



**Idaho Association  
of Public  
Accountants**

# IAPA TODAY

**The Newsletter for Idaho's Accounting & Tax Professionals**

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[www.iapacct.com](http://www.iapacct.com)

## *2005 – It Was A Very Good Year!*

*by Barbara Neiwert, IAPA Executive Director*

As I watch the skies pour forth a foot or more of snow which our mountains so desperately need, I'm reminded of the way in which time takes care of all things. As inevitably as the seasons change and provide through their life-sustaining forces, so does your association change in reaction to the wants and needs of its members.

2005 has been a great year for the IAPA! We have sponsored five full seminars to keep you abreast of not only the latest tax changes for individuals and businesses, but to keep your office up to the challenge of competing in the 21st century with an excellent technology seminar from Bob Jennings.

We have partnered with Gear Up to provide discounts to members for Gear Up products such as QuickFinders and manuals. And we have most recently linked with HRinfoResources, a subscription service which can be of great value in time and information for yourself and your clients (see description information on Page 7.)

This coming year will be exciting as well! You've asked for an Estates & Trusts seminar, and we're planning one in

September. The big event of the year is IAPA's hosting of the annual convention. We typically take turns hosting a bi-state convention with our Oregon friends from the OAlA, but this year we have taken on a greater responsibility and will host not only OAlA, but WAA and MAPA. We are still awaiting word if our friends from Wyoming will join as well to make this a truly regional event!

Bob Jennings will present a 12-hour Technology Seminar in Post Falls, and you can attend the members Annual Meeting to share your input with the IAPA Board of Directors. On the entertainment side, the River Queen paddle boat will take us for a scenic journey along the Spokane River, and there will be activities for spouses while you're earning your CPE! A golf tournament or trip to Silverwood Theme Park tops off the convention. Please mark your calendars for June 14-17 and join us in Post Falls. Kill three birds with one stone by earning your CPE credits, networking with peers from surrounding states, and finding a bit of R-n-R time after a busy tax season!

Thanks for working to make your association great. Happy Holidays to you all!

## *Estimated Tax Burden Tables Cause Flap*

On November 29, NSA urged the IRS to withdraw its publication of Estimates of Taxpayer Burden tables that appear on page 79 of the 2005 Form 1040 instructions.

In a letter to IRS Commissioner Mark W. Everson, NSA Executive Vice President John G. Ams noted that the tables purport to set forth the amount of time a typical taxpayer would need to prepare a given return and conclude that a self-filer without tax software would spend less time than if they engaged the services of a professional tax preparer. Mr. Ams stated that this would "lead one to conclude that someone with a pencil and a piece of paper who sees a particular form once per year will spend less time than if they retained a paid professional who is not only familiar with the form but has likely prepared the same form thousands of times." Mr. Ams went on to state that the tables "make no distinction with respect to the sophistication of the self filing preparer; and ig-

*(Continued on page 2)*

### **Inside this issue:**

Tax Refund Scam	2
New Deduction	3
Mentoring Pays Off	4
Leadership Highlights	5
Bits 'n Pieces	7

## Internet scam does NOT produce tax refunds!

The IRS has issued a consumer alert about an Internet scam in which consumers receive an e-mail informing them of a tax refund. The e-mail, which claims to be from the IRS, directs the consumer to a link that requests personal information, such as Social Security number and credit card information.

This scheme is an attempt to trick e-mail recipients into disclosing their personal and financial data. The practice is called phishing for information.

The information fraudulently obtained is then used to steal the taxpayer's identity and financial assets. Generally, identity thieves use someone's personal data to steal his or her financial accounts, run up charges on the victim's existing

credit cards, apply for new loans, credit cards, services or benefits in the victim's name and even file fraudulent tax returns.

The bogus e-mail, claiming to come from "**tax refunds@irs.gov**," tells the recipient that he or she is eligible to receive a tax refund for a given amount. It then says that, to access a form for the tax refund, the recipient must use a link contained in the e-mail. The link then asks for the personal and financial information.

