



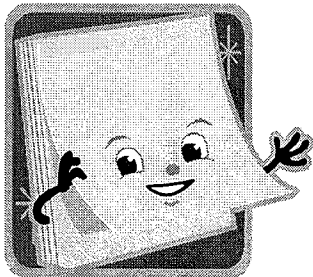
Client NEWSLETTER

July 2005

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2005 Mileage Rates

Business	40.5 cents/mile
Medical	15.0 cents/mile
Charitable	14.0 cents/mile
Moving	15.0 cents/mile

Important Dates

Extended individual returns
due August 15, 2005.

Extended corporate returns due
September 15, 2005.

Extended partnership/fiduciary
returns due August 15, 2005.

Individual federal/state esti-
mated tax payments due Sep-
tember 15, 2005, January 16,
2006, and April 15, 2006.

Bankruptcy Abuse Prevention and Consumer Protection Act of 2005

On April 25, 2005, President Bush signed into law the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. Most of the provisions within this Act will start on October 17, 2005. This act was developed with the intent to improve bankruptcy law and practice, while focusing on restoring personal responsibility and integrity within the bankruptcy system.

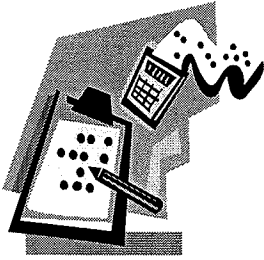
A major change affecting individuals filing for bankruptcy centers on the "means test". This test is designed to determine whether or not a debtor has the ability to pay their debts. Depending on the results of the test, a debtor may qualify for reorganization under Chapter 13, or liquidation under Chapter 7. The "means test" focuses on the amount of money that can be paid towards debt over a five-year period. That is, the amount of income remaining after subtracting reasonable expenses, as specified under Internal Revenue Service standards.

The abuses that were taken under past bankruptcy laws have been further addressed in the Act of 2005. For example, under previous laws, a debtor could file for Chapter 7 bankruptcy to discharge unsecured debts and then file for Chapter 13 to discharge any secured debt. Now debtors have a waiting period of three years after receiving a discharge under Chapters 7, 11, or 12 and a waiting period of two years after receiving a discharge under Chapter 13 before they can file for another form of bankruptcy. The waiting period was also extended for subsequent Chapter 7 discharges from six years to eight years.

The act has also provided individuals with additional exclusions from their bankruptcy estate, meaning certain assets do not have to be used to pay off debt. Retirement accounts that are tax-exempt under the Internal Revenue Code are now exempt from a debtor's estate. Education savings made through Education IRAs or Section 529 plans are excluded as well. For education savings accounts, there are specific rules and limitations that may limit the amount of the exclusion.

An effort was also made to strengthen the compliance and professionalism of debt relief agencies. A number of new regulations have been instituted with the hope of improving the integrity and quality of service that debt relief agencies provide. All of the changes resulting from the Act of 2005 are intended to strengthen the bankruptcy system and stress personal responsibility for debt problems in the future.





What does the future hold?

Lately there have been bills introduced on the State and Federal levels that may affect your tax return if they are passed.

Tuition may feel a little more affordable ~

A bill has been introduced that will improve the Lifetime Learning Credit, the Hope Credit, and the Tuition and Fees Deduction. If this bill gets passed the eligibility limits and benefits will be increased.

New tax form for seniors ~

In addition to the 1040, 1040EZ, and 1040A, a new tax form may be on the horizon. If passed, Form 1040S will be a tax form for senior citizens similar to the 1040EZ. The new form may be used even if income includes social security, qualified retirement plans, and interest and dividends.

Tax benefits for health benefits ~

Taxpayers who employ less than 25 full-time employees and provide at least 80 percent of total premiums for health insurance will receive a tax credit of 4 percent of the premiums paid by the taxpayer. Another bill introduced will provide a credit equal to 5 percent of premiums paid for health insurance of the taxpayer, spouse, or dependent. Lastly, if passed, a deduction will be available up to \$10,000 for expenses incurred by a taxpayer during the process of donating human organs to another human being.

Saving the environment might save you taxes ~

One bill introduced to the state legislature would exempt alternative fuel vehicles from the motor vehicle purchase and use tax. Another bill would provide a credit for 5 percent of allowable costs for the construction or rehabilitation of eligible environmentally friendly "green" buildings.

Big mortgages might lose tax benefits ~

A bill has been introduced to the State that limits the mortgage interest deduction to \$20,000. Additional taxes raised as a result from this limit would be used to create the Homelessness Prevention Special Fund.

Provide your own child care and get paid ~

Do you wish you could stay home with the kids, but don't want to lose the childcare tax credit? Good news! A bill has been introduced that would provide a \$1,000 credit to parents with a child under six who do not put the child in a daycare program outside the home.

Social Security

Income Tax on Social Security ~

When "provisional" income (adjusted gross income plus tax-exempt interest plus $\frac{1}{2}$ of social security benefits) exceeds a base amount of \$32,000 for married taxpayers filing jointly (\$25,000 for single taxpayers), up to 50% of social security benefits are taxable. This taxable percentage can increase to 85% if "provisional" income exceeds \$44,000 (\$34,000 for single taxpayers).

Reduction in Social Security Benefits caused by Early Retirement ~

Workers who choose to receive social security benefits before reaching the age of full retirement (65 $\frac{1}{2}$ years of age) may have to repay some of their social security benefits if they have labor earnings exceeding \$12,000 in 2005. For each \$2 of earnings above the threshold, benefits will be reduced by \$1.



In the year an individual reaches full retirement age, the reduction in benefits becomes \$1 for every \$3 earned above \$31,800. Subsequent to that year, an individual may earn unlimited amounts of income without the risk of benefits being reduced.

The income limitation only applies to earned income, such as wages, an example of this would be:

R is age 63 drawing \$10,000 in social security benefits per year. R earns \$26,000 in wages in 2005. R has excess earnings of \$14,000 (\$26,000-\$12,000 threshold). R's social security benefits would be reduced by \$7,000 (\$14,000 x 50%). R's benefits would be reduced to \$3,000 (\$10,000 minus \$7,000).

If actual earned income becomes more than what was estimated for any given year, the change should be reported to the Social Security Administration. The SSA will adjust the benefits paid, preventing the need to repay benefits. At year end, a reconciliation between the amount of earned income and benefits paid is performed by the SSA. If an individual has received more benefits than they were entitled to, the benefits must be paid back either by check, credit card, or by reducing benefits in the following year. However, if an individual has not received all of the benefits they were entitled to, the SSA will pay out those benefits.