Ideas & Trends

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GULF OPPORTUNITY ZONE ACT OF 2005

By Sam Deutscher, CPA

On Dec. 21, President Bush signed into law the Gulf Opportunity Zone (GO Zone) Act of 2005. This much-anticipated legislation includes tax breaks and financial incentives to encourage rebuilding of the areas ravaged by Hurricanes Katrina, Rita and Wilma.

Despite its title, the GO Zone Act is not limited to provisions related to the hurricane-affected area. Congress also included miscellaneous provisions from other bills that had been under consideration, such as expanding some provisions of the Katrina Emergency Tax Relief Act of 2005 (KETRA) to also apply to victims of Hurricanes Rita and Wilma. In addition, the act made technical corrections to 10 major tax acts going back as far as 1987.

Following is a summary of the act's key provisions. Israeloff, Trattner & Co. offers this information to help you understand how the GO Zone Act may affect you or someone you know, and how you might take advantage of it to reduce your tax liability. Please contact us with any questions you may have about this new law or other tax matters.

GO ZONE CREATED

To encourage Gulf Coast recovery, the new law creates a Gulf Opportunity Zone, defined as that portion of the Hurricane Katrina Disaster Area determined by the President to warrant assistance under the Disaster Relief and Emergency Assistance Act. (Hurricanes Rita and Wilma have their own GO Zones with the same criteria, but affected taxpayers qualify for only some of the targeted tax relief listed below.) Within the GO Zone, taxpayers will receive targeted relief, including:

- 50% bonus depreciation related to rebuilding
- Expanded Section 179 expensing for qualified property purchases
- Five-year net operating loss (NOL) carryback for losses generated in the zone
- Partial expensing of demolition and clean-up costs
- Increased low-income housing and rehabilitation credits
- Expanded KETRA employee retention credit to employers of all sizes
- Increased higher-education credits for students attending college in the zone during 2005 or 2006
- Increased new markets tax credits for investments in qualified community development entities
- Expanded tax-exempt bond limits

Although the GO Zone provisions apply only to the specific geographical area devastated by Hurricane Katrina (and in some limited circumstances to those affected by Hurricanes Rita or Wilma), affected taxpayers outside those boundaries will qualify for relief if they have investments or own an interest in property or businesses within the zone, or invest in the GO Zone within the timeframe for the targeted tax relief.

Here is more detail on a few of the provisions benefiting businesses and investors rebuilding within the GO Zone:

50% bonus depreciation. The act provides a 50% first-year bonus depreciation allowance to help businesses rebuild in the GO Zone. This write-off applies to the cost of most new property investments made in the zone, including purchased computer software, machinery and equipment, leasehold improvements, and certain commercial and residential real estate expenses. For property qualifying for the first-year write-off, all depreciation (including the bonus amount) is exempt from the alternative minimum tax (AMT). The 50% bonus depreciation applies to property acquired by purchase after Aug. 27, 2005, and placed in service before 2008 (before 2009 for real property).

Increased Sec. 179 expense. The maximum Sec. 179 expense allowance is increased by $100,000 for qualified GO Zone property placed in service during the tax year. Additionally, the phase-out limitation increases by $600,000. These changes are effective for property placed in service in the zone after Aug. 27, 2005, and before 2008.

Expanded NOL carryback. NOLs generated in the GO Zone are eligible for a special five-year carryback period, instead of the regular two years. The amount of NOL eligible for the five-year carryback is limited to the aggregate amount of the qualified GO Zone casualty losses, certain moving expenses, certain temporary housing expenses, depreciation deductions for qualified GO Zone property for the tax year the property is placed in service, and deductions for certain

continued on page 2

What's Inside...

SARBANES-OXLEY COMPLIANCE MAY BOOST YOUR BUSINESS

By Andrew J. Wilder, CPA

Private companies - and most small businesses - are not required to comply with the governance changes resulting from the Sarbanes-Oxley Act of 2002 - legislation which sought to strengthen corporate governance following financial scandals at major corporations like Enron and WorldCom. However, an increasing number of business executives, whose companies aren't subject to public sector scrutiny, are voluntarily choosing to adopt policies in accordance with Sarbanes-Oxley (Sarbox). Many business owners, especially those who provide goods or services for larger, publicly traded companies that are required to follow the more stringent Sarbox guidelines, believe it makes good business sense to do so.

Would voluntary compliance make sense for your firm? Perhaps so, if the following apply to your business:

- You participate in competitive bids for new business from large corporations or government agencies. No organization wants to do business with someone who may become an embarrassment at a later date. Many large public and private sector organizations select business partners based on the quality of their governance, as well as their track record in providing quality goods or services.
- Most of your competitors are Sarbox-compliant. If Sarbanes-Oxley is becoming the "standard" in your industry sector, it might be unwise to buck the trend even if you are not required to comply.
- Your company provides business consulting or professional services in areas involving financial or ethical business practices. It is sound business sense to adopt the best practices that are required of your clientele.
- You require loans or credit arrangements periodically to support business operations or expansion plans.