The IRS does not ask for personal identifying or financial information via unsolicited e-mail. Additionally, taxpayers do not have to complete a special form to obtain a refund.

If you receive an unsolicited e-mail purporting to be from the IRS, take the following steps:

- Do not open any attachments to the e-mail, in case they contain malicious code that will infect your computer.
- Contact the IRS at 1-800-829-1040 to determine whether the IRS is trying to contact you about a tax refund.

The IRS has seen numerous attempts over the years to defraud the public and the federal government through a variety of schemes, including abusive tax avoidance transactions, identity theft, claims for slavery reparations, frivolous arguments and more. More information on these schemes may be found on the criminal enforcement page at [IRS.gov](http://IRS.gov).



"IAPA Today" is the official publication of the Idaho Association of Public Accountants. Editor: Barbara Neiwert, P.O. Box 1106, Hailey, Idaho 83333, toll free 1-888-208-4272. Opinions expressed herein are those of the individual writer and not necessarily those of the Association or editor. Advancement of the profession of public accountancy is the principal aim of the publication.

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*(Continued from page 1)*

nore the complexity of a return even assuming the criteria the tables set forth."

Mr. Ams pointed out that, "The only way this can possibly be true is if the self-preparer ignores the time needed to actually obtain the numbers required to prepare a return properly and instead relies on estimates (or the numbers on last year's return). Any other interpretation makes no sense and is counter-intuitive, especially because reputable tax professionals know that the majority of time spent on a return is the process of compiling all of the figures necessary."

The letter also pointed out that the tables purport to set forth the fees charged by tax preparation professionals without any apparent thought to regional cost of living differences or in the type of schedules required for various types of income. "A taxpayer's costs for tax preparation services are likely to vary substantially based on where they live. Tax preparation professionals practicing within a large metropolitan area such as New York or Chicago must charge more than their counterparts living in small towns or farming communities because their overhead is far greater. Every area of the United States is different. For the IRS to issue a table suggesting to taxpayers how much a tax professional should charge to prepare a return is absolutely misleading and counterproductive."

Mr. Ams urged the Commissioner to "reconsider the publication of these estimates of taxpayer burden contained in the tables."

The National Society of Accountants and its affiliates represent 30,000 members who provide auditing, accounting, tax preparation, financial and estate planning, and management services to approximately 19 million individual and business clients. The majority of members are sole practitioners or partners in small to medium sized accounting firms.

## *Domestic Production Activities Deduction from the IRS*

The American Jobs Creation Act of 2004 added the domestic production activities deduction, a tax benefit for certain domestic production activities. This deduction provides a tax savings against income attributable to domestic production activities. The Act created new Internal Revenue Code section 199 and is available to corporations, individuals, and pass-thru entities such as S Corporations, partnerships, estates and trusts. For the pass-thru entities, the deduction is applied at the individual partner, shareholder, or similar level. This deduction is available for tax years beginning after December 31, 2004.

For 2005 and 2006, the deduction equals 3% of the lesser of: (a) qualified production activities income; or (b) taxable income for the taxable year. However, the deduction for a taxable year is limited to 50 percent of the W-2 wages paid by the taxpayer during the calendar year that ends in such taxable year. The deduction is phased-in; for 2007 through 2009 the percentage increases to 6% and for 2010 and after the percentage will be 9%.

Qualified production activities include manufacturing, producing, growing, and extracting tangible personal property, computer software, and sound recordings, and the construction and substantial renovation of real property including infrastructure. The production of certain films is also a qualifying activity as are certain engineering or ar-

chitectural services.

