In this issue...

Medicaid Eligibility Rules Change

Paying Individual Estimated Taxes

2006 Mileage Rates

IRA and SEP Plan Limits

Retirement Plan Limits

The NOHRE REPORT

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MEDICAID ELIGIBILITY RULES CHANGE

On February 8, 2006, the President signed the Deficit Reduction Act of 2005. Among other things, the Act made significant changes in the Medicaid eligibility rules.

Medicaid is a joint federal/state program that provides health insurance coverage to low-income children, seniors and people with disabilities, as well as providing nursing home care for those who qualify. While the federal government sets Medicaid rules, each state runs its own program, so specific requirements vary based upon your state of residence. Information on the Minnesota program is available on the Internet at http://www.dhs.state.mn.us/main/groups/healthcare/documents/pub/DHS_id_006254.hcsp.

General Federal Guidelines

To be eligible for Medicaid, a nursing home resident may have no more than $2,000 in "countable" assets. The spouse may retain no more than half of the couple's joint countable assets up to $99,540. The spouse may keep the first $19,908 even if that is more than half of the total. All assets are countable except for certain specified assets. The most common "non-countable" assets include:

- certain household and personal goods,
- one motor vehicle,
- your primary residence,
- prepaid funeral plans and a small amount of life insurance, and
- capital and operating assets of a trade or business.

Another rule for Medicaid eligibility is a penalty for transferring assets. The penalty is a period of time during which a person who transfers assets without receiving fair value in return will not be eligible for Medicaid. The length of the penalty period is the value transferred divided by the average monthly cost of a nursing home in your state. Periods of ineligibility for Medicaid do not apply to transfers to certain persons. For example, ineligibility will not be triggered by transfers to your spouse or your child who is blind or disabled.

Nursing home residents must pay all of their income, less certain expenses, to the nursing home. If married, the income of the spouse who is not in the nursing home (the community spouse) is not counted in determining eligibility. Only the applicant's income is counted.

The New Rules

The significant rule changes in the Deficit Reduction Act include:

- The look-back period for determining whether assets have been transferred for less than fair value has been extended from 36 to 60 months.
- The start date for the penalty period has changed. The penalty period will now start on the later of:
  - (1) the first day of the month in which assets were transferred for less than fair value, or
  - (2) the date the individual is eligible for medical assistance.
- There is a $500,000 ceiling on the amount of home equity which may be considered a non-countable asset. States are permitted to set a higher ceiling, but the maximum is $750,000.
- The State will be designated as the remainder beneficiary on annuities owned by a Medicaid long-term care applicant and/or spouse.

Due to the complexity of the Medicaid provisions, you should seek appropriate legal advice when reviewing your options. Make sure your attorney is experienced in Medicaid as well as estate planning.

PAYING INDIVIDUAL ESTIMATED TAXES

The federal and state income tax systems are "pay as you go" systems. In general, you're required to pay tax over the course of the year rather than waiting until April 15th.

Most people meet the requirement by withholding tax from their wages or retirement accounts. If you have significant amounts of investment income or other types of income that aren't subject to withholding, you may incur a penalty if you don't make quarterly payments of estimated tax or adjust your withholding allowances.

To avoid underpayment penalties the general rule is you must make estimated tax payments if your withholding doesn't cover 90% of your 2006 tax liability, with the following exceptions:

1) No estimates are required if the amount due after subtracting withholding and credits will be less than $1,000 for federal and $500 for Minnesota; or

2) No estimates are required if your withholding and credits are equal to your prior year's tax.

   However, if your adjusted gross income (AGI) for 2005 was more than $150,000 ($75,000, if married filing separately), then your withholding and credits must be equal to 110% of your 2005 federal and state tax liability.

Estimated tax payments are to be made in four equal payments. If the total tax paid through withholding and estimated tax payments does not meet one of the exceptions, underpayment penalties will apply.

The current penalty rate is 7% for federal and 6% for Minnesota, and is calculated only on the amount that should have been paid to meet one of the exceptions.

2006 MILEAGE RATE CHANGES

Beginning January 1, 2006, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

Business miles	44.5 cents
Medical & moving miles	18 cents
Charitable miles (not Katrina related)	14 cents
Charitable miles (Katrina related)	32 cents
Charitable miles (Katrina related, if reimbursed)	44.5 cents

2005-2006 IRA and SEP PLAN LIMITS

	2005	2006
Traditional IRA and Roth IRA under age 50	$ 4,000	$ 4,000
Traditional IRA and Roth IRA age 50 and over	4,500	5,000
SEP 25% of earnings (20% of net self-employment income)		
Maximum Earnings	210,000	220,000
Maximum SEP Contribution	42,000	44,000

2005-2006 RETIREMENT PLAN LIMITS

	2005	2006
Maximum Salary	$ 210,000	$ 220,000
Maximum 401(k) Deferral	14,000	15,000
401(k) Age 50+ Catchup	4,000	5,000
Maximum 403(b) Deferral	14,000	15,000
403(b) Age 50+ Catchup	4,000	5,000
Maximum Defined Contribution Limit	42,000	44,000
Maximum Deferral to a SIMPLE	10,000	10,000
SIMPLE Age 50+ Catchup	2,000	2,500

TECHNOSLANG FOR THE DIGITAL AGE

Food coupons: Twenty-dollar bills from an ATM.

