

Clifford's Notes

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Render unto Caesar what is

Caesar's and not one cent more!

This fall, Congress considered extending numerous tax breaks passed in prior years. As debate continues, the fate of some breaks is still uncertain. Expect any changes to be phased in over several years. Expect further changes as the IRS moves towards paperless *everything*.

Frequently Asked Questions:

1. Are donations to Katrina/Rita Relief Funds deductible? Contributions to charities such as Red Cross, Church World Service, Samaritan's Purse, etc are fine. Gifts to individuals are not. Non-cash donations over \$500 need extra documentation. Substantial non-cash gifts may need appraisals.

2. Do I owe City Income tax? Must I file? Those who live inside a city with a tax must file. Those who work within a city's limits must pay. If your employer does not withhold the correct amount, you must file and pay the difference. If there is no withholding, most cities want estimated payments. For most, wages, business profits and rental income are taxable. Clergy housing is exempt. Ohio's city taxes are among the most complicated of any state.

3. How much will the Child Tax Credit be this year? This is a refundable credit of \$1,000 for each child aged 16 and under. Those who also qualify for the Earned Income Credit usually receive less than the full amount.

4. I am over 70 ½ and have an IRA, 403B or 401K account. What is the "Required Minimum Distribution (RMD)?" In most cases, your financial institution or investment advisor will calculate the amount. Distributions must be made by December 31. Check with your financial planner for details.

5. I need to pay some bills. Can I take funds out of my IRA? Yes, but there is a cost. All withdrawals are subject to income tax. For those under the age of 59 ½, expect a 10% penalty on top of income taxes. *Plan on total federal taxes of 25-46% plus state income taxes.* Haste makes waste.

6. One of my children started college this fall. Is there any tax relief? Yes, its called Hope Scholarships, Lifetime Learning Credits, Coverdell Education IRA's and Sec 529 plans.

Families can take a maximum credit of \$1,500 for each student's first two years of college. For other students, the maximum is 20 % of the first \$10,000 in tuition. Interest paid on student loans is deductible. Plan ahead to benefit the most.

7. Gas prices have gone through the roof, didn't Congress pass an "Energy Bill" to help? Yes, but the tax breaks for individuals will be for 2006-07, mostly for various home insulating expenses. The limitations will be frustrating.

8. Is the Clergy Housing & Furnishing Allowance always tax-free? NO! Housing allowances and the fair rental value of parsonages are subject to Social Security tax of 15.3%. Also, any unspent amounts are reportable for income tax purposes as well.

Employer Reminders:

A list of due dates and deadlines for treasurers and payroll officers for the next few months.

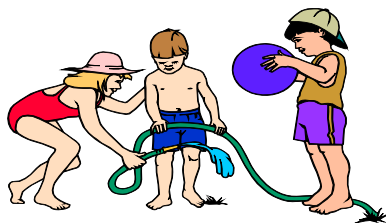
- ! January 31: Quarterly reports, Forms 941, their state and city counterparts are due. The IRS requires those owing over \$2,500 per quarter to deposit taxes monthly or semi-weekly. The EFTPS online system, required for some, is a simple secure way to transfer funds.
- ! The 15th of each month: The last day to make a federal tax deposit for wages paid the previous month for monthly depositors.
- ! January 31: Mail W-2's to employees. File Form 941 and corresponding state and local wage reports.
- ! February 28: Mail Copy A of Form W-2/W-3's to Soc. Sec. Admin. E-filer's deadline is April 1. E-filers get an immediate receipt. Others won't.
- ! All new employees should fill out Form W-4 and I-9. Update W-4's yearly and keep on file.

Not about taxes!

Ruth, Paul, Heidi & Robert

were ten October 11. They are in fourth grade and the 2nd year in the Ohio Virtual Academy On-line Charter School at home. Bike rides, roller coasters, roller blades, piano lessons, minor mishaps and endless Lego® creations keep them busy. *See their school at www.ohva.org.*

Thanks for your prayers.

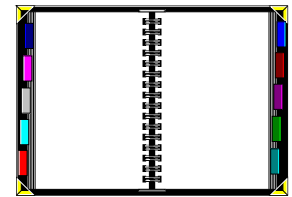


Does W-2 and payroll processing give your employer or treasurer headaches?

