

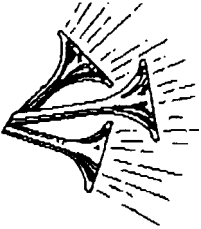


# The Update

VOLUME 16 NUMBER 2

Fall 2006

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## FROM SUE'S DESK

In our last issue, I commented that the IRS will audit every business within the next five years. Along those same

lines, I'd like to address some IRS & State audit issues.

The major issue auditors are examining is the testing of gross receipts; specifically, does the income reported on your tax return match the deposits that went into your bank account? If you are a sole-proprietor, the audit will include both business and personal accounts.

If the deposits are more than the income reported, be prepared to have supporting documentation showing from where the money came. For example, transfers from your savings account, gifts, reimbursements for expenses, etc. Also, remember that it doesn't matter who does or does not send 1099's. It is your responsibility to track and report your income.

## 2006 Changes for Contributions

For those of you who make donations to the Salvation Army, Goodwill, Lupus, the Courage Center or any other charitable organization, there are changes for the way you report those deductions.

First, contributions of clothing and household items donated after August 17, 2006, may not be deducted unless they are in "good used condition or better" according to the IRS. Be PROACTIVE! When applicable, ask the organization to note on your receipt that the items were in good condition or better.

Second, recordkeeping requirements for charitable contributions have changed. For contributions made in tax years beginning after August 17, 2006, the IRS disallows a deduction for any contribution of a cash, check or other monetary gift unless the donor maintains as a record of the contribution a bank record (i.e.: canceled check) or a written communication from the donee showing the name of the donee organization, the date of the contribution and the amount of the contribution. Also, be sure to keep any receipts for out-of-pocket expenses you may incur while performing services for a charitable organization. It would also be wise for the organization to verify your receipt for that out-of-pocket expense.

### Non-deductibles

For those who donate your time and services, the value of your time or service is NOT deductible. Neither is the cost of meals you eat while volunteering, unless it is necessary for you to be away from home overnight while volunteering. Also, the cost of raffle, bingo or lottery tickets is nondeductible even if proceeds go to charity. Finally, if you donate the right to stay at a timeshare or rental for a week, the ownership interest must be donated to make the contribution deductible.

**DON'T  
★ FORGET ★  
TO VOTE!**

**NOVEMBER 7th**

Information regarding proposed ballot questions can be found on the Minnesota Secretary of State website ([www.sos.state.mn.us](http://www.sos.state.mn.us)).

## DeMinimis Benefits: Little Perks that are not Taxing From Kugler Financial Services

Want to give your employees something to smile about? A little section of the IRS code allows for something called de minimis fringe benefits. De minimis benefits are occasional small gestures, such as buying the office lunch, bringing a birthday cake in for an employee's birthday, or the occasional dozen doughnuts. The key is that the value of such benefits is small – so small in fact, that determining the fair market value of the benefit is more trouble than it's worth, to you or the IRS. De minimis benefits do not count towards an employee's taxable income.

The de minimis rule exists for "administrative convenience," but should not be abused. IRS regulations make it clear that season tickets to the local ball team or providing a company vehicle more than one day a month exceed the de minimis limit. The IRS would consider this type of benefit includible in the employee's taxable income.

Psychologically, the occasional perk can be more effective than an everyday benefit. Employees are surprised, feel that the perk is special and appreciate it more.

## Additional Vehicles Certified for Energy Tax Credit

The IRS acknowledged certification for additional hybrid Model Year 2007 vehicles which qualify for the hybrid tax credit enacted by the Energy Policy Act of 2005. The certified vehicles are the Toyota Prius, Highlander and Lexus RX 400h. The tax credit for hybrid vehicles applies to vehicles purchased on or after January 1, 2006 and may be as much as \$3,400 for those who purchase the most fuel-efficient models. This tax credit replaced the tax deduction of \$2,000 which was previously allowed for taxpayers who purchased a new hybrid vehicle before December 31, 2004 for the clean-burning fuel deduction.

