



Hawkins, Ash, Baptie & Company, LLP

Certified Public Accountants ♦ Management Consultants

Hawkins, Ash, Baptie & Company, LLP, Celebrates 50 Years



On August 1, 2006, our company will celebrate its 50th Anniversary. We are proud of our history in the communities we serve and wish to share some of that history. The founding philosophy in 1956 was to satisfy our clients needs and that remains true today.

Hawkins, Ash, Baptie & Company, LLP originated as a result of the merging of the practice of Richard G. Hawkins and the partnership of James O. Ash and David D. Baptie for the purpose of providing accounting and general business services to its clients. Richard Hawkins was a sole practitioner in La Crosse starting in 1947. James Ash and David Baptie formed their partnership in La Crosse in 1951. They worked together until Mr. Hawkins retired in 1980, Mr. Baptie retired in 1984, and Mr. Ash in 1986. Subsequently, Mr. Ash passed away in 1993 and Mr. Baptie in 2005.

HAB has become the leading accounting firm in the La Crosse area. In 1974, HAB moved to a large new office building designed for the firm in La Crosse at 99 Milwaukee Street. The facility has been expanded twice and now has 16,700 square feet. In 1990, HAB purchased the building at 85 Milwaukee Street to house its Computer Services Division.

In 1975, the firm expanded to Manitowoc, Wisconsin, purchasing an existing accounting practice in that city. In 1978, the firm acquired a firm with offices in Marshfield and Medford, Wisconsin. In 1979, the firm acquired another practice in Manitowoc. Then in 1983 the firm began a practice in Winona, Minnesota. In 1988, the firm acquired a practice in Green Bay, Wisconsin.

In 1987, the partnership formed a wholly-owned subsidiary, HAB, Inc., its primary focus being the sale of computer services to public housing authorities. In 1998, the firm established Hawkins, Ash, Baptie Wealth Management, LLP to provide financial services to its clients.

There are now over 140 employees working for HAB and its affiliates.

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Recapping the Income Tax Season

By: *Jeff Paro, CPA, Partner, La Crosse Office, jparo@habco.com*

Another April 15th has passed and once again we would like to thank you, our valued clients, for your business. We know that we would not be here if it were not for your business and we really appreciate each and every one of you.

While much of the information is still fresh in our minds, it seems that it might be worthwhile to review the results of this year's filings.

If you received a refund this year, you join a majority of Americans. More Americans are getting refunds, and the amount of the refunds is getting larger.

But is that necessarily good news? Remember, that is your money that is being refunded to you. That money perhaps could have been used to pay down some credit card balances, mortgage, or home equity debt. Uncle Sam is happy that you made an interest-free loan to him to use throughout the year (we should all be so lucky).

If you received a refund this year (or continually receive refunds), consider adjusting your withholding amounts. That way, your money stays with you and it can be put to good use.

An individual claiming a filing status of "Single and zero dependents" will have the maximum amount of withholding against their wage base. Someone who

files as "Married with two dependents" would have a smaller amount withheld given the same amount of taxable wages as the person filing as "Single."

The most prudent tax planning strategy is to owe as much as possible on the date that you file your income tax return without the imposition of any penalties for underpayment of estimated tax. It is only prudent, however, if you know how much you will owe and have that amount set aside coming April 15th.

Do you have any capital losses carrying forward to 2006?

If so, you might want to consider taking some capital gains to use the losses that are available. This is a great way to take a gain and pay little, if any, tax. If you cannot take any gains, the losses are deductible up to \$3,000 every year (\$500 for Wisconsin purposes).

Finally, the Alternative Minimum Tax (AMT) is quickly becoming a real problem in our current tax structure. Some of the best tax planning strategies like prepaying real estate and state income taxes, instead of reducing your overall federal tax, can actually cause the overall federal tax to increase.

In summary, while the 2005 tax season is behind us, it is time to turn our attention to the 2006 season. The professionals at Hawkins, Ash, Baptie & Company, LLP, are willing and able to answer any of your questions. Please do not hesitate to call.

Ready for a Tune Up?

Kathy Rollinger, Certified QuickBooks ProAdvisor, Client Services, Winona, krollinger@habco.com

How long have you been promising yourself to finally get your QuickBooks files "tuned up?" Have you been putting off reconciling because it never balances? Or are you a veteran user trying to create accurate reports for your business planning?

Whether you recently purchased QuickBooks or have been using it for years, our experience tells us that you only use 30 to 40 percent of the program's features. Even fewer users ever get beyond the day-to-day operations and are able to create the type of sophisticated reports for which QuickBooks is famous.