If compliance seems a little daunting, remember that unlike big public corporations, private companies can adopt Sarbox measures piecemeal. A small business owner can decide to what degree he, or she, wishes to embrace new compliance measures. Your professional tax and financial advisors can help you determine which measures would be best for you - the ones that are least expensive to implement but provide maximum impact.

Many small businesses start by reviewing their internal controls (checks and balances) and adding measures to prevent discrepancies on financial statements on a day-in, day-out basis. Depending upon the nature of the business, appropriate changes might include:

- Adding further review steps to routine internal accounting procedures.
- Forming an advisory board comprised of independent directors with financial expertise.
- Establishing an audit committee.
- Putting "whistle-blower" policies and procedures in place to prevent fraud and theft.

Willingness to continually reinforce internal controls and maintain needed checks and balances can do much to improve a small company's competitive edge. More and more entrepreneurs believe updated governance to be as important in their new business efforts as traditional sales and marketing efforts.

GO ZONE ACT, continued from page 1

repair expenses resulting from Hurricane Katrina. The five-year carryback applies for losses paid or incurred after Aug. 27, 2005, and before 2008. Taxpayers may make an irrevocable election, for any tax year, to not apply the five-year carryback.

Certain businesses excluded from benefits. Congress chose to exclude certain businesses from the new law provisions relating to first-year bonus depreciation, increased Sec. 179 expensing and the five-year NOL carryback. The following businesses will not benefit: private and commercial golf courses, country clubs, massage parlors, hot tub or suntan facilities, liquor stores and most gambling concerns. Excluded gambling businesses are any property used directly in connection with gambling, animal racing, or the on-site viewing of such racing, and the buildings or portions of buildings dedicated to these activities. For example, the hotel and restaurant portions of gambling businesses may qualify, but the actual gambling areas will not qualify.

KETRA PROVISIONS EXTENDED

The GO Zone Act extends the following income tax relief provisions under KETRA to taxpayers affected by Rita and Wilma:

- Early withdrawals from retirement plans
- Easing of qualified plan loan limits and rules
- Waiving of the 10% of AGI and $100 floor on casualty losses
- Waiving of the 10% (of taxable income) corporate charitable contribution limit

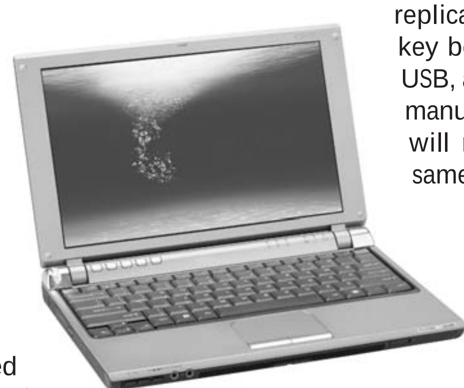
MORE TAX LEGISLATION TO COME

Congress wasn't able to finish all of the tax bills before year end. Look for more tax law changes in 2006 in the form of a tax reconciliation bill and a pension bill - and possibly more action on estate tax repeal or modification, overall tax reform and Social Security reform.

Israeloff, Trattner & Co., CPAs, PC looks forward to serving you this year and providing excellent tax, financial and accounting assistance to you. If you have any questions or concerns regarding the new tax laws, please do not hesitate to contact us.

LAPTOP DOCKING STATIONS & PORT REPLICATORS - WHAT'S BEST FOR YOU?

By Richard A. Mills, CPA



If you like the flexibility of toting your laptop with you when you visit clients or take a business trip, but also want a full size monitor and keyboard at your permanent workstation, a docking station or a port replicator will let you have the best of both worlds. Docking stations and port replicators are designed to be permanently located in your most frequently used workspace – for most people that's their office or their home office. Both devices have ports that connect to a full-sized monitor and keyboard as well as connections for a mouse and most other peripherals. Determining which device is best for you will depend on the capabilities of your laptop and what features you need most when you're at your desk.

PORT REPLICATORS

Port replicators - as their name suggests - do little more than duplicate the ports your laptop features. If you have, or plan to buy, a top-of-the-line laptop with a full range of features including an optical drive, PC card slots, and plenty of ports and hard drive space, a port replicator will probably be the appropriate choice for you. The ports on a port replicator are pass-through ports only. This means they rely on the laptop for data transmission capability and they don't add to, or enhance, the functionality or networking speed of the laptop.

