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CLIENT NEWSLETTER, MAY 2006

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*Business Advisor*

*Tax Planning*

*Tax Preparation*

*Retirement Planning*

*Accounting*

*Financial State-  
ments*

*Personal Financial  
Planning*

## *Memberships*

American Institute of  
Certified Public Ac-  
countants

Colorado Society of  
Certified Public Ac-  
countants

Society of Certified  
Senior Advisors



## Welcome New Clients!

I would like to extend a warm welcome to clients new to my firm during the past year. Many people think that the only thing I do for clients is tax return preparation. I do many other things, though. Here are some examples:

I help retirees and high-net worth individuals design asset-disposition strategies to minimize estate taxes (assuming that the estate tax isn't repealed). I also help the personal representatives (executors) of estates filing estate tax returns when required (though attorneys usually do this), and estate income tax returns.

Business owners ask me how to get their accounting system to produce reports that are useful to them in running their businesses. I also do special projects, such as preparing information for insurance claims or loan applications.

I will help clients design their portfolio to take into consideration their tolerance for risk and their stage in life (see article below for some current ideas). Because I'm not a Registered Investment Advisor, I cannot recommend specific securities; I suggest you contact your broker for ideas.

## Interest Income Excluded from Taxation

I've been on an "interest" kick the last few months. Back in October I talked about fixed income investments; in December I discussed the types of interest that can be deducted. Now I'll turn to the types of interest income that have benefits either for federal or state taxation. The basic rule is that all interest income is taxable unless there is a specific provision excluding it from taxation.

**Municipal Bond Income.** This is the one most people are familiar with (by name if not by actual investment). These are excluded from taxation for federal income tax purposes, with two notable exceptions:

- ⇒ People who receive social security income need to include their income from municipal bonds to determine how much of their social security income is taxed. You should not be invested in municipal bonds unless your social security income is fully subject to tax (i.e., 85% of the income is taxed).
- ⇒ People who receive income from municipal bonds issued as "private activity" bonds and who are subject to the Alternative Minimum Tax need to include that income in computing the AMT. That means the yield needs to be comparable to U S Government bonds to be worthwhile. Remember that more of you will have to cope with this problem.

How municipal bond income is treated on your state return depends on two factors:

- ◆ The state that issued the bond;
- ◆ The state you live in.

Generally, income from municipal bonds issued by governments in your home state is not taxed there. Other municipal bond income is taxed in the home state. Things can get complex when you move to another state, since what is home-state interest in one is not in the other.

When you invest in mutual funds that generate income from municipal bonds, states have different rules for whether the income from home-state bonds can be excluded. Some states, like Colorado, allow an exclusion no matter how little of the income is from

Colorado sources. A typical national muni bond fund will have 2-3% of its income from Colorado sources. Other states require that a certain percent of the income has to be from that state before you get any benefit.

**Series EE or I US Treasury Bonds.** People who redeem these treasury bonds to pay for higher education expenses, either for themselves or their dependents, can exclude the interest from federal taxation (these are already exempt from state tax). In order to get a full exclusion, married couples have to have income of under \$91,850 (for 2005), though they will get some benefit at incomes under \$121,850.

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## Recent classes

In December I took a class that covered the life cycle of a small business from the initial concept through growth and its end through sale, liquidation, or merger. One interesting thing I learned is why the LLC is the entity of choice for most small businesses: It provides liability protection, but doesn't have the state-law requirements for boards of directors, minutes of meetings, etc. that corpora-

tions have (Wyoming has a "small corporation" statute that does not require these actions). Most "mom-and-pop" businesses are run like LLCs even if they are corporations. If the corporate structure seems best from a tax perspective, the LLC can elect to be taxed as a corporation (I've helped at least one business go through this transition).

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## New Web-based File Transfer Capability

You can now send large files (such as your accounting file) to me without using email or outside delivery services. You can also see, download, and print your tax returns, or other files. All of this resides on one of the computers in my office (an old Macintosh 6100, running the "Classic" operating system OS9), and a program called Rumpus®.

If you know how to use your browser, access should be pretty easy, even for novices.

Each of you will have a secure folder on the computer. To access it, go to my web page; on the left side click on the link to "Send or Pick Up Files." That brings you to a page describing

the process; from there, click on the log-in picture. Typically, your log in ID is the first last name on your tax return (first word in the company name for businesses); the password is your social security or employer identification number.

Even someone who does not have a folder can send me a file anonymously, though you can't see the results of the upload.

Go ahead... try it at:

[Tom Healy's Web File Manager](#)

The above link will work from a PDF copy of this newsletter.

IRS Circular 230 requires that certain steps be taken by a tax advisor before his or her written tax advice may be relied upon to avoid IRS penalties. Accordingly, this newsletter is not intended by me to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax penalties that may be imposed. Further, any written statement in this newsletter relating to a federal tax transaction or matter may not be used by any person to support the promotion or marketing of, or to recommend, any federal tax transaction or matter addressed herein.

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