

Money Matters

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S2 Financial Consulting

Five Steps You Can Take to Prepare for Tax Season

Recommended Reading

- *The Millionaire Next Door* by Thomas S. Stanley
- *Think and Grow Rich* by Napoleon Hill
- *The Richest Man in Babylon* by George S. Clason

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With the year coming to an end in a few short months, it's time to start thinking about your taxes.

- If you haven't done so already, make plans to use all money in flexible spending accounts (FSAs) - dependent care and/or healthcare. You have until April 30, 2006 to submit claims against your 2005 FSA.
- Consider donating clothing or other unwanted items before the end of the year if you typically itemize your deductions.
- Use the IRS withholding calculator (online at www.irs.gov/individuals/page/0,,id=14806,00.html) to verify that you're having

the correct amount of taxes withheld from your paychecks. While you don't want to give the government an interest-free loan, you don't want to pay a penalty for not having enough withheld either. You will need a copy of your most recent paycheck stub as well as records of student loan interest, mortgage interest and charitable giving.

- Fund an IRA if you have not done so already. You have until April 15, 2006 to fund a traditional or Roth IRA for the 2005 tax year. The IRA limit for 2005 is \$4000.
- Start gathering your tax records so you don't miss

out on all the deductions and/or credits to which you may be entitled. Now is the time to collect all essential paperwork in a folder to give to your tax preparer next year. You can find a checklist of items you may need on our website (online at www.s2fc.com/resources/Tax-Preparation-Checklist.doc)

S2FC Offering New "Wedding Package"

Starting this month, S2FC will roll out our latest offering — a "wedding package" for newly engaged couples, newly-weds or any couple that wants to merge or get a better grasp on their joint finances.

So often couples give lots of time and attention to planning a wedding but fail to consider

planning their new financial life together.

From start to finish, S2FC can help. From setting a budget for the wedding to saving for wedding expenses to joining finances after the wedding, S2FC will be there for you.



Retirement Plans for Small Business Owners

Small business owners have many choices for funding their retirement. Consult your financial advisor and determine which is best for your business.

- 401(k) - Employees can make contributions of up to 100% of their earnings or \$42,000 per year, whichever is less. However, this option is best suited to those companies with 25 employees or more.



- Simple 401(k) - This plan is like the traditional 401(k) but has lower contribution limits - 100% of earnings or \$10,000 per year, whichever is less. An added benefit to this plan is that the employees are allowed to take loans against the Simple 401(k).
- SEP-IRA - Only the employer can make contributions to the SEP-IRA for him or herself and on the behalf of the employees. The contribution limit is the lesser of 25% of compensation or \$42,000. Every year, the employer

is required to make contributions. Also, there are no loans allowed against the value of a SEP-IRA.

- Simple IRA - This is a relatively inexpensive plan to establish. The employer can contribute for himself, as well as on behalf of the employees. The limit on these contributions is \$10,000 or 100% of compensation, whichever is less. No loans are allowed against the value of the Simple IRA.

New for 2006 — the Roth 401(k)

Starting January 1, 2006, a number of employers will offer their employees a new retirement plan - the Roth 401(k). Employers will continue to offer the traditional 401(k)s and you may be able to split your regular contributions between the two. However, be aware that any employer contributions you receive will go into your traditional 401(k).

Unlike a traditional 401(k), the Roth 401(k) will be funded with POST-TAX contributions. This means that

any contributions you make will NOT lower your taxable income.

Just as with a traditional 401(k), you will be required to make withdrawals starting at age 70 1/2. However, like the Roth IRA, withdrawals will be tax-free (after five years of deposits and the age of 59 1/2).

If you terminate employment before retirement age, you will be able to roll your Roth 401(k) contributions into a Roth IRA.

In short, the Roth 401(k) is worth checking out. It may be just the boost your retirement plan needs.

"LIKE THE ROTH IRA, WITHDRAWALS WILL BE TAX-FREE (AFTER FIVE YEARS OF DEPOSITS AND THE AGE OF 59 1/2).

