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November 2006

Review Outlook



Tax Quiz

Joe gets a hot tip on a stock and buys it for \$10 per share. The tip pays off and he sells the stock exactly one year later for \$45 per share. What mistake did Joe make?
The answer is at the end of this newsletter, but read the articles first.

From eBulletin – Some Important Numbers

Towards the end of every year, the government issues important numbers for the following year.

Automobile Standard Mileage Rates

The IRS has announced the standard mileage rates for use in the year 2007 to compute the deductible costs of operating an automobile. The rates are effective January 1, 2007. They are as follows:

Business use – 48.5¢ per mile (up from 44.5¢ in 2006)

Charitable driving – 14¢ per mile (set by law and unchanged from 2006)

Driving for medical reasons – 20¢ per mile (up from 18¢ in 2006)

Moving expenses – 20¢ per mile (up from 18¢ in 2006)

The IRS said that the new rates reflect higher prices for gas and vehicles.

Employers can reimburse their employee's business use of their personal vehicles by the same 48.5¢ per mile in 2007 without the reimbursement being taxable to the employee, if the employer has an "accountable plan". An accountable plan generally must require the employee to substantiate the business use and, if advance payments are made to the employee, must require any unsubstantiated advances to be repaid within a reasonable period of time.

The standard mileage rate can be used to compute deductible automobile expenses in lieu of computing your actual costs. There are some limitations to the use of the standard mileage rate.

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Bourgeois Bennett is a member of AGN International, a prestigious network of almost 200 accounting and consulting firms with nearly 400 offices around the world. Our affiliation with AGN allows us to collaborate with the foremost authorities in taxation, auditing and business management across the globe.

Social Security and Medicare

The Social Security Administration announced that benefits paid to recipients will increase by 3.3% in 2007. In addition, the maximum amount of wages subject to Social Security withholding (and earned income subject to self-employment tax) will increase. The relevant amounts are as follows:

Maximum earnings subject to Social Security withholding:

Social Security taxes must be withheld from wages until the wages reach the following amounts:

2006 - \$94,200
2007 - \$97,500

There is no earnings limit for Medicare withholding. The same limits apply to earned income subject to the self-employment tax. The tax rate of 7.65% (15.30% for self-employed taxpayers) will not change.

Maximum amount of earned income you can receive without losing Social Security benefits:

Individuals who have not reached full retirement age (defined below) can lose Social Security benefits if their earned income exceeds a defined amount. For individuals under full retirement age during the entire year, the maximum amounts they can earn without losing benefits are as follows:

2006 - \$12,480 per year (\$1,040 per month)
2007 - \$12,960 per year (\$1,080 per month)

A special test applies to taxpayers who reach full retirement age during the year. For these individuals,

the maximum amounts they can earn before reaching full retirement age are as follows:

2006 - \$33,240 per year (\$2,770 per month)
2007 - \$34,440 per year (\$2,870 per month)

Full retirement age is 65 years, 8 months for those born in 1941 and is 65 years, 10 months for those born in 1942.

Individuals who have reached full retirement age can earn any amount of income without losing benefits.

B recommends: *Subscribers to our internet news service, eBulletin, received these notices shortly after they were issued by the government. If you would like to receive the eBulletin, send an e-mail to teds@bb-cpa.com and simply enter "eBulletin" as the subject.*

Firm News

Community Involvement

Bev Nichols, Director, is one of the founders and developers of the Priestley School of Architecture and Construction. The charter high school's focus will be to prepare students to participate and benefit in the building boom resulting from the revitalization of New Orleans.

Tutorial – Individual Capital Gains and Losses

Reviewing your capital gains and losses before year-end is an important part of your tax planning. However, many taxpayers do not understand the rules governing these transactions.

Most long term capital gains recognized by individuals qualify for a beneficial Federal tax rate of 15%. Long term capital gains recognized on the sale of real property used in a business or for rental qualify for a maximum 25% tax rate to the extent of prior depreciation deducted on the real property. Collectibles, such as stamps and artwork, are taxed at a 28% maximum rate.



To qualify for long-term capital gains rates, you must have held the property for *more than* one year (i.e., at least one year and one day). This is important, because short-term capital gains do not receive beneficial tax treatment and are taxed at ordinary income tax rates. *Example:* Ben, a high income taxpayer, bought stock in XYZ Corp on March 3, 2005 for \$25 per share. He sold the stock on March 3, 2006 for \$47 per share. Ignoring state income taxes, Ben's capital gain is taxed at his marginal tax rate of 35%. Had he held the stock one more day, the gain would have been taxed at a 15% rate.