The applicable credit amounts during the phase out period for the 2007 model-year vehicles are as follows:

Qualifying Vehicle	Purchased by 9-30-06	Purchased from 10-1-06 through 3-31-07	Purchased from 4-1-07 through 9-30-07	Purchased after 10-1-07
Toyota Prius	\$3,150	\$1,575	\$787.50	No Credit
Toyota Highlander 2WD & 4WD	\$2,600	\$1,300	\$650	No Credit
Lexus RX 400h 2WD & 4WD	\$2,200	\$1,100	\$550	No Credit

## Have Passport, Will Travel?

The Intelligence Reform and Terrorism Prevention Act of 2004 requires that by January 1, 2008, travelers to and from the Caribbean, Bermuda, Panama, Mexico and Canada have a passport or other secure, accepted document to enter or re-enter the United States. This overall implementation will be conducted in stages.

Beginning **January 8, 2007**, you will need a passport for all **air and sea travel** to or from Canada, Mexico, Central and South America, the Caribbean and Bermuda.

Beginning **January 1, 2008**, the passport requirement extends to all land border crossings as well as air and sea travel.

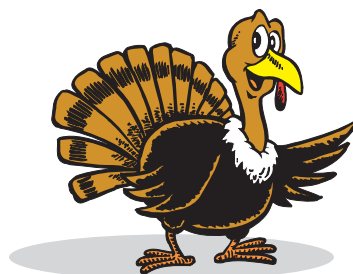
So, no more fishing trips to Canada without a passport. How do you get a passport? To apply, you will need:

- A certified birth certificate, certificate of naturalization or a previously issued U.S. passport in good condition.
- Valid identification (current driver's license or state id card)
- A completed, **UNSIGNED** application (available at all License Centers or online at [www.AnokaCounty.us/license](http://www.AnokaCounty.us/license).)
- A set of acceptable passport photos (available for \$18 at all License Centers)
- Check or money order payable to US Department of State for a minimum of \$67 (\$65 for 15 and under, an additional \$60 for expedited service)
- Cash or check payable to Anoka County License Center for \$30 (processing fee) , \$18 (passport photo), and \$14.40 each way for express mail (if applicable)

Routine delivery takes approximately 6 weeks from the date of application. Expedited delivery can be 2-3 weeks. For further information and details, information is available at the US Department of State website <http://travel.state.gov>. under the "passports" tab.

### Did you know?

You are limited to 10 social security cards in your lifetime.  
So don't lose them!



*Happy  
Thanksgiving*

As we pause to express gratitude during this Thanksgiving Season, we Thank You for your business throughout the year. We send you our warmest wishes for a beautiful Thanksgiving!

## NO MORE QUARTERLY TAX COUPONS for Employers!

Some of you may have been wondering what happened to your Federal Tax Deposit coupons when making out your quarterly tax return. Well, the IRS is strongly encouraging us to become a paperless society and now requests businesses to use their EFTPS (Electronic Federal Tax Payment System). The IRS will no longer be sending coupon booklets unless you specifically request them.

The EFTPS is a free service allowing business owners to make payroll tax payment by phone or internet at [www.eftps.gov](http://www.eftps.gov). You can schedule payments to be made in advance on dates you indicate (at least one calendar day in advance of due date). It records 16 months worth of payments on-line which you can download or print and give you immediate confirmation when your payment is received (which you should print and maintain for your records).

The IRS lists its top 7 reasons you should switch to EFTPS and no longer use FTD coupons:

1. Coupons can be lost.
2. It takes extra time to make a payment with a coupon.
3. You don't have a convenient record of all your payments with just a coupon.
4. When using a coupon, you're never quite sure when your payment gets to the IRS.
5. Paying by coupon and check could be costly.
6. With a coupon, you don't know if your payroll provider made your payments.
7. Your payroll provider needs to make your payments but you have the coupon booklet.

(from the SSA/IRS 2006 Fall *Reporter*)

### WHEN DISASTER HITS!

With the recent tornados and other disasters threatening businesses, it is always a good idea to have a plan in place for your records, employee assistance and equipment, just to mention a few things.

