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## TAX NEWS & TIPS

MID-YEAR 2006

### A BIG Thank You!

That's right. Thank You! The tax season is a trying time. Long days and busy weekends. You made things go smoothly.

Thanks for having your records in order. Thanks for being patient. Especially – Thanks for the trust and confidence!

### Whew! It's Done!

You filed your returns. No more worries for another year. Well, don't be too hasty. It's not over until IRS says it's over.

**Late Refund?** IRS says they can't help until 10 weeks after you filed. IRS website ([www.irs.gov](http://www.irs.gov)) has a "Where's My Refund?" link. You can try the automated help at 1-800-829-4477. The Refund Hotline is 1-800-829-1954. If the full 10 weeks have passed with no results, give me a call. I may be able to help out.

**On Extension?** If we asked for an extension on your return, there are a couple of important reminders. First, the extension allows you to *file* later, but *payment* was due April 17. If we guessed incorrectly, and you owe more tax, there will be interest and a late payment penalty. Second, the extensions this year are good until October 15, two months later than in the past.

**Oh, No – an IRS Letter!** If you get a letter from IRS, call me. I'm used to their confusing language. One wrong response can make a real mess of things. I'll be happy to deal with it for you.

**Will You Be Audited?** Not likely, but no guarantees. Typical "audits" start with an IRS computer comparing returns with W-2s and

records from banks and brokers. IRS sends a letter to question the issue. Most of these are settled via mail.

**Misleading Data.** Face-to-face meetings with IRS are far more rare. IRS statistics for 2005 show they are near all-time lows. IRS says 490 of every 10,000 returns filed for 2004 were "audited". But, only 19 of the "audits" were face-to-face meetings. Each year IRS relies more on their computers. You can find up-to-date figures at the TRAC-IRS web site. (<http://trac.syr.edu/tracirs>)

**Protect Your Records.** In case there is an "audit", please put your return, records, receipts, and cancelled checks in a safe place. Although the chance is slim, you might need to dig them out.

**Old Returns and Records.** It's a good idea to keep tax returns indefinitely. Also, keep records of investments or property you own. Other records – cancelled checks, receipts, bank statements, etc. – keep five years' worth of these. Destroy or shred any older records.

Credits apply to the hybrid cars only. To ensure only a single credit is claimed on a vehicle, it goes to the first buyer of the vehicle. A credit is a direct reduction of your tax bill. A deduction lowers your income before we calculate tax. Thus credits are more valuable. The credit can be reduced or lost if your tax bill is too low, or if you face the Alternative Minimum Tax.

**Buy Soon.** Only a fixed number of credits are available. After the manufacturer sells 60,000 hybrids, the credits for that company's cars will decline. That's 60,000 cars per manufacturer, not per hybrid model. Suppose Honda reaches the 60,000-car plateau in June. For the rest of the calendar quarter and for the next quarter, the credit is allowed in full. That takes us to September 30. Then the credit is cut to 50% for the next two quarters – that's October 2006 through March 2007. The credit is 25% of the maximum for the next two quarters, April 2007 through September 2007. After that, it's all over for 2006 Hondas.

### Hybrid Car Credits Announced

The size of energy tax credits for hybrid cars is finally settled. IRS told carmakers how to calculate the credit. The '06 vehicles and their credits announced so far by IRS:


- Toyota Prius – \$3,150
- Toyota Highlander – \$2,600
- 2WD Mercury Mariner – \$2,600
- 4WD Mercury Mariner – \$1,950
- 2WD Ford Escape – \$2,600
- 4WD Ford Escape – \$1,950
- Lexus RH400 – \$2,200
- Honda Civic – \$2,100
- Honda Insight – \$1,450
- Honda Accord – \$650


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## Looking Ahead To Your 2006 Tax

Some advance planning might put extra dollars into your pocket. Here are some of the key changes in store for 2006. Perhaps you can take advantage of some of these.


 **Standard Deduction** goes up to \$5,150 for a single filer, \$10,300 for a couple, and \$7,550 for a head of household. The personal exemptions will be \$3,300. This means a single filer pays no tax until income reaches \$8,450. For a couple it's \$16,900. If you'll reach age 65 or older this year, single filers add \$1,250, joint filers add \$1,000 for each spouse who is 65 or older.