In general, if you purchased the same stock a number of times and you sell only part of your stock, you are considered to have sold the longest-held stock first (a method known as FIFO - first in, first out). However, if you can specifically identify the shares sold and can

deliver those certificates, you are considered to have sold those identified shares. If your shares are held in a brokerage account, you are considered to have specifically identified the shares sold if you direct the broker to sell specified shares and the broker sends you written confirmation within a reasonable period of time that the identified shares were sold. *Example:*

Wright bought 100 shares of ABC Corp for \$10 per share in 1981 and another 100 shares for \$41 per share in 2002. The stock is now selling for \$28 per share. Wright needs to recognize a capital loss. Unless he specifically identifies the 2002 shares as the ones to sell, the FIFO rule will result in his generating a capital gain instead.

If you are selling shares of a mutual fund, you can elect to compute the basis of those shares by using the average cost of all your shares in that fund.

Your capital losses are offset against your capital gains. Initially, short-term capital losses are offset against short-term capital gains and long-term capital losses are offset against long-term capital gains. At this point, any net short-term capital losses are offset against any net long-term capital gains and vice-versa.

If your capital losses exceed your capital gains, you can deduct up to \$3,000 of these net losses against your other income and the remaining capital loss is carried forward to future years until it is used.

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Tutorial – Individual Capital Gains and Losses *Continued from page 3*

Example: Phyllis recognizes capital losses of \$14,500 and capital gains of \$1,000 in 2006, for a net capital loss of \$13,500. She can deduct \$3,000 of the net capital loss on her 2006 return and she will carry the remaining \$10,500 to 2007 where she can offset gains recognized in that year or she can deduct another \$3,000.

How can you use these rules to your benefit? Here are some examples:

- Walker has recognized short-term capital gains of \$18,000 from the sale of stocks in 2006. Since these gains will be taxed at ordinary income tax rates, Walker should consider selling some of his loss stocks before year-end to offset the gains. However, Walker must not buy shares in the same loss stock for another 30 days, since his loss on the sale will be disallowed if he buys back substantially identical stock 30 days before or after the sale.
- Nancy has recognized long-term capital gains of \$18,000 from stock sales in 2006. She really doesn't have any loss stocks she wants to sell in 2006. Since her long-term capital gains will be taxed at a maximum rate of only 15%, she decides to do nothing further.
- Arden has recognized capital losses of \$55,000 in 2006. Since he can only deduct \$3,000 of these losses on his 2006 return, he takes advantage of the situation by selling some other stock at a gain of \$42,000. He effectively pays no current tax on the gain, since he already has sufficient losses to offset it.
- Eve sold a piece of land she had owned as an investment for over 20 years at a substantial gain. Her gain on the sale of investment property qualifies as a long-term capital gain. If she wants, she can sell some of her stocks at a loss to reduce the net gain from the sale of the land. It doesn't matter that the gain sale was land and the loss sale was stock.
- Brooks sold a piece of equipment he used in his business at a \$32,000 gain. He had claimed depreciation of \$23,000 on the equipment and this part of his gain is taxed at ordinary income tax rates. However, the remaining \$9,000 of gain is a capital gain and can be offset by capital losses.



B recommends: *Note that taxpayers recognizing substantial long-term capital gains can be subject to the alternative minimum tax, even though the same low rates apply for both regular and alternative minimum tax. You need to review your situation now since any sale must be completed by year-end. For stocks, this means the trade date must occur in 2006. Call your BB professional if you need help planning your gains and losses or with any year-end planning.*

Now go back and answer the Tax Quiz.

Some Other Year-End Thoughts



It's hard to believe that December 31 is fast-approaching. This means you are running out of time to take steps to minimize your 2006 taxes. Here are some ideas:

- **IRAs, Retirement Plans** - If you are age 70 1/2 or older, you may need to take a minimum distribution from your plan before December 31. Remember also that taxpayers age 70 1/2 or older can distribute up to \$100,000 to charity from their IRAs this year and next.

If you have started a business in 2006 and want to set up some form of retirement plan, act now since some plans must be set up by year-end to be eligible for a 2006 contribution deduction.

- **Itemized Deductions** - Consider making charitable contributions before year-end if you have not met the percentage limitations. Donating appreciated stock you have held for more than one year makes good sense since you can deduct the fair market value of the stock while avoiding paying income tax on the appreciation.

Medical expenses are deductible only to the extent they exceed 7.5% of your adjusted gross income (the amount at the bottom of page one of your Form 1040). If you have substantial medical expenses this year, consider paying these medical bills before year end and having any elective treatment done by then.

Review whether you will benefit from paying any state income taxes, including your fourth quarter state income tax estimate, by December 31 (but remember that such taxes are not deductible for computing the alternative minimum tax).