The IRS suggests a Business Continuity Plan including the following:

- employee safety, emergency numbers
- interim office space
- office equipment rental
- off-site back-up files (including passwords and federal i.d. numbers)
- communication
- verify your insurance coverage

If you haven't made plans for ANY type of emergency, we encourage you to at least start thinking about your options and a safe place to keep important documents and numbers.

Remember, employee safety is first. Items can always be replaced.

## Minnesota's Top 10

According to the Social Security Administration, here are the top 10 baby names in Minnesota for 2005:

Rank	Male Name	Female Name
1	Ethan	Ava
2	Jacob	Grace
3	Samuel	Emma
4	Jack	Emily
5	Andrew	Ella
6	Benjamin	Olivia
7	Alexander	Abigail
8	Joseph	Madison
9	Logan	Sophia
10	Tyler	Hannah

### Verifying Employee Social Security Numbers

As we approach the season of issuing 1099's and W-2's, it is wise for employers doing their own payroll to verify new employee social security numbers. There are two Internet verification options you can use to verify that your employee names and Social Security numbers match Social Security's records. For small business and new hires, the Social Security Administration recommends verifying up to 10 names per screen (you may do less than 10 names).

While the service is available to all employers and third-party submitters, it can only be used to verify current or former employees and only for wage reporting (Form W-2) purposes.

Why should you verify names and social security numbers?

- Correct names and SSNs on W-2 wage reports are the keys to the successful processing of your annual wage report submission.
- It's faster & easier to use than submitting your requests on magnetic media or paper listings or even using Social Security's telephone verification option.
- Results in more accurate wage reports.
- Saves you processing costs and reduces the number of W-2Cs.
- Allows Social Security to properly credit your employees' earnings record, which will be important information in determining their Social Security benefits in the future.

For more information, go to the Social Security Administration website at [www.socialsecurity.gov](http://www.socialsecurity.gov) under "Things You Should Know".

## Welcome Rae-Ann Rothmeier!

Rae-Ann, our newest CPA, has been a wonderful addition to the staff. She hails from St. Paul, raised in the Mid-way area. She is currently in the process of selling her home in St. Paul and migrating to the Cambridge area. Rae-Ann has been in public accounting for 10 years and spent 3 years in the private accounting sector.

When asked how she got her name, she said, "My Dad was Ray and I wasn't a boy." Her grandma came up with the name. At one point there were three "Ray's" in the family; her father, her younger brother Ray Jr. and her nickname -"Rae". Pretty confusing when the phone rang and somebody asked for Ray/Rae!

Besides moving and accounting, Rae-Ann keeps herself busy with golf, gardening and bowling as well as remodeling her home. She's been a great complement to our group. Welcome Rae-Ann!

## \* Education \*

The staff has or will be attending the following classes:

- Paulette: NATP 2006 1040 & 1040 Extra Workshop  
October 26 & 27
- Sue: University of Minnesota 64th Annual Income Tax  
Short Course October 30 & 31
- Robin: University of Minnesota 64th Annual Income Tax  
Short Course October 30 & 31
- Ruth: MAPA Gear Up 1040 Tax Seminar 2006  
November 14 & 15
- Rae-Ann: Minnesota Society of CPA's 52nd Annual MNCPA  
November 16 & 17

## \* Staff \*

A.M. Sannerud, Founder . . . . . Certified Public Accountant (Inactive)  
Susan E. Savarese, Managing Partner . . . . . Certified Public Accountant  
Rae-Ann Rothmeier . . . . . Certified Public Accountant  
Pauline Mittelstaedt . . . . . Firm Administrator  
Robin J. Schnaidt . . . . . Senior Accountant  
Paulette Hynes . . . . . Enrolled Agent  
Ruth Hunter . . . . . Staff Accountant  
Jody Newlander . . . . . Accounting Clerk  
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Betty Sannerud . . . . . Custodial Services, "Update" Co-Editor  
Mary Lou Michels . . . . . Custodial Services

**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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