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## TAX NEWS & TIPS

YEAR-END 2006

### Tax Time is Near!

There's a little time left to reduce your 2006 income tax. I've got news on last-minute law changes and some suggestions on trimming your bill. Read this carefully while you still have time for savings!

### 2006 Law Changes

Four new laws since May. In addition, Congress might act late (or even retroactively!) to continue some expired tax goodies or ones set to expire this year.



**Check** the items below to make sure whether you are affected by any new rules.

#### **NEW Telephone Tax Refund.**

IRS has announced how to recover excise taxes charged on long distance calls. The courts say excise taxes between February 28, 2003 and August 1, 2006 must be refunded. IRS will do this via your tax return.

**Safe Harbor Method.** No need to dig out 41 months' worth of phone bills and add up the excise tax. You may simply claim a flat amount on your 2006 tax return.

It depends on household size:

Number of Exemptions on Your 2006 Return	Amount of Your Refund
One	\$30
Two	\$40
Three	\$50
Four	\$60

That's it. Maximum credit is \$60.

The claim is a line on your 2006 tax return. If you don't need to file a tax return, there's a special Form, 1040EZ-T, to claim the refund.

IRS will release new Form 8913 for those who have records and think they can claim more than the fixed amounts. I haven't seen the Form, but IRS says that individuals and businesses with gross receipts over \$25,000 may use it.

#### **NEW Non-cash Charity.**

There's a special date to remember for donations of clothing and household items to charities: **Remember August 17, 2006.** Contributions after this date may include only items whose condition is "good or better". IRS has not offered any help to decide what is "good or better". If IRS decides to audit this issue, your records had better be in good order. A few photos will probably be a big help!

**NEW Kiddie Tax.** This affects parents with a child who has not reached age 18 by the end of 2006. If the child has **investment income** (interest, dividends, and capital gains) of more than \$1,700 in 2006 there is a problem. The child may not simply file his/her own tax return. A special rule requires the investment income over \$1,700 to be taxed at the *higher* of the child's rate, or that of the parents. Parents and child must study the issue before either files a tax return.

#### **NEW Combat Pay and IRAs.**

Combat pay to members of the armed services is not counted for tax purposes. New law lets you use the combat pay to qualify for IRA deductions even though the combat pay is not taxed. It's retroactive, too: **2004 and 2005 Contributions** can be made as late as May 28, 2009. The tax return needs to be amended. If you are entitled to a refund, you may claim it by filing an amendment within one year of the contribution, even though this may be later than the normal end of the statute of limitations period.

#### **NEW Charity From An IRA.**

For 2006 and 2007 only, folks over age 70½ may make gifts to a charity directly from an IRA or Roth IRA. Up to \$100,000 given to a charity by the custodian of the IRA will not be treated as income, and your deduction is automatic. This

can increase tax savings two ways: (1) since the income is not declared, there can be no effect causing higher income from social security, or the host of other income rules pegged to income, and (2) folks who cannot itemize their deductions will get full value from the contribution.

Folks over 70½ have mandatory minimum distributions each year. If any part of this minimum is directly contributed, it may still be counted as part of the minimum distribution.

#### **? Expired – To be revived?**

Some provisions expired after 2005, but might still be retroactively approved by Congress. I recommend you keep track of such items in case there is a last-minute reprieve. The most important:

- Election to deduct either sales taxes or state taxes
- \$250 deduction for classroom supplies of teachers
- Tuition deductions
- Credits for research and two different jobs credits

*Turn the page for a key 2007 change and some miscellaneous changes.*

### This Issue

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## Changes for 2007

### **NEW** Cash Contributions – Receipts Required!

Drop a couple of bucks into Santa's bucket for a charity at the mall? No deduction! Unless you have a written receipt or a cancelled check, your deduction will not be allowed. No more "out-of-pocket" claims.

