



~Wishing you and your loved ones a happy and prosperous 2007~

2006 proved to be another interesting year with more tax legislation added to the long list of recent changes. Following is a summary of the more important highlights. Please review our prior issues at www.4-serenity.com for a more detailed analysis as well as timeless tax planning ideas. Many frequently asked questions can be answered by reading our prior editions, or by visiting the IRS's website at www.irs.gov.

Recent Legislation

Tax Increase Prevention and Reconciliation Act of 2005 (May 2006)

Pension Protection Act of 2006 (August 2006)

The Tax Relief and Health Care Act of 2006 (December 2006)

Electronic Filing Services

The IRS is scheduled to begin accepting e-filed tax returns on January 12, 2007. The State's do not begin accepting until after January 20th. You may file your Federal return first, and have the State return sent later, although the State's encourage simultaneous filing. Following are your refund and payment options.

Direct Deposit – Refund's in 10-16 days with no additional fees. You will be allowed to have your refund direct deposited in up to three accounts such as checking, savings, or an IRA.

Refund Anticipation Loans (RAL) – Refund's in as little as 12 to 48 hours with additional fees ranging from \$34 to \$125 depending on the amount of the Loan. Loans of up to \$8,000 are available in 2007. Checks are printed in our office. (Not available on State refunds or after April 15th).

Electronic Refund Deposit (ERD) – Have your tax preparation fees deducted from your refund (up to \$1,200) and the balance direct deposited to up to three different accounts (checking, savings, IRA). Bank processing fees are \$33 for Federal and \$10 for State refunds. Refunds in 8-15 days.

Electronic Refund Check (ERC) – Have your tax preparation fees deducted from your refund (up to \$1,200) and a check for the balance printed in our office. Bank processing fees are \$33 for Federal and \$10 for State refunds. Refunds in 7-14 days. (Ideal for those who do not have bank accounts or who simply wish to receive a check.)

Owe Federal Taxes? Defer your direct debit or credit card payment until April 15th.

Tax Return Copies

As we initiated last year, you have the option of receiving copies of your tax returns either the traditional way (on paper); or in PDF format (on either 3.5 floppy diskette, by e-mail, or on CD). Please let us know your preference at the time of service.

Telephone Excise Tax Refund

The IRS will refund excise taxes charged after February 28, 2003 and before August 1, 2006. Individuals can claim their actual tax payments or rely on standardized amounts based on the number of exemptions in the household. The standard amount is \$30 for one exemption, \$40 for two, \$50 for three, and \$60 for four or more. The tax was originally added to long-distance telephone services to raise revenue for the Spanish-American War. The tax is no



Larry Walker, Jr., E.A.
Enrolled Agent
*Registered Representative

2775 Trotters Walk Trail
Snellville, GA 30078
www.4-Serenity.com
lwalker@4-Serenity.com
Office: 770.978.9565
Fax: 404.795.0467

longer being charged. You will need your actual phone bills for the period to claim the actual amount. Those who are not required to file a return may file a new Form 1040-EZT to claim the refund.

The IRS has announced a formula that most businesses and tax-exempt organizations may use to estimate their federal telephone excise tax refund (IRS News Release IR-2006-179, 11-16-06). The formula requires an eligible business to compare its phone bills for only two months to determine the applicable tax percentage and then apply that percentage to its total telephone expenses for the appropriate 41-month period. The amount of refund, however, will be limited based on the number of employees the business has.

Formula: Under the formula, a business or tax-exempt organization compares its April 2006 phone bill (i.e., the bill with an April 2006 statement date) with its September 2006 bill. It must figure the telephone tax as a percentage of its April bill (which included the excise tax for both local and long-distance service) and its September bill (which only included the tax on local service).

Then using Form 8913, the business or tax-exempt organization must multiply the difference between these two percentages by the total telephone expenses shown on its phone bills dated after February 28, 2003, and before August 1, 2006, to determine the refund amount. The refund is capped at two percent of total telephone expenses for businesses with 250 or fewer employees, and at one percent for businesses with more than 250 employees.

The refund is only available on 2006 tax returns.