For gross receipts to be considered domestic production gross receipts that are used in calculating qualified production activities income, the gross receipts must be the result of a lease, rental, sale, license, exchange or other disposition of the property and the qualified production activity that created these receipts must have occurred in whole or in significant part within the United States. There is a safe harbor to determine if the property is produced in whole or in significant part within the United States. To qualify for the safe harbor, direct labor and related factory burden incurred by the taxpayer in the United States for the manufacture, production, growth or extraction of the property, must be at least 20% of the total cost of goods sold of the property. There are special rules for the production of films, computer software, sound recordings, utilities, and food and beverages. There are also special rules for construction and engineering or architectural services.

A taxpayer is required to determine the portion of its gross receipts that are domestic production gross receipts and the portion that are not domestic production gross receipts. The taxpayer must use a reasonable allocation method to make this determination. All of a taxpayer's gross receipts will be treated as domestic production gross receipts if less than 5% of the total gross receipts are not domestic production gross receipts.

Once domestic production gross receipts are determined, the taxpayer has to compute qualified production activities income. This is done by reducing domestic production gross receipts by the cost of goods sold that are allocable to such receipts, other deductions that are directly allocable and a ratable amount of indirect expenses. A simplified method for allocating costs (other than cost of goods sold) is available for businesses that have average annual gross receipts of \$25 million or less. Another simplified cost allocation method, the small business simplified overall method, is available to a qualifying small taxpayer. Under this method all costs, including costs of goods sold, are apportioned based on gross receipts. Generally, a small taxpayer is one that has average annual gross receipts of \$5,000,000 or less.

The 50 percent of W-2 wages limitation is based only on the wages of the taxpayer's common law employees. There are three methods provided to compute the W-2 wages. The simplest method computes wages using the total entries in Box 1 or Box 5 of the Form W-2.

Additional guidance is available in Treasury News Release JS-2201, [Treasury and IRS Issue Guidance on Manufacturing Deduction](#). Regulations are forthcoming and will provide more information when released.

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## *IRS Tidbits*

### *New Bankruptcy Law Adds Debtor Tax Responsibilities*

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA), which was effective October 17, adds new tax responsi-

bilities for bankruptcy filers.

Under the new law, debtors must not only comply with filing their returns but also provide copies of the tax returns or risk dismissal or conversion of their case.

Also under BAPCPA, in order to have their plan confirmed, Chapter 13 debtors must file all tax returns for the four-year period before the bankruptcy petition.

## Mentoring the Small-Business Owner *by Brian Hamilton, ProfitCents, Inc.*

The first day of my finance career was both exciting and inspirational. As a budding young credit analyst in a New England bank, I went to my first meeting for analysis trainees. Anxious and attentive, I listened to our credit manager describe our *real* job as bankers: "We are here to not only lend money but to help business owners succeed." The thought of becoming a trusted business advisor made my 22-year-old heart soar.

Alas, reality set in. I quickly discovered that we spent the vast majority of our time simply making credit decisions. Truthfully, most banks are money-selling factories. And this leaves most bank customers incapable of distinguishing one bank from another. This is a painful admission, because most finance people are competent professionals who have a genuine desire to help small-business owners succeed. Unfortunately, we are charged with generating revenue by lending money to good credits. Some banks have tried to implement far-reaching programs to help their bankers become mentors to clients, though most of these programs have met with only limited success. The challenge is that for any company to stay in business, they have to focus on the bottom line.

In the grand scheme, how can we, as financial professionals, keep fulfilling our company's revenue-generating goals while helping our clients succeed? It requires following some simple methods that require minimal time and effort.

One is to meld the credit process with the client engagement process by teaching small-business owners how to read financial statements. For most business owners, financial statements are cryptic. The Small Business Administration and the U.S. Department of Commerce have cited statistics showing that many businesses fail because their executives don't use financial information correctly. The rate of business failures is alarming, and one cannot help but think banks and accountants are unable to substantially reduce this rate.