Mouse potato: The "wired" version of the couch potato.

Swiped out: Describes an ATM card that doesn't work because the magnetic strip is worn away from extensive use.

Ohnosecond: That miniscule fraction of time in which you realize that you've just made a BIG mistake.

Alpha geek: The most knowledgeable, technically proficient person in an office or workgroup.

PAYROLL RATES AND EARNINGS

PAYROLL RATES	2006	2005
Social Security Rate - Employer	6.20%	6.20%
Social Security Rate - Employee	6.20%	6.20%
Social Security Wage Base	$ 94,200.00	$ 90,000.00
Maximum Social Security Tax - Employee	$ 5,840.40	$ 5,580.00
Medicare Rate - Employer	1.45%	1.45%
Medicare Rate - Employee	1.45%	1.45%
Medicare Wage Base	No Limit	No Limit
Maximum Medicare Tax - Employee	No Limit	No Limit
Self-Employment Social Security Rate	12.4%	12.4%
Self-Employment Social Security Wage Base	$ 94,200.00	$ 90,000.00
Maximum S.E. Social Security Tax	$ 11,680.80	$ 11,160.00
Self-Employment Medicare Rate	2.9%	2.9%
Self-Employment Medicare Wage Base	No Limit	No Limit
Maximum Self-Employment Medicare Tax	No Limit	No Limit
Federal Unemployment Rate	.8%	.8%
Federal Unemployment Wage Base	$ 7,000.00	$ 7,000.00
Maximum Federal Unemployment per Employee	$ 56.00	$ 56.00
Minnesota Unemployment Rates	.4-11.00% (5)	.68-11.00%
Minnesota New Employer Rate (Non-Construction)	2.32% (5)	2.88%
Minnesota Unemployment Wage Base	$ 24,000.00	$ 23,000.00
401(K) EXCLUSION		
Maximum Contribution	$ 15,000.00	$ 14,000.00
Catch-Up Contribution (1)	$ 5,000.00	$ 4,000.00
IRA CONTRIBUTION		
Maximum Contribution	$ 4,000.00	$ 4,000.00
Catch-Up Contribution (1)	$ 1,000.00	$ 500.00
MINIMUM WAGE - HOURLY RATES		
Federal Regular Wage	$ 5.15	$ 5.15
Federal Opportunity Wage (2)	$ 4.25	$ 4.25
Minnesota Large Employers (gross at least $500,000) (9)	$ 6.15	$ 5.15 (6)
Minnesota Small Employers (gross less than $500,000) (9)	$ 5.25	$ 4.90 (7)
Minnesota Opportunity Wage (2)	$ 4.90	$ 4.25 (8)
PERCENTAGE WITHHOLDING FROM SUPPLEMENTAL WAGES		
Federal	25%	25%
Minnesota	6.25%	6.25%
FEDERAL BACKUP WITHHOLDING	28%	28%
MAXIMUM EARNINGS UNDER SOCIAL SECURITY BEFORE LOSS OF BENEFITS		
Under Full Retirement Age (4) ($1 lost for every $2 over limit)	$ 12,000.00	$ 12,000.00
	$ 1,040.00/mo (3)	$ 1,000.00/mo (3)
Full Retirement Age (4) and Above	No Limit	No Limit

(1) Maximum additional exclusion for age 50 and over
(2) Special "training wage" for first 90 days of employment for employees under 20 years of age
(3) Applies in year of retirement
(4) 65 years and 6 months in 2005
65 years and 8 months in 2006
(5) Before additional assessments
(6) $6.15 effective August 1, 2005
(7) $5.25 effective August 1, 2005
(8) $4.90 effective August 1, 2005
(9) $625,000 effective August 1, 2005

Did you know...

If the moon were placed on the surface of the continental United States, it would extend from San Francisco to Cleveland (2,160 miles).

Approximately 70 percent of the earth is covered with water. Only 1 percent of this water is drinkable.

Lemon sharks grow a new set of teeth every two weeks. They grow more than 24,000 new teeth every year.

It is estimated that millions of trees in the world are accidently planted by squirrels who bury nuts and then forget where they hid them.