Income and Exclusions

- Employer paid parking is free up to \$205 per month. The limit on transit passes and vanpooling remains at \$105 per month.
- Employees who donate unused leave under a written plan are not taxed on their contribution, but cannot claim a charitable contribution.
- A lender of funds who does not charge the market rate is treated as receiving interest. The market rate is the applicable federal rate, or AFR, for the term of the loan. If a below market loan is outstanding for all of 2006, interest is imputed at the blended rate of 4.71%.
- There is a new box on Form 1099-INT for reporting tax-exempt interest. This is to help Social Security recipients accurately figure the portion of benefits, if any, to be included in income.
- Capital Gains – The 15% rate will apply through 2010. The 5% rate for taxpayers in the 10% or 15% bracket will be zero in 2008, 2009, and 2010. The zero rates may impact the timing of certain capital gains in the near future.
- Home Sale Exclusion – Allows a gain up to \$250,000 or \$500,000 on a joint return, to be tax free if certain conditions are met. The home must be owned and used as a principal residence for at least two of the five years preceding the sale. A partial exclusion is allowed if the sale is motivated by a change in jobs or health, or other unforeseen circumstances.
- Depreciation Limits – The first year expensing limit increased to \$108,000 with a phase-out starting at \$430,000. The limit is scheduled to return to \$100,000 in 2010. The dollar limit for expensing passenger cars placed in service in 2006 is \$2960 for the first year, \$4,800 for the second year, \$2,850 for the third year, and \$1,775 for each year thereafter. The limits for light trucks and vans are slightly higher each year. Vehicles weighing more than 6,000 pounds are not subject to these limits and can be expensed up to \$25,000, with the excess subject to depreciation. Trucks and vans that are non-personal use vehicles are not subject to the dollar limits or the \$25,000 expensing limitation.
- Mileage Rate – The standard mileage rate is fixed at \$0.45 per mile for business usage.
- Leased vehicles used for business – The lease payments are fully deductible, other than a small add-back called a lease inclusion.
- Meals and Entertainment costs are 50% deductible, however, transportation workers may deduct up to 75%. Corporation may use per-diem rates for travel, meals and entertainment, and incidentals, however, self-employed individuals may not.

Adjustments to Gross Income

- Health Savings Accounts allow a deduction for premiums within certain limits as long as the taxpayer is covered by a high deductible health plan. High deductible plans require an annual deductible of at least \$1,050 for self-only, or \$2,100 for family coverage. The maximum deductible contribution for 2006 is \$2,700 for self-only coverage or \$5,450 for family coverage. Starting in 2007, taxpayers will be allowed to make a one-time, once-in-a-lifetime, rollover of funds from their IRA's into an HSA. This is designed to give employees quicker access to their funds for medical expenses.
- Self-employed health insurance deduction of 100% of premiums. Sole proprietors take a deduction above-the-line but not on schedule C. More than 2% shareholders of S-Corporations are only allowed an above the line deduction if the corporation purchases the policy. If the shareholders purchased the policy, then the premiums are taken as an itemized deduction subject to the 7.5% of adjusted gross income limitation.
- SIMPLE and 401K Contributions – The final deadline for elective deferrals, the amount contributed from the employee, are due by January 30 following the end of the year to which they relate. The employers matching contribution may be made by the due date of the return including extensions. Contributions should be made on a monthly basis within 30 days of the pay period for which they relate.
- The Tuition and Fees, and Teacher's Expense deductions have been extended through 2007.

Standard Deduction and Itemized Deductions

- The standard deduction amounts for 2006 are \$10,300 for married filing jointly and surviving spouses, \$7,550 for heads of household, and \$5,150 for single taxpayers and married filing separately. The additional standard deduction amounts for taxpayers who are age 65 or older and /or blind are \$1,250 for single taxpayers and surviving spouses, and \$1,000 for married taxpayers. The standard deduction for a dependent is \$850.
- Donations of used clothing and household items after August 17, 2006, can be deducted only if they are in good used condition or better.
- No charitable contribution deduction can be claimed for tuition paid by a parent for his children to attend a religious day school (Sklar, 125 TC No. 14 (2006)).
- A landlord who provided rooms rent-free to Katrina victims could not claim a charitable contribution deduction because a direct gift to an individual is not deductible (Chief Counsel Information Letter 2006-0008).
- The deduction for state and local sales taxes has been extended through 2007.

