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SAVING ENERGY CAN NOW SAVE YOU MONEY

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HAB "FYI"

The Energy Tax Incentives Act of 2005 contains a series of tax breaks aimed at encouraging conservation and fuel efficiency by individuals and manufacturers. Broadly speaking, the Act provides tax incentives for consumers to buy energy efficient assets and for manufacturers and builders to provide them. Here's a summary:

- New tax credits for the purchase of hybrid, fuel cell, advanced lean-burn and other alternative power vehicles. The size of the credit varies depending generally on the weight class of the vehicle and the rated fuel economy. The credit applies to vehicles placed in service after 2005, with termination dates varying with the type of alternative power vehicle. Additionally, [Code Sec. 179A](#) (the pre-Energy Tax Act law deduction for certain clean fuel vehicles and refueling property) now sunsets after 2005 (instead of after 2006, as was originally scheduled).
- New 30% tax credit for the purchase of qualifying residential solar water heating, photovoltaic equipment, and fuel cell property. The maximum credit is \$2,000 (for solar equipment) and \$500 for each kilowatt of capacity (for fuel cells). The credit applies for property placed in service after 2005 and before 2008.
- New 30% business tax credit for the purchase of fuel cell power plants and a 10% credit for the purchase of stationary microturbine power plants, effective for periods after Dec. 31, 2005 and before Jan. 1, 2008, for property placed in service in tax years ending after Dec. 31, 2005.
- New 10% personal tax credit for energy efficient improvements to existing homes, such as caulking, insulation and windows. In addition, there are credits for certain qualified energy property such as furnaces, heat pumps and central air conditioners. The lifetime maximum credit per taxpayer is \$500 and applies for property placed in service after Dec. 31, 2005 and

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THE Bottom Line

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Cafeteria/Flex Plans Become More Flexible

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In the biggest development recently for IRS Section 125 Cafeteria/Flex Plans, the IRS has relaxed the “use-it-or-lose-it rule”.

Cafeteria/Flex Plans may allow participants to access unused amounts remaining in their accounts at the end of the year to pay or reimburse expenses for qualified benefits such as health FSA or dependent care (DCAP) expenses incurred during a “grace period” of up to 2-1/2 months after the close of a plan year. Effective for the current plan year, IRS Notice 2005-42 gives employers the option of amending their Cafeteria/Flex Plans to provide for a grace period immediately following the end of the plan year.

The advantage of the grace period, which must apply to all participants in the plan, is that expenses for qualified benefits incurred during the grace period may be paid or reimbursed from benefits or contributions remaining unused at the end of the immediately preceding plan year.

Example #1: In 2005, Sarah elects to contribute \$2000 for reimbursement of eligible medical expenses under the Employer’s Health FSA. On December 31, 2005, Sarah has only incurred \$1,000 in expenses; therefore, she has a \$1,000 Temporary Carry Over Amount following the 2005 plan year. For 2006, Sarah again elects to contribute \$2,000. Sarah incurs a \$3,000 expense

on January 23, 2006. Under the new rule, the \$1,000 Temporary Carry Over Amount may be applied to the \$3,000 expense incurred on January 23, 2006. The remaining \$2,000 would be available for reimbursement under her 2006 election.

Example #2: Same facts as Example #1, except assume that Sarah only incurs a \$500 expense on January 23, 2006 and incurs no other expenses during the grace period (which cannot exceed 2 1/2 months). In this example, \$500 of the \$1,000 Temporary Carry Over Amount may be applied to \$500 expense and the remaining \$500 is forfeited.

Historically, IRS Cafeteria/Flex Plans have forbidden postponing the recognition of earned income. In other words, participants could not use non-taxed compensation from one plan year to pay for expenses they incurred in a subsequent plan year. And, the dreaded “use-it-or-lose-it” constraint was unappealing to many employees because it required careful planning, awareness of account balances and deadlines, plus possible loss of their money.

Now, an employee can buy 12 months of healthcare coverage and receive more than 14 months coverage. This extra breathing room for miscalculation of annual election amounts and submitting claims should avoid forfeiting of unused benefit funds.

A Cafeteria/Flex Plan cannot permit unused benefits or contributions to be cashed-out or converted to any other taxable or nontaxable benefit during the grace period. In addition, unused benefits or contributions relating to a particular qualified benefit can only be used to pay or reimburse expenses incurred with respect to that particular qualified benefit.

As under current rules, Notice 2005-42 provides that employers can continue to provide a “run-out” period after the end of the grace period. During this period, expenses for qualified benefits incurred during the Cafeteria/Flex Plan year and the grace period may be paid or reimbursed.

Participants should welcome the loosening of the use-it-or-lose-it rule, and more employees will likely choose to enroll in an Employer’s Cafeteria/Flex Plan, which means more savings for both employer and their employees. Employers who do not offer a Cafeteria/Flex Plan may now wish to take advantage of the new rules and adopt a Cafeteria/Flex Plan.