### Miscellaneous Provisions.

- **Pension Plans.** A host of changes will make retirement plans more accessible to workers. Expect to see lots of information and increased flexibility from employers over the next couple of years. In addition, 38 changes made in 2001 will not expire as planned, but have been extended indefinitely.
- **Inherited Pensions.** If you inherit any form of retirement savings, you will be able to do a "roll-over" of the funds into your own IRA after 2006. Formerly, only spouses could do a roll-over. Other inheritors were forced to begin taking distributions (and paying taxes) the following year.
- **Contributions by Businesses.** The special Katrina Relief tax act gave special breaks to businesses for contributing food or inventory items. These were extended through 2007.
- **Reporting Tax-Exempt Interest.** Forms 1099 will show interest earned on tax-exempt municipal bonds and bond funds this year. The interest is not taxable, but it can affect the amount of taxable Social Security. You are required to report this income even though it is not taxed.
- **Several small changes** will be seen. More returns may be filed electronically. More options are provided for electronic deposit of refunds. The election to deduct costs of new equipment instead of taking depreciation is still available and will continue. New retirement contribution limits are detailed on Page 4.

I'm still learning many of the details, and several tax forms are not yet printed. I'll be ready by January. Let's work together to trim your tax bill to the absolute minimum!

## December – Last-Minute Tax Savers

✓ **Mail That Check!** Pay a deductible expense by check, and it's counted when you *release* the check, no matter when it's *cashed*.

✓ **Credit Cards.** The expense counts when you *sign* the credit slip, not when you *pay*.

✓ **Medical Expense.** These must exceed 7.5% of your gross income to help. If you'll pass the limit, you can't afford to miss a thing. Laser eye surgery. Fees to any licensed health care professional. Drugs by prescription, but **not** an over-the-counter item, self-prescribed cure, or food supplement. Medical supply, therapy, or ambulance. If you have insurance, claim only what you actually pay out of pocket.

✓ **Taxes.** Consider paying one extra installment of property tax. If you will owe state income tax, consider paying in December. Sales tax no longer counts, but Congress might revive the election to deduct the higher of sales tax or state tax.

✓ **Contributions.** Look for both cash and merchandise gifts. Dig out your canceled checks. Try to recall cash gifts at work or the front door. When you buy cookies or candy from youth groups about 50% of what you spent is deductible – the rest is the value of the merchandise.

✓ **Needed Receipts.** For a single gift of \$250 or more, a receipt from the charity is a *must*. If you are audited later, your canceled check alone WILL NOT be enough!

✓ **Non-cash.** Is it time to clean out the garage? Don't wait until January, or you won't see the tax savings for over a year. List the items plus your estimate of value. A snapshot can help. With cars, Form 1098-C limits deductions to what the charity gets upon sale. Don't forget, items given after August 17, 2006 cannot be used unless condition is "good or better".

For gifts totaling \$250 or more, a receipt is a must. If your gift reaches \$5,000 or more you'll need an appraisal as well.

✓ **Job Expenses.** Expenses for job or investments are called "miscellaneous". You may deduct them to the extent they exceed 2% of your gross income. Above this

"floor" everything helps. Look for dues, job search, employment agency fees, books, publications, job-related education, job supplies, business meals and entertainment, business gifts. Be sure to include any mileage associated with the costs.

✓ **Investment Expense.** This includes books or publications on investing and investment account fees. Investment counseling or planning fees are also deductible.

✓ **Special Transactions.** Find all records for any special sale, purchase, or investment. For any real estate sale or purchase the settlement statement is crucial.

✓ **Refinancing.** I need to see all the paperwork. Again, the official settlement statement is crucial.

✓ **Businesses.** Stock up on supplies now. Look at your business cards, stationery, and office supplies. Are your bills paid? Need equipment? Buy in December (and use the equipment). You get the tax savings now. We can deduct your health insurance costs if you are self-employed. Find the premiums.

✓ **Landlords.** Are there last-minute repairs or painting to do? Property taxes and insurance paid up? List your driving for the property. A rent check received in December must be counted even if you don't cash it until January.

✓ **Mileage Deductions.** With business expenses, you may deduct the related driving. This year you get 44.5¢ per mile. 225 miles gives a \$100 deduction. You may not claim commuting to or from your normal workplace, but other work-related driving counts. For the self-employed and landlords most things count, but employees may deduct only if employer does not offer reimbursement. Look at errands, supply pickup, special meetings, job-related education, visiting clients. Your deductible miles can add up pretty quickly.