 **Mileage Deductions.** 44½¢ per mile is what you may claim for business driving. For most folks this is the simplest way to get your deduction.


You cringe at \$3.00 or more for a gallon of gasoline, but the deduction is no slouch. If your car gets 20 miles per gallon, a single gallon of gas used for business driving nets a deduction of \$8.90. That's 44½¢ for each of the 20 miles. If the gas cost you \$3.00, there's \$5.90 left over to cover other costs.


You can earn a \$100 deduction by accumulating 224 business miles. If you're in the 25% tax bracket, that's \$25 back in your pocket. Add another \$5-\$9 for the tax in most states. This helps take some of the pain out of a fill-up!

IRS raised the allowance in 2005 after hurricane Katrina struck the Gulf Coast. Perhaps we'll see a mid-year change for 2006, but IRS has said nothing as of yet.

 **Retirement Savings** limits are boosted in 2006.

- 401(k), 403(b), and 457 plans – defer up to \$15,000 (\$20,000 if age 50 or older by end of year).
- IRA or Roth IRA – stays at \$4,000 (but goes to \$5,000 for age 50 or older).
- Self-employed SEP or Keogh – you may contribute up to \$44,000 if income is high enough.
- SIMPLE plan – defer up to \$10,000 (\$12,500 for age 50 or older).

 **Child Tax Credit** stays at \$1,000. Any dependent child who is not age 17 by end of 2006 reduces your tax bill by \$1,000. The credit begins to drop for couples when their income reaches \$110,000. For single filers the reduction begins at \$75,000 of income.

 **Sales Tax vs. Income Tax.** This expired in 2005, but don't be surprised if this is extended to 2006. If your state has no sales tax, skip this. You have a choice – deduct the income tax you pay or your sales taxes you pay. For sales tax we use tables that give average sales data for each state. We can increase the table amount if you buy a motor vehicle, boat, or airplane. The only other added item is for sales tax on building materials if you build or improve your home. This does not include tax on appliances or furnishings for the home.

**Other Changes** are minor for most folks. Capital gain rates are the same. Qualified Dividends still get the favorable capital gains rate. Tax brackets are indexed for inflation.

**Alternative Minimum Tax** snares more Americans each year. It's basically a "flat" tax, and no strategy can completely avoid it. It replaces some deductions and exemptions with fixed allowance amounts. If the alternative tax is larger than your normal income tax, you must pay the difference. A key allowance expired after 2005. This means the number of Americans who face the tax will jump from 4 million in 2005 to 21 million in 2006. Congress is aware of the problem, but slow with an answer. Some sort of help is being debated as I write. Perhaps it will be settled before you read this.

**Call Me For Help** with new items. I understand the tax laws. I'd like to help you cut your tax bill as much as possible. Next February my ideas will be too late to help you!

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## Home Improvements & Energy Credits

Many Americans improve their homes in the summertime. For 2006 you can add some tax breaks for the right kind of expenses. It's all part of a large 2005 tax bill aimed at making us more energy conscious. There are two different credits available to homeowners. Note: "Homeowners" means exactly that – these credits are not available for a second residence, summer home, or rental property.

**1) Residential Energy Conservation Property.** This credit gives you a 10% direct refund for the cost of qualifying property. The credit is in place for 2006 and 2007, but is limited to a lifetime claim of \$500. That's \$500 off on the first \$5,000 spent.

What qualifies? Insulated windows, skylights, and doors. Any insulation at all. Main air circulating fans, non-electric water heaters, furnaces, and central air conditioning units. There are limitations – no more than \$150 credit on a water heater, \$200 on skylights, \$50 on main air circulating fans, and others. The rules are technical – trust the labels on products at your favorite home improvement store. If you're going to make a few changes, think energy! The tax savings offer a discount on your costs.