Goldfish lose their color if they are kept in dim light or are placed in a body of running water, such as a stream. They remain gold only when kept in a pond or in a bowl with adequate illumination.

Redwood trees sometimes grow to heights of 350 feet and produce bark that is more than a foot thick. Yet they spring from a seed that is only a sixteenth of an inch long. These seeds are so small that 123,000 of them weigh scarcely a pound.

Rice is the chief food for half the people of the world, and there's over 15,000 kinds of rice.

FEDERAL PER-DIEM RATES CHANGE FOR BUSINESS TRAVEL

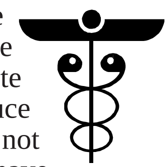
The IRS issued updated rules for determining per-diem rates that businesses can use to reimburse employee expenses for business travel. A listing of the revised rates by location for October 1, 2005 through September 30, 2006 may be found at http://www.gsa.gov/perdiem. If a location is not listed, a rate of $60 for lodging and $39 for meals and incidental expenses (M&IE) applies.

Instead of using actual per-diems, a simplified high-low rate may be used. Under this optional method, there is one uniform per-diem rate for all high cost areas within the continental United States (CONUS), and another rate for all other areas within the CONUS. The high cost area per-diem has increased from last year by $22 to $226 ($168 lodging and $58 M&IE). The low cost area per-diem has increased by $12 to $141 ($96 lodging & $45 M&IE). Minnesota, North Dakota, South Dakota, Wisconsin and Iowa currently have no locations on the IRS' list of high cost areas.

CAN YOU SPELL THESE?

According to the Washington Post, the most commonly misspelled English words are:
acceptable, accidentally, accommodate, acquire, acquit, a lot, amateur, apparent, argument, atheist, believe, calendar, category, cemetery, changeable, collectible, committed, conscience, conscientious, conscious, definitely, disappear, discipline, drunkenness, embarrass, equipment, exhilarate, exceed, existence, experience, fiery, foreign, fourth, gauge, generally, grammar, grateful, guarantee, harass, height, hierarchy, ignorance, immediate, independent, indispensable, intelligence, its/it's, judgment, knowledge, leisure, library, lightning, maintenance, maneuver, memento, millennium, miniature, mischievous, noticeable, occasion, occasionally, occurred, occurrence, official, parallel, parliament, pastime, pigeon, possession, preferable, principal/principle, privilege, questionnaire, receive, recommend, referred, reference, relevant, religious, restaurant, ridiculous, rhythm, sandal, schedule, scissors, sensible, separate, special, success, to/too/two, tomorrow, their/they're/there, twelfth, tyranny, until, vacuum, vicious, weather, weird, you're/your.

HOW HEALTH SAVINGS ACCOUNTS WORK



Health Savings Accounts (HSAs) were introduced by Congress in 2003 with the purpose of giving consumers an alternate way to pay for health care that could reduce their overall health care costs. Although not very popular initially, consumers now have more options available as more institutions and insurance companies become familiar with HSAs and offer these tax-advantaged accounts.

To start the HSA account you must purchase an HSA-eligible insurance policy, which for 2006 is one with a deductible of at least $1,050 for individuals and $2,100 for families. Generally, the higher the deducible the lower the premium cost. Next, you establish the HSA through an institution who is the custodian of the funds.

Once the HSA is established, a tax-deductible contribution can be made in 2006 for up to $2,700 for individuals and $5,450 for families, or the amount of the deductible of your health insurance policy, which ever is less. These contributions are then invested in a tax-advantaged account with the institution that is the custodian for the account.

Tax-free withdrawals are made to pay for the medical expenses as they are incurred. Any unused balance in the account, including earnings on the account at the end of the year, will roll over to future years. New contributions can be made to the HSA in subsequent years.

Any withdrawals that are made for any purpose other than to pay for medical bills are taxable. If the withdrawal is made prior to age 65, a ten percent penalty also applies. Once the individual reaches age 65, withdrawals can be made similar to IRA withdrawals.

Both companies and individuals can adopt HSAs. The insurance premiums for employers and self-employed individuals are tax-deductible as are contributions by both companies and individuals to HSAs, subject to the contribution limitations above.

Meet the Nohre Staff

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After eight years in public accounting, Stuart spent three years in the private industry with one of the nation's largest direct marketer of footwear. Stuart specializes in construction and real estate.

Areas of Expertise

Tax Planning and Preparation
Audit, Review and Compilation Services
Employee Benefits
Accounting Services

Organizations

American Institute of CPAs (AICPA)
Eau Claire Chamber of Commerce

Hobbies

Family, woodworking, and outdoor activities

The NOHRE REPORT

NEWSLETTER POLICY

This newsletter is designed to present information on business and tax matters in general terms and is not intended to be used as a basis for specific action without obtaining further advice.

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Please forward comments to newsletter@nohre.com