Various models may offer different options but most port replicators will include ports for a PS/2 mouse and a key board, as well as ports for an external display, USB, audio and networking. Laptops made by major manufacturers frequently have proprietary ports that will require you to buy your replicator from the same source. If you are not tied to a particular brand, it pays to shop around. Port replicators range from $50 to about $150.

DOCKING STATIONS

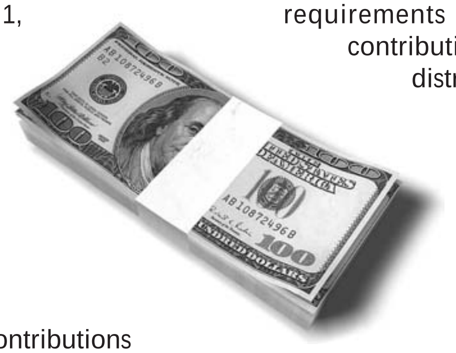
Docking stations work in a very similar fashion to the less expensive replicators. They offer the same pass-through ports as port replicators, but they also can add additional capabilities that the laptop lacks, and provide the user with a host of functions when he or she "docks" the portable laptop at home or at the office.

Docking stations can be a real boon to frequent business travelers. Business executives can take advantage of the convenience and portability that thin and ultra light laptops offer on the road and then plug them into a docking station at home to get the additional features and capabilities the ultra-light streamlined laptops lack.

Features vary with different models, but most docking stations offer additional bays for optical or hard drives, memory card readers, PC card slots, digital audio and display hubs, and USB hubs. Prices are higher than port replicators. Depending upon the features and capabilities you want, expect to pay from $150 to $400 for a docking station.

ARE ROTH 401(k) CONTRIBUTIONS RIGHT FOR YOU?

By Richard Goldenberg, CPA



Starting in 2006, your 401(k) plan might be offering you a new contribution option. On January 1, employers that sponsor 401(k) salary deferral retirement plans can begin allowing plan participants to make Roth contributions. Roth contributions present plan participants with additional flexibility in their retirement planning and could result in more spendable dollars for retirement.

BACKGROUND

With traditional 401(k) pretax deferrals, the contributions come out of a participant's pay before federal (and, in most cases, state) taxes are paid. These pretax contributions, plus any plan earnings on the contributions, are tax deferred until they are distributed from the plan, usually at or during retirement. Then, all of the pretax contributions, plus earnings, are taxed to the recipient at ordinary income-tax rates.

Unlike traditional pretax deferrals, Roth contributions are taxable at the time the contribution is made. However, if tax law requirements are met, no taxes are due on the Roth contributions *or* any plan earnings when money is distributed from the plan. In other words, any earnings on the Roth contributions are completely income-tax-free.

	Pretax	***Roth***
Tax on Contribution	No	Yes
Tax on Distribution	Yes	No*

* Tax law requirements must be met.

REQUIREMENTS

To qualify for tax-free treatment, Roth distributions (1) must be made more than five years after the first Roth contribution is made to the plan and (2) may be made only when the participant is age 59½ or older, is disabled, or dies.

continued on page 2

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ROTH CONTRIBUTIONS, continued from page 3

For 2006, total elective deferrals to a 401(k) plan – traditional pretax or Roth – are limited to $15,000 ($20,000 for those who are age 50 or older). The limit applies whether you make pretax contributions only, Roth contributions only, or a combination of the two.

Note that employers are not required to offer Roth contributions and, even if the plan does offer them, participants are not required to make them. Note, too, that Roth contributions are a limited time offer – the tax law authorizing them expires after 2010, unless it is extended.

And, finally, 403(b) annuity plans (offered, generally, by educational institutions and other tax-exempt organizations) are also eligible to offer employees a Roth contribution option.

WHICH TYPE OF CONTRIBUTION IS BEST?

Deciding whether Roth contributions are right for you can be complicated, since the answer may differ depending on your assumptions about your future. The factors you need to consider include: your current age, your expected retirement age, your current tax rate, your expected tax rate at retirement, and the amount of your ongoing plan contributions.

Unlike traditional pretax deferrals, Roth contributions are taxable at the time the contribution is made

For some people, paying taxes now on their contributions and having tax-free benefits when they retire will be more beneficial. For others, making pretax contributions now and paying taxes later could result in a larger after-tax accumulation. The decision is not the same for everyone, and which contribution type provides the biggest advantage for you depends on your individual situation.

WE CAN HELP

If your employer will be offering you the "Roth 401(k)" option, you will have an important decision to make. Our professionals are knowledgeable about both types of 401(k) contributions and can help you determine which type – pretax or Roth – is best for you. We can review your situation with you and provide you the analysis you need to make the decision that fits your circumstances and desires. Contact us today to find out more.

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