Think of it as spring cleaning, and we can help. We bring together knowledge in accounting, income tax planning, and of course, QuickBooks. You can stop struggling with the owner's manual. We can show you how to use QuickBooks to its fullest potential.

We provide on-site training in your office, on your system, with your records. We then follow up with support from a professional who is familiar with your business. Do not go through another year of bad records; give Kathy Rollinger a call (507) 452-8313.

Announcing The On-Line Training Center

By Cindy Prindle Microsoft MOUS Master Instructor

Since 1996, The Training Center has provided quality computer training that has served businesses and individuals in Western Wisconsin. Until now, that training has only been available at The Training Center classrooms in La Crosse, WI. Beginning in March 2006, The Training Center classroom is being extended via the Internet. This will allow companies, anywhere in the world, access to our top-notch training without geographic limitations, or increasing travel, meal, or lodging costs. Students logged into The On-Line Training Center can sit in the comfort of their own work environment and participate in any of our interactive classes. The feedback from our students speak to the outstanding training experience provided by The Training Center. The table below reveals how the 650 students who attended classes at The Training Center in La Crosse in 2005 evaluated our services:

Students attending classes through The Training Center can learn anything from software basics to advanced functions and features of several popular software programs including: Adobe Acrobat 7.0, Peachtree, QuickBooks, Crystal Reports, and GoldMine. We offer 24 different Microsoft classes led by a Certified Microsoft Master Instructor in Access, Excel, PowerPoint, Word, FrontPage, Publisher, Project, Outlook, and Windows XP.

New in the month of May, we are introducing our 3-hour Focus Sessions. The Focus Sessions are for people who are looking for a "Power Boost" in a specific topic, but already have the basic skills and understanding of the software program. There will be a variety of Focus Sessions offered monthly. These sessions cost only \$85 and include three-hours of "hands-on" power training, courseware, and data files. See the enclosed training calendar inserts for more details.

It is very easy to get connected

to The On-Line Training Center. It takes only a matter of minutes to connect to the class. Once registered for a class, students will receive an email confirmation with the courseware files attached. Students will also be given the login instructions and password for the session. On-line training is secure and reliable with proven WebEx technology. Students will receive a toll-free phone number for voice interaction during the class. For an ideal training experience, students need a computer with a high speed internet connection for logging into the session and a second computer (such as a laptop). This second computer would have the software loaded on it so that the student can experience the hands-on learning components of the program while simultaneously viewing the instructor's screen. However, the minimal requirements for on-line training simply include a computer with a high-speed internet connection with the software loaded on it. In this situation, the student would have to toggle between the instructor Web-Ex session window and the program window on their PC.

Register for any of our in-house and on-line classes on our website at www.habco.com. Point to The Training Center on the menu bar and click on the Registration option. You can also call Sue Lobeck at (608) 784-7737, ext. 267. We would welcome the opportunity to give you, our client, the competitive edge by helping the employees of your company become more efficient with your software.

Category	Consideration	Scale 1-10 (10 is Excellent)
Instructor	Knowledge of Subject	9.8
	Constructive Feedback	9.8
	Prepared and Organized	9.8
Classroom Environment	Promoted Learning	9.6
	Computer Functionality	9.7
	Efficient Registration	9.7
Courseware	Met Your Expectations	9.5
	Easy to Understand	9.5
	Comfortable Pace	9.5



Small Business 401(k) Plan: Safe-Harbor

Scott Silker, AAMS, Director of Wealth Management, ssilker@habco.com

Over the last few years, many small business owners have implemented SIMPLE IRA plans because they did not want to pay the various expenses associated

with traditional 401(k) plan's reporting and non-discrimination test requirements. But, there is another alternative that allows for greater tax-deferred savings than the SIMPLE IRA and still avoids the bulk of the administrative expenses of the traditional 401(k). This alternative is the Safe Harbor 401(k) ("SH") plan. The SH plan combines the best features of the SIMPLE IRA plan and the traditional 401(k) plan. This article explores some of the details of the SH plan, along with some attractive planning strategies.

Advantages of Safe Harbor 401(k) plans.

The primary reason any small business considers the SH plan is a desire to avoid the expensive non-discrimination tests and IRS filing requirements associated with the traditional 401(k) plan. Although the SIMPLE IRA plan eliminates these expenses, there is a trade off. Participants in a SIMPLE IRA plan are only permitted to salary defer up to \$10,000 for 2006, with an additional \$2,500 catch-up that is available to participants age 50 and over. Traditional 401(k) participants, on the other hand, are permitted to defer up to \$15,000 for 2006, with an additional \$5,000 catch-up available to participants age 50 and over. Additionally, a SIMPLE IRA plan does not permit the small business to make a discretionary profit sharing contribution.