Education Credits and Deductions

There are two tax credits available for students. However, these credits phase out as income rises from \$42,000 per year to \$52,000 per year.



The Hope Credit applies only for the first two years of post-secondary education and

can be worth up to \$1,500 per eligible student, per year. It does not apply to professional-level or graduate programs.

The Lifetime Learning Credit applies to undergraduate, graduate or professional degree courses. If you qualify, your credit equals 20 percent of the tuition and fees you pay, for a maximum credit of \$2,000 per tax return.

You cannot claim both the Hope and

Lifetime Learning Credits for the same student in the same year.

If you're not eligible for either of these credits, you may be eligible for a tuition and fees deduction. It gives a maximum deduction of \$4,000 if your income does not exceed \$65,000 (\$130,000 on a joint return); \$2,000 maximum if income is between \$65,000 and \$80,000 (between \$130,000 and \$160,000, joint return).

Hurricane Katrina

The IRS has taken action to assist Hurricane Katrina victims.

- If you're providing rent-free housing to Katrina victims for at least 60 days, you'll receive a tax deduction of \$500 per person that you're housing, up to a maximum deduction of \$2,000.
- The IRS will waive the usual fees and expedite requests for copies of previously-filed tax returns for people who need them to apply for benefits or to file amended

returns claiming disaster-related losses. Write the words "Hurricane Katrina" in red at the top of Form 4506, "Request for Copy of Tax Return," or Form 4506-T, "Request for Transcript of Tax Return."

- Amounts paid to reimburse or pay reasonable and necessary personal, family, living, funeral expenses or for the repair and/or rehabilitation of a personal home or residence incurred as a result of Hurricane Katrina will not be

subject to federal income taxation to the extent any expense is not otherwise compensated for by insurance or otherwise.



Tax News — Standard Deduction Amount Increased

The standard deduction for taxpayers who do not itemize deductions on Schedule A of Form 1040 is, in most cases, higher for 2005 than it was for 2004. The amount depends on your filing status, whether you are 65 or older, blind or an exemption can be claimed for you by another taxpayer.

The basic standard deduction amounts for 2005 are:

- Head of household — \$7,300
- Married taxpayers filing jointly

and qualifying widow(er)s — \$10,000

- Married taxpayers filing separately — \$5,000
- Single — \$5,000

The standard deduction amount for an individual who may be claimed as a dependent by another taxpayer may not exceed the greater of \$800 or the sum of \$250 and the individual's earned income.



Tax News — Exemption Amount Increased

The amount you can deduct for each exemption has increased from \$3100 in 2004 to \$3200 in 2005.

You lose all or part of the benefit of your exemptions if you adjusted gross income is above a certain amount. The amount at which the phaseout begins depends on your filing status. For 2005, the phaseout begins at:

- \$109,475 for married persons

filing separately,

- \$145,950 for single individuals
- \$182,450 for heads of households, and
- \$218,950 for married persons filing jointly or qualifying widow(er)s.

If your adjusted gross income is above



the amount for your filing status, use the Deduction for Exemptions Worksheet in the IRS Form 1040 instructions to help figure out the amount to deduct for exemptions.



Helping you architect your future

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WE'RE ON THE WEB!

WWW.S2FC.COM

S2 Financial Consulting (S2FC) is a Georgia-based company providing fee-based financial planning to individuals and small businesses.

We provide cash flow management, income tax planning and preparation, education and retirement planning as well as estate planning. In addition, we can help assess your insurance and investment needs.

Whether you need budget help, a comprehensive financial plan, help making life decisions or wealth-building strategies, S2 Financial Consulting is here to help you achieve your personal and financial goals.

The process starts with an initial, complimentary consultation in order to assess your current life and financial situation as well as define your objectives. After this consultation, if you choose to utilize our services, we will formulate a plan of action crafted specifically for you as well as assist you in implementing your plan. In addition, we will review your progress with you on a quarterly, biannual or yearly basis in order to assure your financial success.

Questions and Answers

Starting with our next issue, this section will be dedicated to answering reader questions.

If you have a question you'd like to see answered, please submit it via e-mail to news@s2fc.com