**2) Residential Energy Efficiency Property.** These credits are larger, but they involve high-ticket items. Key items are solar water heaters (but *not* for a swimming pool), solar electrical generating devices, and fuel cell plants. For solar water heaters and photovoltaic generators, the credit is 30% of the first \$6,667 – a \$2,000 maximum. For fuel cell plants, it's \$500 for each ½ kilowatt of capacity. No costs relating to swimming pools are allowed – apparently America already has the most energy-efficient swimming pools on earth! Again, the most knowledgeable people will be those selling the products. They'll have the answers.

Spiff up the home. Do something to conserve energy. Save a few bucks.

## 50 Top Reasons To Call Me

I know you just filed your return. However, tax planning really is a year-round job. I like to keep myself up-to-date on any changes in your financial life. I can't do the returns right now. Neither can I make your decisions. Very often, however, I can help you avoid costly mistakes and save some money. Call me right away if you:

1. Changed your address
2. Changed jobs
3. Got a big raise or bonus
4. Exercised a stock option
5. Retired
6. Got married or divorced
7. Had a child
8. Adopted a child
9. Sent your child to college
10. Got your child a job
11. Opened an account for a child
12. Collected unemployment
13. Start receiving Social Security
14. Started collecting a pension
15. Cashed an IRA
16. Won a prize
17. Won big at the track or casino
18. Won the lottery
19. Served as a paid executor
20. Received a director's fee
21. Won a lawsuit
22. Received alimony
23. Paid alimony
24. Sold stock or securities
25. Begin mutual fund investing
26. Opened a retirement account
27. Sold your home
28. Bought a home
29. Helped the kids buy a home
30. Refinanced your home
31. Remodeled your home
32. *Think* of starting a business!
33. Started a living trust
34. Add someone to title on your home
35. Bought a rental
36. Remodeled a rental
37. Started renting out your home
38. Let a friend move into a rental
39. Sold a rental
40. Began using a car for business
41. Sold your business car
42. Became a telecommuter

43. Let spouse use the business car
44. Cashed in EE Bonds
45. Inherited money
46. Inherited an IRA or pension
47. Reached age 59
48. Reached age 70
49. Became disabled
50. Are confused

There are even more! But I think you're getting the idea. It's simple. Tax laws can have an impact in every area I've listed, and more. At the least I want to make you aware of what's happening, and whether there is a tax impact. Even better, I might be able to help you save some money. Let me help.

## Tax Help For June Grads

Congratulations! School's done and it's time to start a career. I've got a few ideas to keep your taxes low. Both you and your parents could win.

### Goodbye To Low Tax Rates.

Unless you earn over \$39,000 this year, you are in the 15% or lower tax bracket. Take advantage of the low rate while you can. If you have a chance to pull income into 2006 late in the year, go for it.

**Withholding Too Much?** A tax refund is nice, but why let IRS hold your money? Withholding tables annualize earnings. They expect a full year of pay. Work only part of the year, and too much is withheld. Call me. I can help you adjust this.

**Itemizing Deductions** is possible, but not likely. A standard deduction of \$5,150 for 2006 is probably all you'll need until you buy a home. Itemizing helps if you can find more deductions than this. You can deduct state tax withheld from pay and gifts to charity. Medical and job-related expenses each have a "floor" related to income. Job costs include union and professional dues, books and publications, tools and supplies used in your job.

**Job-Seeking Costs.** You can't deduct the cost of finding a first job. Once you have a work history and can itemize, the costs to find work in the same field are deductible. Look at costs of resumes, copying, postage, phone calls, and travel for interviews. The costs are deductible whether or not you find work, and whether or not you accept a job offer.

**Moving Expense** is deductible – even for a first-time job! You get the deduction even if you can't itemize. A job *change* allows for a deduction if your commute to the new job is more than 50 miles greater than your commute to the old job. Moving to a *first-time* job is deductible if the

job is more than 50 miles from your old home. Costs of travel to the new site and to move your belongings are allowed. This includes cost of packing, storage, and insurance. Call me for help on records you will need.

**Education Costs.** Tax law gives help for tuition and fees. No help for books, meals, lodging, etc. There's a catch – whoever claims your personal exemption gets to claim these. That might be Mom and Dad.

