

Advantage

Quarterly News & Advice
from Advantage Payroll Services

Payroll Quarterly



THIRD QUARTER 2006

Electronic Tax Compliance (ETC)

Compliant. And worry-free.

Offered to any full tax filing client in good standing, this service covers the non-payroll tax deposits that have been mandated as part of the Electronic Federal Tax Payment System (EFTPS). These include corporate (1120), fuel, excise and various 990 series payments.

To avoid late payments and penalties, all you have to do is specify the taxes you want to use ETC for, and the date(s) your tax payments are due. Then you can relax — the rest is up to us!

How does it work?

You must have a compatible fax machine to participate in ETC. Along with a credit verification, Advantage will initiate a test of your fax machine during the enrollment period.

Around the middle of every month, Advantage faxes a notice of liability to our clients. This fax contains a payment notification for the following month and a payment confirmation for the previous month. The fax gives clients the opportunity to review the information for accuracy and make changes if necessary. If Advantage does not hear back, the noted deposits are made.

Three days prior to the deposit date, Advantage's tax paying system will initiate an ACH debit to the client account in the amount of the tax due. A fax version of the client statement is also sent out simultaneously for confirmation, giving the client one final opportunity to call and cancel the payment. However, in order to make the cutoff, Advantage must initiate the payment the day before it is due.

CUSTOMER PROFILE

Boston law firm Curley & Curley relies on Advantage Payroll for non-payroll tax obligations.

Located in the heart of Boston, the law firm of Curley & Curley has been serving clients for over 50 years. Just as their clients rely on them for quality, cost-effective representation, Curley & Curley relies on Advantage Payroll for all their payroll needs. Early this spring, Bookkeeper Marian Burnham signed up for Advantage's Electronic Tax Compliance service (ETC). She says, "I know we could have done this on our own, but it is one less thing for me to have to worry about. For our office, ETC is the way to go."

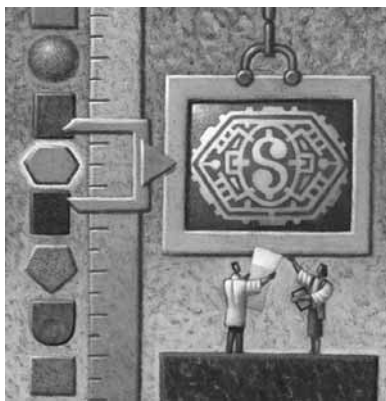


With an office to manage and 15 employees to pay, Marian was looking for the easiest way to track and meet their non-payroll tax obligations. Advantage's ETC was the answer. She receives a fax in the middle of the month with payment notification for the following month and a confirmation of any previous tax payments made on their behalf. Marian then has an opportunity to review her upcoming tax payment and make any changes. Three days

before the law firm's taxes are due, Advantage prepares the ACH transfer and faxes a confirmation. This gives Marian a final opportunity to review. On the day before taxes are due, payment is initiated.

ETC makes meeting non-payroll tax obligations such as corporate (1120), fuel, excise, and 990 series taxes easy. The law practice of Curley & Curley can spend their time doing what they do best, representing their clients.

For more information about ETC and our other products and services, contact your local Advantage Payroll Services office.



INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)

TRADITIONAL IRA CONTRIBUTION AND DEDUCTION LIMIT

If you will be age 50 or older in 2006, the most that can be contributed to your traditional IRA for 2006 will be the smaller of:

- \$5,000 or
- Your taxable compensation for the year.

ROTH IRA CONTRIBUTION LIMIT

If you will be age 50 or older in 2006 and contributions on your behalf are made only to Roth IRAs, your contribution limit for 2006 will generally be the smaller of:

- \$5,000 or
- Your taxable compensation for the year.

However, if your modified AGI is above a certain amount, your contribution limit may be reduced.

MODIFIED AGI LIMIT FOR TRADITIONAL IRA CONTRIBUTIONS INCREASED FOR A MARRIED COUPLE FILING A JOINT RETURN

For 2006, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA will be reduced (phased out) if your modified adjusted gross income (AGI) is:

- More than \$75,000 but less than \$85,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$50,000 but less than \$60,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

ADDITIONAL SALARY REDUCTION CONTRIBUTIONS TO SIMPLE IRAs FOR PERSONS AGE 50 OR OLDER

For 2006, additional salary reduction contributions can be made to your SIMPLE IRA if:

- You will be age 50 or older in 2006, and
- No other salary reduction contributions can be made for you to the plan for the year because of limits or restrictions, such as the regular annual limit.

For 2006, the additional amount is the smaller of:

- \$2,500 or
- Your compensation for the year reduced by your other elective deferrals for the year.

QUALIFIED ROTH CONTRIBUTION PROGRAMS

For tax years beginning after 2005, 401(k) and 403(b) plans can create a qualified Roth contribution program so that participants may elect to have part or all of their elective deferrals to the plan designated as after-tax Roth contributions.

QUALIFIED PLANS

Limits on contributions and benefits.

For 2006, the maximum annual benefit for a participant under a defined benefit plan has increased to the smaller of:

- 100% of the participant's average compensation for his or her highest 3 consecutive calendar years, or
- \$175,000 (subject to cost-of-living increases).

For 2006, a defined contribution plan's maximum annual contributions and other additions (excluding earnings) to the account of a participant has increased to the smaller of:

- 100% of the compensation actually paid to the participant, or
- \$44,000 (subject to cost-of-living increases).