The IRS has made a significant improvement to Cafeteria/Flex Plans that will make them more attractive to employers and employees. We at Hawkins, Ash, Baptie and Company, LLP can help you maximize the benefit of these rule changes for you and your employees.

Manufacturers Sales Tax Exemption for Fuel and Electricity

*by Dave Schlueter, CPA, Partner, La Crosse Office
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Beginning in 2006, the Wisconsin manufacturer’s sales tax credit for income tax purposes will be replaced by an exemption from sales tax for fuel or electricity used in manufacturing. Later this year, Form S-211, will be revised to reflect this new sales tax exemption, which becomes effective

January 1, 2006. Taxpayers will be provided space to put in a percentage of fuel and electricity that is exempt and submit this form to their providers. They will determine that portion which is exempt in the same manner in which they have computed the manufacturer’s sales tax credit for income tax purposes.

A separate meter or energy audit are examples of acceptable methods of determining manufacturing usage. Now is the time to review your use of fuel and electricity used in the manufacturing process. If you need assistance, please call one of our offices.

Human Resource Notes & News

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

Changes to I-9 Form

The Form I-9 is used by employers to verify employment eligibility of newly hired employees. By law, all employers are responsible for completion and retention of I-9 Forms for all U.S. citizen and non-citizen employees who have been hired in the U.S. after November 6, 1986.

The form has recently been updated to reflect the transfer of the functions from the Department of Justice to the Department of Homeland Security. At this time, this is the only change in the form, though additional changes are expected in late 2005 or early 2006. Those changes will include a reduction in the number of documents that can be submitted by new employees to demonstrate the employment eligibility.

Employers may meet their employment verification requirements under the law by completing a Form I-9 that has an edition date of either (Rec.5/31/05)Y, (Rev. 05/31/05)N, or (Rev.11/21/91)N in the lower right corner of the form. The form may be downloaded at www.uscis.gov.

Changes to Destruction of Certain Employment Records

If you use consumer report information, changes to the Fair Credit Reporting Act, require that you take "reasonable measures to protect against unauthorized access to or use of the information in connection with its disposal."

Many employers use consumer report information during the employee background checking process. The new rule covers only those reports provided by or through a consumer reporting agency or any records the employer has that contain information derived from these consumer reports.

The intent of the new rule is to avoid identity theft through access to this information. There are no specific requirements on how, when, or where employers destroy this information, but they must ensure that it is properly disposed.

As a safeguard, employers should develop or review written procedures to ensure that the consumer information is actually being destroyed properly.

New Labor Law Posters

Wisconsin Minimum Wage Changes
The Wisconsin state minimum wage increased from \$5.15 to \$5.70 per hour effective June 1, 2005. All Wisconsin employers are required to post a new Wisconsin minimum wage poster. The form can be downloaded at www.dwd.state.wi.us/dwd/posters.

USERRA Changes

There is a new requirement to post the new notice for the Uniformed Services Employment and Reemployment Rights Act. USERRA protects the job rights of individuals in military service. You may download this form at www.dol.gov/vets/progrms/userra/poster.pdf.

All governmental posters are available free of charge through the Internet. Some employers prefer to purchase a laminated all-inclusive poster.

If you are using one large poster purchased from a supplier, your posters are no longer in compliance with the law if they do not include these changes. You may contact us to purchase new posters. bdavis@habco.com

SAVING ENERGY CAN NOW SAVE YOU MONEY . . . (continued from page 1)

- New business tax credit for contractors for the construction of new energy efficient homes. The credit is either \$2,000 or \$1,000 per home, depending on the type of home and the energy reduction standard it meets. The credit applies to homes whose construction is substantially completed after Dec. 31, 2005, and which are purchased after Dec. 31, 2005 and before Jan. 1, 2008.
- New deduction for energy efficient commercial buildings meeting a 50% energy reduction standard. The deduction (generally \$1.80 per square foot, but 60¢ per square foot for certain separate building systems) is effective for property placed in service after Dec. 31, 2005 and before Jan. 1, 2008.
- New manufacturers' tax credit for energy efficient dishwashers, clothes washers, and refrigerators manufactured in 2006 and 2007. The maximum credit is \$100 per dishwasher or clothes dryer, and \$175 per refrigerator.

Please keep in mind that we've described only the highlights of the most important changes in the new law. As usual, the "devil's in the details" and this law change is no exception. But if you are contemplating any of the above improvements, the timing of those improvements could save you some tax dollars. Give Jeff or Dave a call if you want more information.