- **Gifts** - This year, you can give up to \$12,000 each to your children or others without worrying about gift taxes. Check to see if you can make more gifts before the end of the year.
- **Business Planning** - Many regular corporations and all Subchapter S corporations must actually pay amounts due to shareholders, such as bonuses and rent, by year-end to be able to deduct them on the current year's return.

Member-in-Waiting

Bourgeois Bennett was delighted to welcome **Amanda Grace Litloff** to the family. Director Ralph Litloff and Karen's first child was born October 10. Congrats!

Are you Feeding the Pig?

By *Ralph A. Litolff, Jr., CPA – Director of Business Consulting Services*

Remember when you were a child and saving coins in a piggy bank was fun and easy? Well, the American Institute of CPAs and the state CPA societies have partnered with the Ad Council to reignite those savings habits with the “Feed the Pig” campaign. The national public service campaign will target Career Builders (25 to 34 years olds) and encourage them to take small steps to take control of their finances and build a solid financial foundation for the future.

Why? The average American spends \$1.22 for every \$1.00 they earn. And, according to the Federal Reserve, between 1983 and 2001, credit card debt for 25-34 year olds nearly tripled from \$3, 989 to \$12,000. Among those young adult households with incomes below \$50,000, nearly 1 in 5 with credit card debt is spending 40% of their income servicing debt, including mortgages and student loans. This group has the second highest rate of bankruptcy. And, while Career Builders are often experiencing milestone events such as marriage, children and caring for aging parents, their financial behaviors, while less established, tend toward debt accumulation.

“Feed the Pig” utilizes TV, radio, print, digital and outdoor advertising to build awareness of the wealth of information available at its website. Resources include “how to” articles on budgeting, retirement planning

and student loan repayments. Also on the site are calculators to compute savings goals and debt payoffs. There is even a free email service that will send you weekly savings tips. To find out more about how to change the financial behaviors of present and future members of this group, visit *Financial Literacy* at www.bourgeoisbennett.com or www.FeedthePig.org.



B *Recommends: The age group of Career Builders allows for significant long-term success from small, easy steps. Minimal improvements in saving and spending patterns can result in the accrual*

of hundreds of thousands of dollars over the long term. If you would like a speaker to address your organization regarding “Feed the Pig” or other aspects of financial literacy, please contact Ralph Litolff in our Metairie office.

Speak 2 U?

We are happy to discuss taxes and tax planning, personal and business financial health, information technology and other topics with community organizations. If you need a speaker for your upcoming meeting, please contact Janice Chaffin at 504.831.4949 or janice@bb-cpa.com.

Is It Time for Your Business' Post-Katrina Check-Up?

By *Ralph A. Litloff, Jr., CPA – Director of Business Consulting Services*

Over one year has passed since Hurricane Katrina and there is a “new normal” business environment that exists in the Gulf Coast region. The financial health of your business is critical to your future success. Is it time for a Post-Katrina Check-Up?



Statistics indicate that over 40% of all companies that experience a disaster never reopen. Of the companies that are able to reopen, approximately 25% of these will close within two years.

Small businesses often fail after being affected by a natural disaster because their owners are unaware of the various elements that may prohibit the business from experiencing growth and success during difficult and hectic times. Many times, small businesses are organized around the owner's specific area of expertise, such as operations, marketing or finance. Because the owner has a tendency to focus on that specific area of expertise, warning signs in other areas may go undetected.

Your business may appear healthy and your “business as usual” strategy may be effective. However, many

businesses are experiencing unhealthy symptoms resulting from the post-Katrina business environment. These symptoms can rapidly progress to cause serious problems. As with your body, the earlier an illness is identified, the better the prognosis will be and, quite often, at less cost.

Hopefully, your business was fortunate enough to survive the effects of Katrina. But, if you find yourself asking the following, you need a “Post-Katrina” business check-up:

- Why am I working longer hours yet earning lower profits?
- Why is my business no longer fun and exciting?
- Why can I no longer effectively control my costs of doing business?

Your “Post-Katrina” check-up should focus on the following areas:

Basic Planning – Does your business have a written statement and a revised business plan with attainable goals? Do you have a budget? Chances are that any business plans and/or budgets prepared prior to Katrina are no longer relevant.

Human Resources – Do you consider personnel one of the most important assets of your company? Are you cultivating the best employees for your business? Have you accepted that wages in excess of \$10 per hour for entry-level employees is now normal?

Working Capital and Debt – How much does your business have? Is the company burdened with excessive and unnecessary borrowing? Did your

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Home Security Goes Past Your Alarm System

By Les Nettleton – Director of Information Technology

Do you have a Personal Information Technology Disaster Recovery Plan? Do you run software on your home computer that protects you from identity theft? Do you backup your home data regularly?