Tax Computation

- The dependency exemption increased to \$3,300 per dependent.
- The age for the Kiddie Tax has been increased from 14 years old to 18, retroactive to January 1, 2006. This means that a child under age 18 is taxed on unearned income over \$1,700 in 2006 at the parents' highest marginal rate.

Tax Credits

- The adoption credit is up to \$10,960.
- The adjusted gross income limits for education credits in 2006 have a phase-out that starts at \$45,000 for single and head of household, and \$90,000 for joint filers. The maximum Hope credit has increased to \$1,650. The lifetime learning credit can only be taken for payments made within the year that the education is furnished. Prepaid tuition is not allowed.
- Dependent Care Credit – The cost of specialty day camps, such as camps for soccer or computers can qualify for the credit. Preschool costs also qualify, but kindergarten costs do not.



2007 Overview

January 15th

Deadline for December's monthly payroll tax deposits for monthly payers.

January 31st

Deadline for 4th Quarter payroll tax returns. Businesses are required to file Federal Form 941, State Unemployment, and State Withholding Forms for the final quarter. Businesses are also required to file annual forms: Federal Form 940, Federal Form 944 if applicable, and State Wage Reconciliation Reports. Quarterly tax payments are due for State Unemployment Taxes, and annual or final payments are due for Federal Unemployment taxes. Quarterly payroll tax deposits are due with the returns for quarterly payers. Businesses must also file W-2 forms with the Social Security Administration, the State, and provide copies to all employees. Businesses must also file Form 1099's with the IRS and provide copies to recipients to report payments made to independent contractors of \$600 or more for the year. Separate penalties are imposed by each agency for failure to file or pay on time (it is better to file on time, and pay late, than to file and pay late).

Deadline for the employee deferral contributions as relates to prior year 401K, and SIMPLE Retirement Plans. Matching contributions may be made by the due date of the company's tax return.

March 15th

Deadline for Corporate Income Tax Returns: Federal Forms 1120 or 1120S, and equivalent state returns. Six-month extensions may be filed in lieu of the returns.

Deadline for, company funded, Simplified Employee Pension (SEP) Contributions unless the company files a 6 month extension.

April 15th

Deadline for Personal, Trust, and Partnership Income Tax Returns: Federal Forms 1040, 1041, and 1065 and the equivalent state tax returns. A six-month extension may be filed in lieu of the returns.

Deadline for prior year IRA, Roth IRA, Coverdell IRA, 529 Plan, and Health Savings Account contributions.

Deadline for prior year SEP, and SIMPLE contributions for independent contractors who file 1040, Schedule C. [Deadline for matching contributions for Partnerships, unless a 6 month extension is filed.]

April 30th

Deadline for 1st Quarter payroll tax returns. Federal Form 941, State Withholding, and State Unemployment tax returns must be postmarked by midnight. Penalties are assessed for not filing timely.

May 15th

Deadline for Non-Profit Corporation income tax returns: Federal Forms 990-EZ, 990 and related schedules. A Four-month extension may be filed in lieu of the returns.

FAQ's: *Who are you licensed through?* The Federal Government. *What code of ethics do you subscribe to?* Treasury Circular 230; and the NATP code of ethics. *What other licenses do you hold?* Series 6, 63. *Why don't you discuss financial services in these newsletters?* Financial service news must be pre-approved by outside parties. Such newsletters are sent out by e-mail to clients on our e-mail list. You may be included by forwarding your email address. *Do you carry errors and omissions insurance?* Yes. *To which research services do you subscribe?* Commerce Clearing House online and print publications. *Does the IRS ever request information through e-mails?* No. The IRS will never request information from you by email, and neither will its private collection agencies. Beware of scams designed to gain access to your personal information.

Tax Organizers – We have enclosed your 2006 personal tax organizer, to assist you in gathering the documents needed to prepare your tax returns. The organizer does not take the place of official documents, but is meant to assist you in comparing your current and prior year documents.