Once you are employed, you may deduct the other costs as well, but only if (1) you can itemize, and (2) the education improves your skills in your *current* job. Classes to qualify for a *new* position are limited to tuition and fees.

**Help For Mom & Dad.** 2006 may be the last year Mom and Dad may claim you as a dependent. If you are under 24 at year-end and were a full-time student for any part of 5 months, they can probably claim you. They must be able to say they provided more than half of your support. Mom and Dad probably save more than you for the dependency deduction.

If you will be 24 by year-end, your parents may not claim you if your earnings exceed \$3,300.

This is important. Remember, education costs are claimed by whoever claims the dependency.

**Keep Records.** For tax-deductible expenses you need both receipts and canceled checks (or other proof of payment). You need to show *why* an expense is deductible – document the circumstances.

This is another sort of graduation. You won't outgrow the need to keep records, or to pay income taxes. But, I can guarantee that *you will be paid* for your efforts – in tax savings!

Congratulations!  
And good luck!

## Tips For You

**Withholding Tune-Up.** I helped several of you calculate a different amount of withholding. Did you watch the next check to see if the right amount was withheld? You may have marked the form correctly, but someone had to enter the data to a computer. Mistakes happen. If you're not sure I can re-check the figures by seeing your pay stub. Call me if you're unsure. It's much simpler to check now than to face a big surprise when we prepare your next tax return.

**Home Daycare Centers.** You can use an IRS allowance for meals and snacks served. You win two ways – easier than keeping grocery receipts, and you'll get a bigger deduction! For 2006 you may claim \$1.06 for a breakfast, \$1.96 for lunch or supper, and \$0.58 for each snack. Hawaii figures are \$1.23, \$2.29, and \$0.68. Alaska is even higher - \$1.86, \$3.17, and \$0.94.

**IRS Notices Early.** As mentioned earlier, IRS computers compare your returns with records from employers, banks, and more. The notices for 2004 returns are already arriving. They used to start showing up in August or so, but IRS is moving more quickly. If you get one of these, please call me right away. Don't call IRS first. We need to be sure IRS has not made an error before offering a response.

**Did You Watch the Academy Awards?** IRS did. Oscar winners and nominees are given lots of free goodies at the event. IRS says these are taxable income, not tax-free gifts. IRS will check several stars to see if they claimed the income!

**Contributing Autos to Charity.** Please remember, the charity must tell you how much they *received* for the auto. They use Form 1098-C for this report. Unlike other tax forms which come in January, these are issued within 30 days of the sale of the auto. If you get one of these forms, put it in a safe place. Without the form, the largest deduction you may claim is \$500.

**Summer Day Care.** There are tax credits for expenses to have your children under 13 supervised so that you can work. When school is out, parents turn to different activities. Any overnight experience does not qualify. Nor does any activity that provides education – the rule here looks at whether the activities are customary as part of normal school classes. Computer camps and dinosaur camps are examples. As long as it's just fun and games, you're OK.

**What's a Reverse Mortgage?** This question pops up more often each year. In short, this is a form of borrowing that acts like a pension – it produces a monthly income. Why would someone do this? I've seen older couples with a monthly income

so low they have difficulty getting by. However, their home is fully paid and quite valuable. For such a couple, the reverse mortgage can be a smart solution. They don't borrow a large sum up front. Instead they get monthly checks to allow them to live comfortably. The borrowing stops when they pass on, and the estate pays the debt when the home sells. Not for everyone, but an alternative for retired or disabled folks who own their homes.

**Tax-Free Vacation Income.** Going on a vacation this summer? Did you know you could rent your home for up to 14 days while you're gone, and the income is tax-free? True. Up to 14 days' rent on your own home is totally tax-free. Fully legal, and might make your own vacation a little sweeter.

### Your Tax Calendar

June 15	2 <sup>nd</sup> quarter estimated tax payments due.
July 31	2 <sup>nd</sup> quarter payroll returns due (Aug. 10 if all deposits were paid). Forms 5500 due for pension or Keogh plans.
Sept. 15	3 <sup>rd</sup> quarter estimated tax payments due.
Today	Be sure to call if you have large changes in income!