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Payroll & Tax Filing Services include

1. Laser-printed checks with pay stubs delivered on your schedule: weekly, bi-weekly or semi-monthly.
2. Timely deposits of payroll taxes.
3. A concise report keeps the treasurer and officers up-to-date through the year.
4. Electronic fund transfers and direct deposit services are available.
5. We guarantee timely preparation and filing of Government forms and deposits. We respond to all IRS letters on your behalf.

Quarterly and Year-end Services include

1. Preparation of reporting forms meeting Federal, state and city requirements from payroll reports each quarter.
2. Computation of taxes owed to each agency
3. Copies prepared and mailed for your signature in time for each deadline.
4. In January, each employee's W-2 is printed and mailed direct by January 31. The employer's copies and all forms are mailed for signature in time for careful review.
5. We review payroll reports and can provide advice for withholding and other benefits.

2006 Clergy Compensation Planning

As the 2006 budget year approaches, may we suggest:

1. Consider a "Cost of living" and merit adjustment. Merit raises reflect a pastor's increasing value to the congregation and recognize the minister's contribution to the health of the church. As most pastors are "on call" 24/7, make sure there is enough time off. Churches may want to compare the pastor's salary to other professionals with similar education and responsibilities. The local school board salary grid for teachers may be helpful.

2. Setting a high housing allowance guarantees a pastor's income taxes will be as low as the law allows at no cost or risk to the church. It must be set in advance. The current limit is the "fair rental value" of the home as furnished. For many part-time clergy, the church can designate the full salary as housing.

3. Reimbursing car mileage from required monthly reports is the simplest way for churches help pastors with the normal costs of ministry travel. Always use the current IRS rate adjusted at least annually. The 2006 rates are 44.5¢/mi. Avoid leasing as it seldom cuts total costs.

4. Allow enough in the budget for other common expenses of ministry such as continuing ed, books & periodicals, conferences, computer upgrades, software, supplies and entertaining. Always require receipts.

5. Always pay health insurance from pre-tax funds.

6. Always follow denominational recommendations in funding pension plans. We suggest pension contributions of at least 14% of salary and housing for those without a denominational pension plan.

7. Never pay the pastor's car insurance, gasoline bills, health club memberships or other personal expenses.

8. Remember, clergy pay 15.3% Social Security tax on their salary and housing! Make sure enough is withheld each paycheck.



More Frequently Asked Questions:

1. How much can I contribute to my retirement plan? Each type of plan has different limits. Roth/IRA's \$4,000 for most individual and spousal plans. Those aged 50 and up may contribute \$4,500. 401k Plans: \$14,000. 403B plans have complex rules with several exceptions .

2. I had problems with my W-2 last year. What can I or my employer do? Here are some options to reduce errors and problems:

1. For clergy, use our guide to preparing clergy W-2's. See www.sharetheharvest.com/tools.htm. Click on W-2 Form Sample for Clergy.

2. Begin using a computer spreadsheet or a program like Quicken ®, Quickbooks ® or other software designed to do payroll.

3. Use Social Security Administration's web site. Employers with less than 10 employees can enter W-2 info online and print the employee copies at no charge!

4. Ask for professional help.

3. Where can I learn about filing W-2's electronically and other employer services?

ON the Internet, go to www.SSA.gov, www.ssa.gov/employer and www.employer.gov.

4. Will W-2's look the same as last year? Yes, not much has changed.

5. Have I saved enough for retirement?

Tough question. Social Security sends annual statements that estimate your future benefits. Check with your pension plan for their projections. We suggest spending less and saving more. Expect the unexpected. Remember, no one retires and says, "Oops, I saved too much!"

The Next Quarterly Estimated Tax Payments will be due

Jan 16th. Late and early payments are accepted. Late payments can sometimes cause a modest interest penalty. Those whose employers withhold enough taxes need to do nothing.

Include your Social Security number and the tax year on each check. For example: *SSN 123-45-6789; Tax Year 2005 Form 1040-ES.*



Did You Know?

! Business Mileage Rate Changed! The IRS has increased the standard auto mileage

reimbursement rate to 44.5¢ per mile for 2006. The rate for Sept. through Dec. for 2005 was 48.5¢. We encourage employers to adjust reimbursements accordingly.

! If you need a speaker for your church: Rev's Steve & Cheryl are available with their singing quadruplets most weekends through the year for speaking and worship leadership. As you know, **“we do not believe in miracles, we rely on them.”**



! If you sell stocks, mutual funds, bonds or investment property owned for more than a year, the maximum federal tax rate is 15% on just the gain, not on the full sales price. Your gain is the sale price minus the purchase price including any reinvested dividends or capital gains.