In 1995, while sitting in the office of a CEO who ran an Inc. 500 company, I explained the importance of reviewing a balance sheet. He confronted me with the question, "Why do I even need a balance sheet? Each month, all I do is look at the income statement. If the reve-

nue column is larger than the expense column, I know I am doing fine." To some finance people, it may seem like a naive question; however, it is an excellent one. This CEO was a trained engineer who developed a revolutionary construction technology. In other words, he was an intelligent and capable businessman. Later, as with numerous businesses, his once highly-successful company failed. Several reasons contributed to the company's downfall, including its

"How can we, as financial professionals, keep fulfilling our company's revenue-generating goals while helping our clients succeed? "

inability to monitor important balance sheet trends, such as how changes in accounts were quickly depleting cash. Even accomplished finance professionals rely too heavily on an income statement when looking at credits — another factor currently surrounding EBITDA (earnings before interest, taxes, depreciation and amortization).

As finance professionals, you have the responsibility to sit down with your clients and review their financial statements carefully. Here are three analytical tools to consider:

### **Explain to customers the different key metrics to review.**

When reviewing financial statements, help the client to focus on those few factors, KPIs (key performance indicators), that, if managed properly, will propel the company in the right direction. A KPI for a pharmaceutical company will be the cost of goods sold. A KPI for a construction company is generally labor dollars as a percentage of sales. A KPI for a coin-operated laundry will be utility expenses as a percentage of sales. Those of us in finance have a tendency to miss the big picture. By becoming so involved with the details of financial statements, we get lost in the minutiae. Ingrain in your clients the key data integral to their success. In my entire banking and consulting career, I cannot recall any company that had to focus on more than five or six KPIs. If we can help the client focus on these few controllable metrics, then

the balance sheets and income statements will take care of themselves.

### **Tie the balance sheet and income statement together.**

Discuss how operating performance (income statement performance) can drive asset and liability performance (balance-sheet performance). Remember, most of your clients manage their business from a revenue and expense perspective. Owners do not realize they are either tacitly or directly controlling balance-sheet metrics. For example, they find it difficult to understand that the credit they receive is under their control and can be measured by fairly reliable metrics. If you can show how profits and losses transfer to the balance sheet, it is a great help to non-financial managers.

### **Help customers benchmark their performance against other companies in the industry.**

Many business owners do not always know that there is fairly reliable industry data enabling them to compare performance within an industry. Benchmarking is a great tool for projection analysis. Benchmarks show customers how their revenues and expenses will grow with the company. In some industries (like software), costs tend to decrease consistently as a percentage of revenue alongside the growth of sales. In others, such as manufacturing, costs will decrease while a company grows within its relevant operating range and then dramatically increase when the company expands beyond certain production points. This type of analysis can be of tremendous help to your small-business customer who is caught up in the day-to-day management of his/her enterprise.

Helping your customers learn how to read and use financial statements is easy to do and a good first step toward helping them reach their goals. It is neither time-consuming nor will it take away from your mission to make money for your firm. In fact, you may find that helping customers will increase their allegiance as well as generate cross-selling opportunities.

*Brian Hamilton is the Developer of ProfitCents. Based in Research Triangle Park, North Carolina, ProfitCents produces narrative text on what financial statement numbers and metrics mean in plain language. Hamilton can be reached at [brian.hamilton@profitcents.com](mailto:brian.hamilton@profitcents.com).*

## *IAPA members attend NSA leadership conference*

What better way to learn leadership than to be surrounded by leaders! This was exactly the situation I was placed in as I attended the NSA Leadership Networking & Training and Legislative Strategy Conference hosted by the Colorado Society of Accountants in Denver on October 7-9.

The new format of the Leadership Networking & Training and Legislative Strategy Conference allowed each person to choose six of the nine class offerings. There were three tracks of classes which focused on legislative skills, leadership training, and networking. The conference was packed with useful information regarding the establishment, management, and operation of organizations. Whether that organization is our state association, or business organization or even our own families, the tools are the same.