✓ **Parking, Tolls, Taxes.** These are claimed in *addition* to mileage or driving costs. Interest on a car loan may be claimed by self-employed folks, but not by employees.

# January – Time To Get Ready!

Preparing your tax information is simple if you spend a few minutes each week. Start collecting the records and keep them in a special place. Review them each week.

Many tax records show up in your January mail. Usually IRS also gets a copy, so don't miss any of these!



**W-2s.** Read them carefully. Contact employer if there is a problem. If one is missing after January, contact employer. If you can't locate the employer, you'll need to collect your pay stubs.



**1099s.** There should be a 1099-INT or 1099-DIV for each account which pays interest or dividends. Even tax-exempt interest will be reported this year.

**Other 1099s.** A real estate sale means a 1099-S. Stock sales yield 1099-B. Pensions - 1099-R. There are several others. Watch for the words "Important Tax Information Enclosed" on the envelope.



**Form 1098.** That's your mortgage interest. Banks use this form. With a private loan, you need the payment book or a statement from lender to verify the amount.



**Other Income.** Look for other reports of income. You may see forms for state tax refunds, unemployment income, prizes, gambling wins, or rents you collect. Read each of these carefully.



**Your Records.** Check your own records carefully for both income and deductions. Look back over the year in your mind. Your calendar and your check register will help your memory. I'd prefer that you have receipts for all expenses, but if you recall paying a deductible expense, claim it.

Start compiling the information right away. Don't wait until the day before you give the information to me. Make careful lists of missing items. Write down any questions you might have for me.

Take a few minutes each week to review your information. Short reviews help you remember items you might miss. Your subconscious mind will dig up things you forgot. It's your money at stake here – protect it!

## Need To Send 1099s?

You may need to send Form 1099 to someone else. There are two cases:

- **Business/Rental.** You must report payments for services.
- **"Nominee" amounts.** If you are named as receiving income, but part or all of the income really belongs to someone else, you are a nominee.

You must issue Form 1099 to the other party by January 31. IRS wants a copy by February 28. There are penalties for not sending them!

**Business/Rental.** If you paid \$600 or more to anyone during 2006 you may need to issue the form. Look at "business" expenses only. Expenses in your personal life are not reported. Nor are payments to a corporation.

Some bills show both labor and materials. If *any* part of the payment was for services, report the *total* amount on Form 1099. Paying for merchandise alone doesn't count. Rent you pay to an agent instead of to a landlord is excepted. Look for repairs, painters, consultants, builders and the like.

You need name, address, and Tax I.D. Number for these people. Call them or send Form W-9 to request the information. If someone uses their own name, they should give you their Social Security Number (like 555-55-5555). If they give a business name, you should see an Employer I.D. Number (like 55-555555).

**Nominees.** Limits are lower. If you pay \$10 or more to another, you must file the form. You file the same type of 1099 as you received, but you are filing as a "middle man".

**Getting the Forms.** I can help, or you can get forms from IRS. If you need my help, please call early! My tax season is hectic and the deadline comes quickly. You can get forms from IRS at 1-800-829-3676. Or you can download them at [www.irs.gov](http://www.irs.gov). You need Form 1099-MISC and Form 1096 as a cover sheet.

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This publication has been sent to you by your tax advisor for informational purposes only. The opinions are generalizations and may not apply to all taxpayers.

## Got it All?

Here's a list of items frequently missed. Check it against your list.