Reduce the Integration Dilemma by Training

By: *Cindy Prindle, Microsoft MOUS Master Instructor*
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In this global, fast-paced and constantly-changing business environment, companies are finding themselves running on software that has been designed to integrate with the Microsoft Office® products. All of the major software developers, including accounting and manufacturing software developers, have built or are building their software around Microsoft Word® and Microsoft Excel®. These companies understand that the world has standardized on the Microsoft Office packages, so there is no need to re-invent the wheel. They are enhancing their own products by leveraging them around the powerful benefits gained by integrating with Microsoft products. With this in mind, it is important to create an employee workforce that is knowledgeable enough to utilize all of the technological tools available to them. This can be accomplished with a well-trained staff that has a reliable support system.

Increasing the number of end-users that are expected to be competent in their company's technology software has created two serious implications. The first is called the "Domino Effect." For example, an employee has a problem with their software; they go to another end-user to get help. Unable to figure it out, they ask another employee, and so on, until half the organization is involved in finding a solution. The negative impact on productivity in this situation is obvious. After all, you invest in technology to increase productivity; however, this method of problem-solving has the opposite effect. The second implication occurs when your IT department or "power users" are constantly being bogged down with questions by end-users because there has been insufficient training. This pulls them away from their regular duties, which leads to anger and frustration. A decrease in company morale adversely impacts productivity and thus, bottom-line profit.

Investing in a quality infrastructure (hardware and software) is a good first step to using technology to solve business problems, but your end-users need to be willing and able to use the technology properly. They need to be empowered to fully utilize the features of all the software tools available to them;

even the integration tools that are provided by Microsoft Word and Excel. Many studies show that if you want to maximize the use of new technology, a training budget for your end-users should be at least 10-20% of the total technology investment. In addition to greater productivity, another benefit of training is creating greater company loyalty. Most high-achieving professionals are looking for a challenge in their position and a job that allows them to grow.

Businesses are smart to offer training benefits as a way of staying competitive in the job market. Not only are you giving employees the benefits they want, you are also getting better quality people. Some companies that are not able to compete with the sky-high salary demands can compensate for a lower-than-market salary offer by providing training. A survey conducted by MDY Advanced Technologies found that 95% of those employees who reported receiving formal training by their employer stated that it contributed to their overall job satisfaction.

The Training Center at HABCO has the expertise to help you with your training decisions. We can sit down with you, assess your computer training needs, and customize training to meet your criteria. We provide training in all Microsoft Office programs including Word and Excel. We also offer classes in Crystal Reports, Project Management, Web Design, and several different accounting packages including Peachtree and QuickBooks. All training is "hands-on" using state-of-the-art equipment. Our classes are kept small to ensure a more personalized atmosphere.

Our instructors are Microsoft Certified. They have over 37 years of combined computer-training experience, and 46 years of combined business experience. This allows us to use "real world examples" when training. We realize that each student is unique and we provide a training experience to accommodate these individual needs. Our goal is to provide each person with the quality of training they expect and deserve. For more information about training or to obtain our class schedule, contact us at 608-784-7797, ext 267 or visit our website at www.habco.com.

Kathy Rollinger Becomes Certified Quickbooks ProAdvisor

Kathy Rollinger, Client Services Department, Winona Office has passed Intuit's QuickBooks Certification coursework and become a Certified QuickBooks ProAdvisor®. The certification program tests in-depth knowledge of QuickBooks and its business management solutions. To become certified, Kathy completed four rigorous courses. Kathy will complete annual update courses to gain knowledge on the latest version of QuickBooks.

Kathy is available to help QuickBooks customers with:

- Installation and Set up
- Training
- Technical Support (by phone, on-site, or remote access)
- Payroll set up and monitoring

Contact Kathy for a consultation on QuickBooks.
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American Jobs Creation Act of 2004

by Terry Miller, CPA, CVA, Partner, La Crosse Office
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Congress recently passed the American Jobs Creation Act of 2004, which includes a new deduction for income attributable to domestic production activities.

The deduction is limited to the applicable percentage times the lesser of qualified production activities income or taxable income. It is further limited to 50% of W-2 wages.

The applicable percentages are phased in as follows:

<u>Tax years beginning in</u>	<u>Percentage</u>
2005 and 2006	3
2007, 2008 and 2009	6
2010	9

To assist taxpayers with navigating the requirements of this deduction, the IRS recently issued guidance addressing substantive and procedural requirements for the deduction.

Under the guidance provided by the IRS, qualified production activities income is to be determined on an item-by-item basis, rather than on a transactional or product basis. "Qualified production activities income" is equal to your domestic production gross receipts, reduced by the sum of:

- the costs of goods sold that are allocable to such receipts;
- other deductions, expenses, or losses that are directly allocable to such receipts; and
- a proper share of other deductions, expenses, and losses that are not directly allocable to such receipts of another class of income.