The Safe Harbor options. Small businesses establishing the SH plan have two options for making contributions to employee accounts. Both of these options require the contributions to be fully vested.

1. **Matching contribution:** The employer matches 100 percent of non-highly compensated employees (NHCE) salary deferral up to 3 percent of the employee's compensation, plus 50 percent of the NHCE's deferral between 3 to 5 percent of compensation. This translates into a 4 percent matching contribution for employees deferring

5 percent of compensation or more. Employees making no deferral would receive no match.

2. **Non-elective contribution:** The business contributes 3 percent of pay to all eligible NHCEs, whether or not they elect to make a salary deferral contribution.

The matching contribution option. Most small business owners who make the decision to implement a SH plan are likely to choose the matching option. It is very likely that the SIMPLE IRA plan will also have been considered, and the value of the higher deferral limit (\$15,000 for 2006), plus the future tax-deferred growth on the additional contribution, outweighed any additional administrative expense. The SH plan is usually a good fit where a low participation, or salary deferral rate, by the NHCEs causes the traditional 401(k) plan's ADP test to severely limit salary deferral contributions by the business owners and other highly compensated employees.

The SH match does not cost the employer much, because only those who make salary deferrals will receive any of the company match. In other words, employees must "pay to play." Additionally, the SH plan's match satisfies the 401(k) "top-heavy" minimum requirement. All 401(k) plans are considered top-heavy when more than 60 percent of the plan assets are in the accounts of the key employees. The majority of small business 401(k) plans are top-heavy by the end of the first plan year, especially where a high percentage of employees are family members or key employees.

The non-elective option. This option works just like a profit sharing contribution, any employee who meets the SH plan's eligibility requirements receives a 3 percent of pay contribution. As with the match option, this 3 percent non-elective option will also satisfy the top-heavy requirement. The non-elective option does provide an advantage over the matching option. Non-elective contributions may also be applied toward satisfying another type of non-discrimination test: the plan coverage tests. This is significant for small businesses that may be able to take advantage of a cross-tested, or comparability, allocation formula as discussed below.

Small Business 401(k) Plan: Safe-Harbor continued

Combining the Safe Harbor plan with a cross-tested plan. A cross-tested plan contains an allocation formula that favors a certain class of employees if, collectively, that group is older than the non-favored group. The plan could define the business owners as one group and the remaining work force as another group. If the average age of the owners is 48, and the average age of the employees is 35, the cross-tested rules allocate more of the dollars going into the plan into the accounts of the business owners. The cross-tested allocation formula could not provide for larger proportionate contributions to those closer to retirement if there were no age difference between the two groups.

Summary. When the features of the SIMPLE IRA plan and the traditional 401(k) plan are combined into one plan, there are considerable advantages for both employees and business owners. The employees have the opportunity to make elective contributions on a pre-tax basis (salary deferral) and receive a fully vested 4 percent employer matching contribution. The employees and the business owners may make an

elective salary deferral contribution of up to \$15,000 for 2006, plus an additional \$5,000 catch-up if they are age 50 or over. The SH plan's matching contribution can be used to satisfy the top-heavy nondiscrimination requirement and the non-elective contribution may be used to satisfy both the top-heavy and the coverage non-discrimination requirements. Finally, if sufficient age disparity exists between the owners and the non-owner employees, the owners may be able to maximize the contributions made on their behalf.

The Safe Harbor 401(k) plan does offer some unique planning opportunities in the right setting. Variables such as the number of employees, their ages, and the business objectives and resources play a large part in determining whether the Safe Harbor 401(k) is an attractive retirement plan option for a small business. For assistance in identifying these and other variables which may impact whether the Safe Harbor 401(k) is the best retirement plan option for your small business, please contact Scott Silker, AAMS, Investment Management Consultant, ssilker@habco.com.

Congress Approves Tax Reconciliation Bill

Terry Miller, CPA, Partner, La Crosse Office, tmiller@habco.com

The Tax Increase Prevention and Reconciliation Act of 2005 has been approved by the Senate and the House and has been signed by President Bush. It will have far reaching impact as it has \$70 billion in net tax cuts and \$20 billion in revenue raisers.

Some of the highlights of this Act include:

Alternative Minimum Tax: For 2006 only, the AMT exemption amount for married couples filing jointly is \$62,550 and for single taxpayers it is \$42,500. For 2006 only, taxpayers are allowed to use nonrefundable personal credits to offset AMT liability.