Naturally I was drawn to the Training Track, as that is an area in which I would like to grow. The classes in this track focused on leadership basics, parliamentary procedure, and team building. Some of the specific topics were communication, trust, and reaching your full

potential. Each of these classes offered something new, even to attendees with many years of leadership experience.

I also attended "Legislation 101" which got my feet wet in the legislative pool. From role playing with a legislator to the flow process of a bill, this class was an enlightening experience. I had expected to be somewhat bored with this topic, but found myself fascinated by the processes. I have a new-found appreciation for lobbyists!

As for the networking side, again, when you're surrounded by leaders you learn the qualities that they possess. I am hoping that some of it rubbed off on me.

I would like to thank the IAPA for providing me with such a valuable resource which will enable me to grow as a leader in our own organization.

***IAPA Member Jeniele Rowley***

My experience at the leadership conference was a real success. Not only did I learn many things that can apply to my career but also to me personally. Trust, communication and leadership were topics that I felt were most important.

To be able to become a leader you need to learn to first lead yourself. Good leadership grows through hard work, continuing education, training and experience. The best leaders are those who continue to advance their education and leadership skills. They are also people who want to facilitate their personal growth as well as the organizational growth. If the leadership is not strong the organization is limited. The success of the organization depends on the strength of its leaders and members.

Communication and trust are also important factors in leadership and the organization. We need to build trust and have good communications to be able to grow and be successful. We need to be effective and understand different needs. These skills are the foundation of leadership.

This was one of the best seminars that I have attended. I learned many valuable leadership skills that I can apply to my business career and personal life.

***IAPA Member Lupe Carrillo***

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## *IRS Releases Enforcement data for 2005*

IRS enforcement highlights for the fiscal year ended September 30, 2005, include:

- Enforcement revenues – the monies we get from IRS collection, examination, and document matching activities – increased by 10% to a record \$47.3 billion.
- Total individual returns audited increased by over 20% to 1,216,000 from 1,008,000 in 2004. The number completed is back to a level last achieved in 1998.
- Audits of individuals with incomes over \$100,000 surpassed 221,000, the highest figure in 10 years, and well over double the 92,000 completed in fiscal year 2001. The coverage rate in this category is still too low, but at 1.58% is double what it was in 2001.
- Audits of small businesses organized as corporations turned up after years of decline. 17,867 were completed in 2005 compared to 7,294 a year earlier.
- Audits of larger corporations – those with assets over \$10 million – also increased, up 14% from a year ago to 10,878. The coverage rate of 20% has rebounded significantly from that of 12% just two years ago.
- In IRS collection activities, levies and liens have recovered to pre-RRA '98 levels. Seizures remain a little-used tool but have increased from 2004.
- Criminal prosecutions recommended to the Justice Department did show a modest decline of 6% from a year ago. The decline is attributable to lower numbers of narcotics and money laundering cases. Tax and tax-related cases were flat year over year.

Commissioner Mark Everson emphasizes that these gains have been made while the IRS has continued to make strides in customer services. This year for the first time over half of all individual returns were filed electronically. IRS toll-free tax law accuracy hit a high of 89%. Telephone level of service was 83%, well above the 62% of just 4 years ago. And customer satisfaction with the IRS toll-free service was a record 95%.

## New Program! Gear Up Self-Study Products

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In addition to the tried-and-true topics we offer each year, Gear Up keeps a close eye on the changing federal and state-based CPE needs of tax and accounting professionals. Current topics include: Gear Up 1040, Business Entities, Accounting, Technology, Fraud Detection, QuickBooks®, Practice Management, Estates and Trusts, Farm and Ranch, Auditing Nonprofit Organizations, New York Tax Update, New York Professional Ethics, CalFed (combined California/Federal tax update), California Tax Update, and California Professional Ethics.



### Quickfinder Handbooks

As part of the Partner Loyalty Program, you will be able to earn MORE donation revenue for your association when you purchase your Quickfinder Handbooks this year! You can see more about this tried-and-true product line at [Quickfinder.com](http://Quickfinder.com), and obtain a special order form directly from your association. Use the discount code below when ordering Quickfinder products.

