

metrometro

& a s s o c i a t e s
CPAs and Business Consultants

July 27, 2006

Client Name
Address
City, St, Zip

Dear Client

We have prepared a tax plan based on the information and assumptions that we discussed:

- Gross Schedule C income of \$91,000 less expenses of \$7,000 (similar to 2005) for net self employment income of approximately \$84,000
- Traditional IRA contributions of \$1,600 for the year based on \$200 per month beginning in May
- Federal estimated tax payments of \$10,000 through the 2nd quarter
- DC estimated tax payments of \$1,500 through the 2nd quarter plus \$2,000 applied from your 2005 overpayment for a total of \$3,500 paid thus far
- Approximately \$2,500 of additional interest on your new home equity loan, of which approximately \$175 (7%) will be taken on your home office deduction
- No capital gains from the sale of stock
- Interest and dividends similar to the amounts from 2005

Based on these assumptions, we have prepared two scenarios for your 2006 taxes: the first includes no SEP contribution; the second includes the maximum SEP contribution of approximately \$15,000.

	<u>No SEP</u>	<u>Max SEP</u>
Additional Federal taxes due	14,000	10,000
Additional DC taxes due	1,500	100

Therefore, if you decide to make the maximum SEP contribution of approximately \$15,000, you would save approximately \$5,400 in taxes. However, if you do decide to contribute to a SEP, your IRA contributions would no longer be deductible since your earnings exceed the limits for making a deductible contribution when participating in a qualified retirement plan, which includes a SEP. If you decide on the SEP, we suggest you contact your broker to convert your traditional IRA contributions to Roth IRA contributions.

Additionally, you should expect to pay first quarter estimated tax payments in April, 2007 of approximately \$10,000.

You have already paid in enough taxes to protect yourself from underpayment penalties, so you are not required to pay the projected balances due until April 2007. However, if you are more comfortable making payments as the money is earned, you should adjust your 3rd and 4th quarter payments accordingly. At a minimum, you should pay the expected DC balance due by December 31, 2006, so you can take a deduction on your 2006 Federal tax return. Let us know if you need replacement estimated tax coupons.

Here are a few other opportunities that we consider if they apply:

- Do or could your children work in your business? Hiring your children under the age of 18 provides a nice tax benefit and an opportunity to deduct your children's college education.
- Will your income be significantly higher or lower this year vs. next year? If so, we want to make sure you pay expenses paid in the higher income year where they will provide a greater tax savings
- Do you have an opportunity to accelerate or defer your collections of income?
- Are you or your family members planning to incur education expenses? If so, we should discuss the deductibility.

Please call us with any questions. If your income or expenses significantly change between now and the end of the year, or if you have any other financial transactions, please contact us so that we can update this planning.

Sincerely,

Metro Metro & Associates

Metro Metro & Associates

Sample Client

Summary Report

	2005 Deduct IRA, No SEP	2006 Deduct IRA, No SEP	2006 Nondeduct IRA, Max SEP
Income:			
Interest & Dividends	653	653	653
Self-employment Income	43,734	84,000	84,000
Capital Gains & Losses	2,523	1,557	1,557
Other Income	925	2,545	2,545
Total Income	47,835	88,755	88,755
Adjustments:			
Keogh & SEP Contributions	0	0	15,613
IRA Contributions	250	1,600	0
Self-employment Tax & Other Adjs	3,090	5,935	5,935
Total Adjustments	3,340	7,535	21,548
Adjusted Gross Income	44,495	81,220	67,207
Personal Exemptions	6,400	6,600	6,600
Itemized Deductions:			
Charitable Contributions	404	404	404
Taxes	4,088	4,581	4,581
Interest Expense	5,734	8,000	8,000
Total Itemized	10,226	12,985	12,985
Standard Deduction	5,000	5,150	5,150
Total Deductions from AGI	16,626	19,585	19,585
Taxable Income	27,869	61,635	47,622
Regular Tax:			
Schedule or Table Tax	3,816	11,966	8,463
Alternative Capital Gains Tax	3,541	11,790	8,287
Appropriate Regular Tax	3,541	11,790	8,287
Self-employment Tax	6,179	11,869	11,869
Total Federal Taxes	9,720	23,659	20,156
Withholding & Estimated Tax Payments	-7,499	-10,000	-10,000
Total Payments	-7,499	-10,000	-10,000
Underpayment Penalty	31	0	0
Net Federal Tax Due	2,252	13,659	10,156
Resident State Tax	2,367	4,870	3,651
Resident State Estimated & W/H	-4,411	-3,500	-3,500

Sample Client

Summary Report

	2005 Deduct IRA, No SEP	2006 Deduct IRA, No SEP	2006 Nondedu ct IRA, Max SEP
Net Resident State Tax Due	-2,044	1,370	151
Total Net Tax Due	208	15,029	10,307
Marginal Nominal Federal Rate	15	25	25
Marginal Federal Rate with Phaseouts	15	25	25
Marginal Resident State Rate	9	9	9