You must determine the portion of your total receipts that are domestic production gross receipts. The method used to determine these receipts must be reasonable and accurately identify gross receipts derived from:

- any lease, rental, license, sale, exchange or other disposition of qualifying production property which was manufactured, produced,

grown or extracted by you in whole or in significant part within the U.S.,

- any lease, rental, license, sale, exchange or other disposition of any qualified film produced by you in the U.S.,
- any lease, rental, license, sale, exchange or other disposition of electricity, natural gas or potable water produced by you in the U.S.,
- construction performed in the U.S., or
- engineering or architectural services performed in the U.S. for construction projects located in the United States.

The IRS will consider a number of factors in determining whether or not your method of allocating these receipts and nonqualifying receipts is reasonable, including whether the most accurate information available is used, and the time, burden and cost of using other methods. If a taxpayer is engaged exclusively in the manufacture of qualifying property within the U.S. and has no other sources of income, qualified production activities income will equal taxable income.

The guidelines generally provide that gross receipts derived from the performance of services are not qualifying receipts. However, gross receipts from a qualified warranty and a de minimis amount of gross receipts from embedded services for each item of property (in the case of a lease, rental, license, sale, exchange, or other disposition) may be included in domestic production gross receipts.

A safe harbor is provided for taxpayer-employers whose gross receipts are primarily domestic production gross receipts. If less than 5 percent of your gross receipts are from non-qualifying receipts, then you are not required to allocate gross receipts.

The new guidelines also clarify the definitions of "gross receipts,"

"manufactured, produced, grown or extracted," "by the taxpayer," "in whole or significant part," "United States," and "derived from the lease, rental, license, sale, exchange, or other disposition of qualifying production property."

The deduction is limited to 50 percent of the W-2 wages paid by you as an employer during the tax year. "W-2 wages" are defined as the sum of the wages and elective deferrals that must be reported on Forms W-2, with respect to your employment of employees during the calendar year ending during your tax year. The new guidelines provide three methods for computing W-2 wages.

For S corporations and partnerships, the deduction is determined at the partner or shareholder level. Items attributable to the qualifying production activities of the partnership or S corporation pass through to the partner or shareholder according to the economic arrangement of the owners. It is, then, up to each individual partner or shareholder to aggregate items allocable to the pass-through entity's qualified production activities, expenses directly incurred by the partner or shareholder that are allocable to the pass-through entity's qualified production activities, and items allocable to the partner's or shareholder's other qualified production activities.

The deduction is also allowed for alternative minimum tax purposes (AMT). For additional information on the AMT see Alternative Minimum Tax May End in the June 2005 issue of the Bottom Line.

For some small businesses the cost of computing the allowable deduction will exceed the benefit of the deduction. For many others there will be a benefit to the deduction. Please contact us to determine if you will benefit from this new deduction.



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W-4 Reminder Notice

IRS regulations (Reg. S31-3402 (f) (2)-1 (c) (3)) require employers to remind their employees to file an amended Form W-4, Employees Withholding Allowance Certificate, if their filing status, exemption allowances or exempt status has changed since the last filing of their Form W-4. This notice must be provided by December 1 each year.

At this time the W-4 form for 2006 is not available. For your convenience the IRS website is linked from our website www.HABCO.com. The W-4 and most other forms and publications are available there. If you prefer, you can go to our website and click on Links/Federal Government/ IRS – Forms & Publications Page.

We have a sample reminder letter that you may use to send to your employees. If you have any questions on this or any other payroll matter, or would like a copy of the sample letter, please call our Client Services Department (608) 784-7737 or email Reena Kazianka at rkazianka@habco.com.

HAB "FYI"

October

- **15TH:** Extended due date of Form 5500 for calendar year pension and welfare plans.
- **15TH:** Partnerships and individuals file 2004 calendar year tax return with second extension.
- **31ST:** Form 720 for third quarter 2005 is due.
- **31ST:** Form 941 for third quarter 2005 is due.
- Meet with tax planning professional from Habco.

November

- Finalize tax planning with Habco.

December

- **15TH:** Fourth quarter installment of estimated tax for calendar year 2005 is due.
- Contribute to SEP, Roth IRA, Education IRA through Habco Wealth Management.

IRS CIRCULAR 230 NOTICE

Any tax advice expressed in this communication (including any attachments) is not intended to be used, and cannot be used, for the purpose of avoiding penalties imposed on the taxpayer by any government taxing authority or agency. In addition, if any such tax advice is made available to any person or party other than the party to whom the advice was originally directed, then such advice, under IRS Circular 230, is to be considered as being delivered to support the promotion or marketing (by a person other than Hawkins, Ash, Baptie & Company, LLP) of the transaction or matter discussed or referenced. Thus, each taxpayer should seek specific tax advice based on the taxpayer's particular circumstances from an independent tax advisor.