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\*Specialty topics: any topic other than 1040 or Business Entities. Products must be purchased at the same time.

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**December 2005**

## Bits 'n Pieces



### New IAPA Member Benefit

IAPA members can take advantage of great savings in both time and money by subscribing to a comprehensive resource and reference center, HRInfoResources.

While IAPA members receive a generously discounted rate, a portion of your subscription returns to us! And a free, two-week trial offer affords you the luxury of canceling your subscription if this resource isn't right for you.

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Go now to [www.iapacct.com](http://www.iapacct.com) and click on the **HRInfoResources banner** to receive your free trial. Get ready for tax season with all the tools you'll need right at hand!

As an IAPA member, you'll receive this resource for \$125 a year, a special member discount of \$200 off the \$325 annual subscription price.

If you have any questions, contact HRInfoResources at 1-800-339-8198 or [sales@hrref.com](mailto:sales@hrref.com).

### More IAPA Savings

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This association discount will provide you with a 10-20 percent savings on all the QuickFinder handbooks, self-study courses, products, Accountant City, and Independent Tax Practitioners Network. You must order by phone or fax to received the discounts.

Not only will you net the discount, but the IAPA will receive a donation for each transaction!

### 2006 Inflation Adjustments

Personal exemptions and standard deductions will rise, tax brackets will widen, and individuals will be able to make larger tax-free gifts in 2006, due to inflation adjustments by the IRS.

By law, a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits, affecting virtually every taxpayer, are being modified for 2006. Key changes affecting 2006 returns filed in 2007 will include:

- The value of each personal and dependency exemption available to most taxpayers will be \$3,300, up \$100 from 2005.
- The new standard deduction will be \$10,300 for married couples filing jointly, \$5,150 for singles, and \$7,550 for heads of households. Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions.
- Tax-bracket thresholds will increase for each filing status. For a married couple filing jointly, for example, the taxable-income threshold separating the 15% bracket from the 25% bracket will

be \$61,300, up from \$59,400 in 2005.

- The annual gift exemption will be \$12,000, up from \$11,000.

For detailed information, go to [www.irs.gov/irb/2005-47\\_IRB/ar13.html](http://www.irs.gov/irb/2005-47_IRB/ar13.html).

### New Member Welcomed!

We'd like to welcome Nelda Hamner of Ashton as the newest member of the IAPA. Glad to have you aboard!

### Upcoming IAPA Courses

1-888-208-IAPA

#### -2006-

June 14-17	<b>Annual Convention</b> Post Falls, ID Four-states attending with IAPA, OAIA, WAA & MAPA
June 15-16	<b>Technology Seminar</b> Bob Jennings, 12 CPE Post Falls
Sept. 18-19	<b>Gear Up Business Entities</b> , Post Falls
Sept. 27	<b>Estates &amp; Trusts</b> **Tentatively set for this date, Jerome
Sept. 28-29	<b>Gear Up Business Entities</b> , Twin Falls
Oct. 26-27	<b>Gear Up 1040</b> Idaho Falls
Nov. 2-3	<b>Gear Up 1040</b> Boise



**Idaho Association of  
Public Accountants**

PO Box 1106  
Hailey, Idaho 83333-1106

Phone: 1-888-208-IAPA

Fax: 208-788-9530

Email: [iapa@sunvalley.net](mailto:iapa@sunvalley.net)

The page features several clusters of stylized, intricate snowflakes in various shapes and sizes, scattered around the central text. These snowflakes are rendered in a light gray, semi-transparent style, giving them a soft, ethereal appearance. They are arranged in two main groups: one in the upper left and one in the upper right, with another group in the lower left and one in the lower right. The central text, "Season's Greetings", is written in a decorative, serif font with a white fill and a dark outline, making it stand out against the background.

**Season's Greetings**