Dividend and Capital Gains

Rate Cuts: In 2003, Congress lowered the maximum dividend and capital gains tax rates to 15 percent for qualifying taxpayers. These rate cuts were set to expire in 2008, but the Tax Reconciliation Act extends these cuts for two more years through 2010.

Small Business Expensing: The Tax Reconciliation Act extends the expensing limit through 2009. In 2006, a taxpayer may expense \$108,000 of the cost of qualifying property reduced by the amount by which the cost of the qualifying property exceeds \$430,000.

Changes to Roth IRA: The Act eliminates the \$100,000

adjusted gross income amount for converting a traditional IRA to a Roth IRA for tax years after 2009. This will make many more taxpayers eligible for the Roth Conversions.

Kiddie Tax: Effective immediately for the 2006 tax year, the Act raises the age limit to under age 18 from under age 14. The kiddie tax rules require a child's unearned income to be taxed at the parents' tax rate.

There are many more changes that will happen as a result of the Tax Reconciliation Act. For more information on how this will affect you, give us a call and we would be happy to discuss it with you.

Human Resource Notes and News

Barb Sundet Davis, SPHR, Human Resource Consultant, bdavis@habco.com



Identity Theft at an All Time High

Fifty three million Americans were affected by data security breaches last year. This means that a great deal of personal information may have been accessed by unauthorized people and some of these security breaches led to identity theft.

Employers have accumulated large amounts of personal information about their employees. If this data is not handled correctly, it can lead to identity theft.

According to Donald F. Harris, president of HR Privacy Solutions, there are steps that employers can take to minimize access to unauthorized data:

- ◆ Review all collection, use, storage, and destruction of personnel information.
- ◆ Separate personal data from other data.
- ◆ Restrict and monitor access to personal information.
- ◆ Create policies for handling personal information.
- ◆ Train and hold accountable all employees who have access to personal information.
- ◆ Develop a plan for use if there is a breach in data policies.

MILITARY LEAVE RULES FOR EMPLOYERS FINALIZED

The Uniformed Services Employment and Re-employment Rights Act (USERRA) applies to virtually all employers. It was enacted in 1994, however, the Department of Labor has issued final regulations that became effective on January 18, 2006, that clarify USERRA's application.

Some of the basic provisions include:

- ◆ Employers cannot discriminate or retaliate against employees or applicants because of past, current, or future military service.
- ◆ Employees who leave work to serve in the military have both military leave rights and re-employment rights when they return from the military within five years.
- ◆ Employers must post a notice of USERRA rights and benefits along with other employment-related posters. These are available at the www.dol.gov website and www.dwd.state.wi.us.
- ◆ Employers must continue health coverage for up to 24 months.
- ◆ Employees returning from military service must be re-employed in the job he or she would have attained if not for the time of military service. The position must include applicable pay, benefits, seniority, and other job perquisites.

There are also rights and obligations that must be met by the employee in military service. There are many

detailed provisions included in these final regulations and if you are an employer affected by USERRA, we can help to answer your questions.

EMPLOYEE BACKGROUND CHECKS: DO THEM AND DO THEM RIGHT

A recent study showed that almost 50 percent of job applicants give incorrect or inaccurate information on their applications or resumes. Sometimes this misinformation is inconsequential, however, sometimes it is extremely important. How will you know the difference if you do not conduct background checks?

Why do background checks?

- ◆ The money spent on a background check is miniscule compared to the amount you might pay in a lawsuit.
- ◆ For certain positions, background checks are required by law. Some of these employers include: health care and daycare facilities, security personnel, and many governmental positions.
- ◆ Negligent hiring lawsuits. State laws differ, but some allow lawsuits for negligent hiring when an employer "knew or should have known that an employee has a propensity to commit injury."
- ◆ They confirm or deny the information that you receive on the resume or application form.

How do you do them correctly?

- ◆ Get signed authorization from the applicant.
- ◆ In Wisconsin, you may not consider an applicant's arrest record, but can deny employment because of a prior conviction where the offense has a direct bearing on the fitness to perform the position sought.
- ◆ Be familiar and follow the Fair Credit Reporting Act (FCRA). This applies to consumer reports and background credit reports prepared by consumer reporting agencies. For these, you must provide separate written notice explaining that a consumer report will be obtained and have it signed in advance by the applicant. You must provide advanced notice of possible adverse action that might come about as a result of information learned in the report and provide the applicant with a summary of their rights under FCRA. If adverse action does result from information contained in the consumer report, you must provide the applicant a copy of the report and the contact information to allow them to contact the agency that supplied the report.

