to keep an ST3 on file for that client.

Know Nexus

What is nexus? A Minnesota-based business who conducts business in another state for at least four days during a 12 month period has nexus in that state. Nexus means that you are required to register, collect and remit sales tax, and possibly file a state tax return in that state starting the fourth day of activity and continuing for that year. Here are some examples of what is considered conducting business in another state: maintaining an office or warehouse; have a representative or salesperson soliciting orders, selling, repairing, or delivering goods or services; leasing tangible personal property; delivering tangible personal property in the business' vehicles.

Keep Installation and Delivery Charges Separate

Know the facts for your industry. Some industries require sales tax on installation. For example, a software support specialist will need to charge sales tax on labor to install a new computer program on an existing system. A cabinet-

maker, on the other hand, does not charge sales tax on a piece that they install into a building. Again, check your industry fact sheet on the state website.

Know More: Sales & Use Tax Education Opportunities

Want to know more about Sales & Use Tax? The State of Minnesota offers free workshops a few times a year in different locations around the state. The next round of workshops will be posted on their website July 1st. Check out the dates and locations on their website at www.taxes.state.mn.us in the Sales and Use Tax area. Look for the Business Education section on the Sales and Use Tax main page. The website says that the metro workshops fill up quickly, so register early.

Attention Businesses!

The Federal Government will no longer be automatically sending 8109-B tax coupons to businesses. If you wish to continue using a manual method for depositing your quarterly federal withholdings, you must call the federal government and order the coupon booklet at 1-800-829-4933.

Otherwise, the IRS is trying to convert businesses to their Electronic Federal Tax Payment System (EFTPS) for all federal tax payments. If you have questions about EFTPS or would like Sannerud, Savarese & Associates to enroll you, please call us at 763-434-5929. You can learn more about EFTPS at www.eftps.gov.

Post-Dated Check? Just Say No!

Even if it's from a long-standing debt or client, you need to put your foot down and refuse post-dated checks. Why? Because once you have accepted a post-dated check you give up all legal rights governing payment of the check. If something goes wrong, you are left heding the bag. Instead, encourage the debtor to use electronic payment or a credit card.

What' the Latest Excuse?

Here are some real whoppers from CareerBuilder.com as to why some employees can't make it to work:

- "I forgot I was getting married today."
- "I'm too fat to fit into my work pants."
- "My son accidentally fell asleep next to wet cement. His foot fell in and we can't get it out."

Do a Little Good

Despite the technology to “make our lives easier”, schedules seem to become more hectic every day. Our best intentions to help others or volunteer may sometimes slide down the priority list. Here are some simple solutions to incorporate “doing good” to others into your daily routine. You never know how one small, kind act could completely change the outcome of someone’s day!

Friends & Family:

- If you know someone is going out to dinner to celebrate a special occasion, call the restaurant in advance and pick up the cost of wine or dessert.
- Every day, write down one thing you love about someone close to you. At the end of the year, give the person your one-of-a-kind list.
- Hide messages for your family to find throughout the day, like “Thanks for doing a load!” in the dryer, or a joke inside the refrigerator or lunchbox.

People on the job

- If someone goes beyond the job description to help you, call or send an e-mail to their supervisor praising that person.
- Overtip a wait-person at breakfast. It will brighten the rest of their day.
- Look at the clerk’s name tag in the check-out line and personalize a thank you as you leave, “Thanks Erin!”

Strangers

- Athena Williams-Atwood, president and CEO of Inspired Action (a consulting firm in San Francisco) carries a roll of quarters with her for parking. She says, “If I see someone else’s meter running low, I just pop a couple of quarters in. I may have saved that person \$30 or \$50 – all for 50 cents.”
- Trade your low ticket number at the deli or return line with someone who is shopping with small children.

The World Around You

- When stocking up on school supplies, pick up a few extras and give them to your child’s teacher to pass on to students whose families might not be able to afford them.
- Donate two tickets to a major sporting or theatrical event to an organization like Big Brothers Big Sisters.
- Give Blood!
- Carry plastic bags when you’re out for a walk and pick up litter you find along the way.
- Instead of tossing magazines and old books into recycling, give them to a local women’s shelter.