- Refinances.** I need to see the settlement statement. Maybe it's best to bring all the paperwork.
- Child Care Expenses.** I need full name, address, telephone and I.D. number of care providers.
- Estimated Tax Payments.** If you paid estimates, I need dates and amounts for all payments. Look in your check register near April 15, June 15, and September 15 of 2006, and January 15 of 2007. The January 2006 payment was claimed on your last return.
- Sales of Property.** The most important thing is the settlement statement. Bring all the paperwork.
- Student Loans.** Form 1098-E reports your interest. I need this plus information about the nature of the loan.
- College Tuition.** Form 1098-T lists college tuition paid. I need the form and full details on who took the courses. This may help you get valuable tax credits or deductions.
- Sales of Stock.** Brokers send Form 1099-B to show sale price. I need date and cost of the original purchase. Find the "buy" slip.
- Business Records.** Please separate purchases of major equipment from other supplies.
- Contributions.** Remember – any single contribution of \$250 or more requires a receipt. We don't attach them to the return, but you must keep them.
- Employer Reimbursements.** If your employer reimburses any of your expenses we need records to insure we claim only the excess.
- Partnership Information.** Schedule K-1 from partnerships always seem to be late. Don't worry. Let's do the rest, and be ready to go when the K-1 arrives.
- Social Security Benefits.** Be sure you have the actual Form 1099-SSA. We must declare the GROSS amount you were paid, not your net monthly benefit.
- Special Accounts.** Do you contribute to an IRA, Roth IRA, or Health Savings Account? These and others can cut your taxes.

## Tips For You

**Social Security Update.** Benefits will increase by 3.3% in January. You won't see all this in the check, because your Medicare B premium rises from \$88.50 to \$93.50. The increase is less than expected, but check out the next paragraph!

**Medicare B Surcharge.** In 2007 Medicare B premiums will increase on a sliding scale for some. The new program looks at your 2005 income. If it was over \$80,000 (\$160,000 for couples) you will pay a "surcharge" of \$12.50 monthly for Medicare B coverage. Surcharge can reach \$68.60 monthly for incomes over \$200,000 (couples \$400,000). Surcharge doubles in 2008, triples in 2009. Each year's figure is based on your income from two years earlier.

**2007 Wage Base to \$97,500.** Workers will pay full social security taxes on the first \$97,500 of income in 2007. At this level, an employee pays a whopping \$7,458.75 – and employer matches this dollar for dollar! Self-employed persons are considered to be their own employer, so they can pay the full \$14,975.50. Above the \$97,500 ceiling only the 1.45% Medicare tax is imposed.

**Hybrid Car credits – Toyota & Lexus Phasing Out.** First-time buyers of hybrid and alternative fuel vehicles earn tax credits ranging from \$250 to \$3,400. A tax credit is a direct reduction of your tax bill.

As of late in October, 38 different vehicles had been approved for the credits. However, the credit for a given vehicle declines after the manufacturer sells a *combined* total of 60,000 of all its qualified models.

Toyota (which also makes Lexus) reached this figure in September. As a result, Toyota or Lexus vehicles get only 50% of the approved credit through March 2007. For the next 6 months the credit drops to 25% of the approved figure. After this, the credit is gone. No other auto-maker has yet sold 60,000 hybrid vehicles. You can look up credit amounts and the approved list at [www.irs.gov](http://www.irs.gov) – simply type "hybrid car" in the search box.

**Saving For Retirement?** If you are trying to sock away enough for a comfortable retirement there's good news for 2007. The amount you can contribute goes up in January. Here are the figures for 2007:

Plan Type	Maximum Contribution	50 & up, may add
401(k), 403(b), or 457	\$15,500	\$5,000
SIMPLE	\$10,500	\$2,500
SEP	\$45,000	N/A
Keogh	\$45,000	N/A
IRA, Roth	\$4,000	\$1,000

**If You Owe Tax** IRS can charge interest. The rules are complicated, and sometimes a small balance does not generate any interest. The interest rate, however, was 7% for the first half of 2006, and rose to 8% on July 1, 2006.

## Happy New Year!

Over the years you have become nearly members of my family. As 2006 draws to a close I offer the same wishes I have for my family and close friends. I hope 2007 will bring peace, contentment, and prosperity to you and to your loved ones.

Happy 2007!

## Your Tax Calendar

Dec 30	A check mailed today (no mail on Sunday) counts for 2006. Last chance for deductions! State estimated tax paid today is deductible on 2006 Federal return.
Jan 16	4 <sup>th</sup> quarter estimated tax payments due. (Jan 15 is a holiday).
Jan 31	Employers – Quarterly payroll & FUTA due. W-2's and 1099's due to recipients.
Feb 28	W-2's and 1099's due to IRS.
April 16	2006 tax returns due. Last day for 2006 IRA or Roth contributions.

RETURN SERVICE REQUESTED

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