These are a few of the questions you need to answer when performing a Home Security Review for your personal technology. Most people use a computer with no thought as to the significance of the data stored on the system. As technologists, we apply best practice measures to our firm. These same measures should also be addressed in the home environment.

Writing a simple plan that addresses your computer and its data is a perfect start. Note: this plan should be written. A lesson learned from Katrina is that evacuation is hectic and difficult enough without having to search your brain for the items to be performed. Here are things to include in your plan:

- Identify all important data and its location on your system. This should include documents, pictures and financial information. Once the data location is established, a backup should be instituted. Surprisingly, very few people even back up their personal computer's data on a regular basis. A hard drive crash can cause permanent loss of this information. All Microsoft operating systems

contain an onboard backup utility. For Windows XP, click Start - All Programs - Accessories and System Tools. You can backup to CD, DVD or USB Flash Drive. Remember to bring your most recent backups with you when you evacuate.



- Take your computer with you when you evacuate. Many friends and coworkers lost their computers in the subsequent Katrina floods. My home desktop computer evacuates with me. You only need to take the base unit. The monitor, keyboard, mouse and other peripherals can be replaced with little problem. Be sure to backup your hard drive before moving your system. Desktop systems are vulnerable to crashes if the system is dropped or bumped during your evacuation. For this reason and the added benefit of in-house mobility, home users are starting to purchase more laptop computers.

- Your home Internet Security software should include the following components: Malware Scanning (viruses, spyware and worm detection), phishing protection (identifies fraudulent websites seeking your personal information), and a firewall (blocks intrusion into your system). This software should *continued on page 9*

Is It Time for Your Business' Post-Katrina Check-Up?

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business have a line of credit available to cover costs of operations during the recovery period? If not, should you have a line of credit available in the event of a future disaster?

Customers – Do you know your customer base? Could the loss of a major client detrimentally affect your business? Is your customer base heavily concentrated in the Gulf Coast region? Could your customer base be diversified to minimize the impact on your business if another major hurricane strikes the region?

Suppliers – Does your company receive the best price and quality available from suppliers? Are there alternative suppliers available should your supplier be unable to deliver? Should you compile a list of available suppliers outside of the Gulf Coast region?

Banking – Is your company using the most favorable deposit and loan products? Is your bank headquartered in the Gulf Coast region? If another major hurricane strikes, would you be able to continue your banking activity? Would it be a good idea to at least open a

bank account at a financial institution that is located outside of hurricane-prone areas?

Whether you are starting a new company or have been in business for many years, a check-up may allow your company to remain among those that survive and prosper. Engaging a CPA to perform a “Post-Katrina” business review will help identify your company’s strengths and weaknesses and ensure your business is operating effectively and efficiently in this “new normal” operating environment. Goals will be established and a strategy will be designed to achieve long-term business success. This “Post-Katrina” check-up may be your business’ prescription for success!

B *Recommends: By allowing your business to undergo an annual check-up, you will be better able to uncover issues which can keep you from attaining your goals. For more information on an Annual Wellness Exam for your business, contact Ralph Litolff in our Metairie office.*

Home Security Goes Past Your Alarm System *Continued from page 8*

automatically update itself when connected to the Internet.

Of course you can never be totally secure. But by implementing these procedures into your home computing environment, you can sleep a bit better at night knowing that you’ve locked the deadbolt on your system.

B *Recommends: Contact Les Nettleton in our Metairie office if you have questions concerning your technological security needs.*

May We Boast?

We are proud that *The CPA Technology Advisor* recently awarded Bourgeois Bennett a technology productivity score of 395 - an excellent score! The score is based on an extensive questionnaire regarding our technology security, applications, training, best practices and more.



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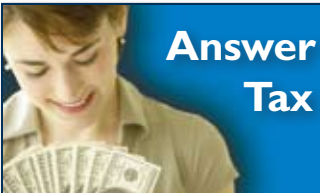
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appears in the address section of this newsletter in your email message.*

*Review and Outlook is written by our Director of Tax Services, Ted Stacey, CPA, to give you a brief overview of pertinent
topics. You should obtain professional advice before making financial or tax decisions.*



Answer to the Tax Quiz

Joe's gain on the sale of the stock is taxed at ordinary income tax rates since he didn't hold the stock for more than one year. He would have qualified for a maximum 15% federal tax rate on the gain if he had waited one more day before selling.

Quote of the Month Club

*It used to be that death
and taxes alone were inevitable.
Now there's shipping and handling.*

– Bert Murray