For Yourself

- Everyday, pick one thing for which you are grateful and repeat it to yourself throughout the day.

(Portions taken from *Real Simple* magazine)

Reminder - Energy Incentives



Save those home improvement receipts! President Bush signed an energy bill in 2005 designed to address four major areas: domestic energy production, energy conservation, energy infrastructures and alternative energy. This bill provides energy incentives to consumers who purchase or install energy-efficient products for their homes as well as business owners and manufacturers of energy-efficient products.

This bill creates a new personal home improvement tax credit for individuals for the purchase of certain energy-efficient property for a taxpayer’s main home. The credit is not available for vacation homes or residential rental property. The credit is available for property placed in service after December 31, 2005 and before January 1, 2008 and must be located within the United States. Improvements covered are products such as advanced thermostats; insulation; exterior doors and windows; electric heat pump water heaters, central air conditioners, natural gas, propane or oil water heaters or furnaces, hot water boilers; advanced main air circulating fans.

The energy-efficient property must be expected to remain in use for at least five years. The lifetime maximum credit per taxpayer is \$500, with lower limits applied to specific items such as a \$200 limit for windows. The credit is based on 10% of the cost of qualified energy efficient improvements (structural improvements) and 100% of the cost of qualified energy property (specified heating and cooling equipment). The taxpayer’s basis in the property is reduced by the amount of the credit. Property purchased with subsidized energy loans does not qualify.

7 Steps to Work Success

(from *Personal Best*)

Some days on the job take Olympian strength. Meetings and email steal time and energy. Difficult deadlines, conflict and change can often produce stress and low morale. If your job is starting to feel like an obstacle course, try these strategies:

1. Stay positive in thought and behavior. Fuel your day with a smile. Avoid habitual complainers.
2. Look for solutions to problems. A proactive approach can earn you the respect of others and boost your self-confidence.
3. Make a to-do list. Prioritize projects by deadline and estimate how much time you’ll need for each task.
4. Learn from your mistakes. Dwelling on a missed deadline or error wastes time and energy; instead learn what’s needed to succeed in the future.
5. Stay Flexible. Keeping an open mind about changes in procedures or responsibilities can reduce stress and anxiety.
6. Leave work behind at the end of your shift/day. Relax and take pleasure in your off hours.
7. Get enough sleep. Rebuild your defenses every day against stress and fatigue.

Hello

Welcome Rae-Ann Rothmeier

Sannerud, Savarese & Associates is pleased to introduce Rae-Ann as our new CPA. Rae-Ann comes to us from St. Paul and is looking forward to joining the Cambridge Community. She will begin working in our office June 26. We look forward to getting to know her better and will have more about Rae-Ann in our fall newsletter.

Goodbye

Goodbye to Bruce

This May Bruce Carlson, accepted a position with one of our corporate clients as an internal accountant. Although turnover and change is often difficult, we wish him the best of luck and hope he is enjoying the shorter commuting distance!

FREE to A GOOD HOME

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Call the office if you have a use for this toner.

Personal Income Tax Extension Deadline

The deadline for extended Federal and State personal income taxes is October 15. The IRS and State of Minnesota changed the extension period for 2006 and allow only ONE extension per year. Although there is less paperwork for the actual extension, we at Sannerud, Savarese & Associates encourage you NOT to WAIT until October to finish your taxes. As soon as you have your information, call for an appointment to complete your 2005 taxes as soon as possible.

* Upcoming Community Education Classes *

Taught by Sue Savarese, CPA

CLASS: **Small Business Recordkeeping**

Date: October 16, 2006

Place: Staff Development Center, Ferry Street, Anoka

For information about these classes, or to register call 763-506-5766

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The Update is published for our clients and friends. It is designed to provide accurate information with respect to the subject covered. Before any action is taken based upon this information, it is essential that competent, individual, professional advice be obtained.

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