Compensation limit.

For 2006, the maximum compensation used for figuring contributions and benefits has increased to \$220,000.

Elective deferrals (401(k) plans).

For 2006, the limit on elective deferrals for participants in 401(k) plans and SARSEPs (excluding SIMPLE plans) is \$15,000.

Catch-up contributions.

For 2006, a plan can permit participants who are age 50 or older at the end of the calendar year to make catch-up contributions of up to \$5,000. The catch-up contribution a participant can make for a year cannot exceed the smaller of:

- \$5,000 or
- The excess of the participant's compensation over the elective deferrals that are not catch-up contributions.

SIMPLIFIED EMPLOYEE PENSIONS (SEPs)

Deduction limit increased.

The maximum deduction for contributions to a SEP remains unchanged at 25% of the compensation paid or accrued during the year to your eligible employees participating in the plan. However, for 2006, the maximum combined deduction for a participant's elective deferrals and other SEP contributions has increased to \$44,000.

INDIVIDUAL RETIREMENT ACCOUNTS

"IRAs" continued from Page 2

Contribution limit increased.

For 2006, the annual limit on the amount of employer contributions to a SEP has increased to the smaller of:

- 25% of an eligible employee's compensation or
- \$44,000 (subject to cost-of-living increases).

Compensation limit.

For 2006, the maximum amount of an employee's compensation you can consider when figuring SEP contributions (including elective deferrals) and the deduction for contributions has increased to \$220,000.

SIMPLE PLANS

Catch-up contributions.

For 2006, a SIMPLE plan can permit participants who are age 50 or older at the end of the calendar year to make catch-up contributions up to \$2,500.

403(B) PLAN CHANGES

Increase in the limit on elective deferrals.

For 2006, the limit on elective deferrals has increased to \$15,000.

Catch-up contributions.

If you are age 50 or older by the end of 2006, you may be permitted to make additional catch-up contributions of up to \$5,000 to your 403(b) plan.

Limit on annual additions.

For 2006, the limit on annual additions has increased to \$44,000.

CATCH-UP CONTRIBUTIONS TO THRIFT SAVINGS PLAN (TSP)

Participants in the TSP who are age 50 or older at the end of the year generally can make catch-up contributions to the plan. For 2006, the maximum catch-up contribution has increased to \$5,000.

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PURCHASERS

Of GM Hybrids Still Qualify for Tax Credit

IR-2006-122, AUG 9, 2006

WASHINGTON - The Internal Revenue Service announced that purchasers of General Motors Corp. qualified vehicles may continue to claim the Alternative Motor Vehicle Credit. The announcement comes after the IRS concluded its quarterly review of the number of hybrid vehicles sold.

GMC sold 1,388 qualifying vehicles to retail dealers in the quarter ending June 30, 2006. The credit amount and make and model of qualified vehicles sold are:

- GMC Silverado Hybrid 2WD, Model Years 2006 and 2007 — \$250
- GMC Silverado Hybrid 4WD, Model Years 2006 and 2007 — \$650
- GMC Sierra Hybrid 2WD, Model Years 2006 and 2007 — \$250
- GMC Sierra Hybrid 4WD, Model Years 2006 and 2007 — \$650
- Saturn Vue GreenLine, Model Year 2007 — \$650

Purchasers of GMC's qualified vehicles may continue to rely on the certifications concerning the vehicles' qualification for the credit. Consumers seeking the credit may want to buy early because the full credit is only available for a limited time.

Taxpayers may claim the full amount of the credit up to the end of the first calendar quarter after the quarter in which the manufacturer records its sale of the 60,000th vehicle. For the second and third calendar quarters after the quarter in which the 60,000th vehicle is sold, taxpayers may claim 50 percent of the credit. For the fourth and fifth calendar quarters, taxpayers may claim 25 percent of the credit. No credit is allowed after the fifth quarter.



IRS Launching Online Payment Agreement Application

IR-2006-119, JULY 31, 2006

WASHINGTON - Tax professionals are helping launch a new system that will allow many individuals who owe delinquent federal taxes to apply online for a payment agreement, the IRS announced today.

The IRS is implementing the new Online Payment Agreement (OPA) application through national partnerships with the tax professional community. Members of tax professional organizations are using OPA to apply for payment agreements for clients who owe taxes. This application will eliminate the need to write or call the IRS toll-free number for assistance. When fully implemented, OPA will provide an easier way for taxpayers on their own or with the help of tax professionals to voluntarily resolve tax liabilities.

"This new system reduces taxpayer burden by providing the convenience of online service during extended hours and on weekends," said IRS Commissioner Mark W. Everson. "Taxpayers can set up an agreement and arrange for payment options including automatic payments through direct debit or payroll deduction."

The IRS estimates that 90 percent of taxpayers who qualify for a payment agreement will be able to obtain one through OPA once the application is available to the general public later this year.

CONTACT US

For sales and product information, contact your local Advantage office
or to locate the office nearest you, call toll-free:

1-877-777-9567

You can e-mail your questions or comments,
including those regarding Payroll Quarterly, to:

info@advantagepayroll.com

Log on to our Web site at

www.advantagepayroll.com

where, in addition to a wealth of information on
Advantage Payroll and its services, there is a form you
can fill out to contact us online.

We look forward to hearing from you!

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