Is it worth the time and effort to do background checks? Absolutely! We can help you with your questions on background checks and can process background checks for you.

Tax Breaks Get Better With 2006 Inflation Adjustments

Contributed by Charles Schindhelm, CPA, Partner, Marshfield Office, cschindhelm@habco.com

For 2006, more than 35 tax benefits have been modified to keep pace with inflation. These new figures do not affect the return you are filing for 2005, but you should keep them in mind for this year's tax planning. Here is an overview of the more common ones.

Standard deduction

The standard deduction, which is used by roughly two-thirds of all taxpayers, is \$10,300 for married couples filing a joint return (plus \$1,000 for each one 65 or older; \$5,150 for single filers (those 65 or older can take \$6,400) and \$7,550 for heads of household (those 65 or older can take \$8,800). The additional standard deduction amounts for the aged and for the blind will be \$1,000 for each.

Personal exemptions

Taxpayers can also claim a personal exemption of \$3,300 for 2006, up from \$3,200 in 2005. The personal exemption begins to phase out for married taxpayers filing jointly with adjusted gross income of \$225,750 (and is completely phased out when AGI reaches \$348,250). For single filers, phase-out begins at \$150,500 (and is fully phased out at \$273,000).

For heads of household, phase out begins at \$188,150 in AGI (and is fully phased out at \$310,650).

For 2006, the amount of the exemption phase-out reduction that would otherwise apply is reduced by one-third. In effect, even the highest earners will get \$1,000 per exemption for the regular tax.

Tax brackets

The 2006 tax brackets also rise with inflation, which means taxpayers will see more of their money taxed at the lowest federal rate. For married couples, that means the first \$15,100 of taxable income will be taxed at 10 percent – as compared to the first \$14,600 for 2005. For single filers, the 10 percent bracket applies to taxable income up to \$7,550 and for head of household the 10 percent bracket applies to taxable income up to \$10,750.

Annual gift tax

You will be able to make larger gifts this year without triggering the gift tax. For 2006, the annual gift tax exclusion per donee increases to \$12,000, up from \$11,000 last year.

Limitation on itemized deductions

Itemized deductions are limited for taxpayers with incomes over a certain threshold. For the 2006 tax year, the AGI income threshold at which deductions begin to be limited is \$150,500 for married joint, head of household, and single filers. For married taxpayers filing separately, the threshold is \$75,250, the deductions are trimmed by 2 percent of the excess over \$150,500 (In 2005, a 3 percent rate was used and the phase-out started at a lower level).

Child tax credit

For low-income taxpayers, the per child tax credit is refundable, within limits, when your child

credits exceed your income tax liability. For 2006, the value used in determining the amount of the credit that may be refundable is \$11,300. The rules are complex, so you will want to consult with us.

Kiddie tax amounts

For 2006, the kiddie tax rules allow a child under 14 to receive \$850, up from \$800 in 2005, in investment income (from interest, dividends, or capital gains) free of tax, with the next \$850 taxed at the child's rate, which is typically lower than the parent's tax rate. Any amount over \$1,700 is taxed at the parent's rate. Keep in mind that your child can still owe regular income tax with less than \$1,700 in income. This is only the threshold amount of investment income for the special kiddie tax.

Section 179 expense deductions

For the 2006 tax year, the maximum expensing deduction for equipment put into service by self-employed or business owners is \$108,000, up from \$105,000 in 2005. This deduction is reduced by the amount by which the cost of Section 179 property placed in service during the 2006 tax year exceeds \$430,000.

Need advice?

Depending on your circumstances, these changes could affect the amount of income you choose to have withheld from your paycheck or the amount you pay in quarterly estimated taxes. We can help you with your tax planning for 2006.



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The Facts About Generic Drugs

With Medicare D becoming such an important issue, there is a lot of talk about generic drugs and many misconceptions abound. Generic drugs offer a less expensive alternative to the brand-name drugs. Almost half of the prescriptions filled today are done with generic drugs.

The Food and Drug Administration (FDA) requires that generic drugs meet the same rigorous standards as brand-name drugs. This means that the FDA regulates the dosage, safety, strength, quality, and purity of all generic drugs. Generic drugs must contain the same active ingredients as the brand-name.

In general, new drugs are given patent protection for 20 years. This allows the original company to recoup the expenses of research and development of the new drug. As that 20-year time period approaches its expiration, other companies apply to the FDA to make generic versions of the original drug. These generic versions can be sold at a cheaper price because the generic manufacturer has not sustained all of the research and development costs. But all generic drugs must also receive the approval of the FDA.