



QUICK ACCOUNTING SERVICES

Taxing Topics

2006 & 2007 Tax Years

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Long-Distance Phone Tax Refund

On May 25, 2006, the IRS announced it would stop collecting the federal excise tax on long-distance telephone service, which was first imposed in 1898. The current rate is 3% of the charges billed for these services. This announcement follows decisions in five federal appeals courts holding the tax does not apply to long-distance service as it is billed today.

Taxpayers will be eligible to receive a refund of all excise taxes billed to them for long distance service on landlines, cell phones, and Voice Over Internet Protocol. The refund will be a one-time payment available on their 2006 federal tax return. The details:



- ◆ Available for federal long distance excise taxes only. Refund does not affect federal tax on local telephone service or the various state and local taxes.
- ◆ For amounts billed between February 28, 2003 and August 1, 2006.
- ◆ Individuals, businesses, and nonprofits are eligible for the refund.
- ◆ Individuals can use actual billed amounts or a standard refund amount.
- ◆ The standard refund amount will be between \$30 and \$60, depending on the number of exemptions, as illustrated in the following chart.

# Exemptions	Standard Refund Amount
1	\$30.00
2	\$40.00
3	\$50.00
4 or more	\$60.00

- ◆ If the standard amount is used, you only need to fill out one line of the tax return. It will not matter whether you itemize or use the standard deduction; you will receive the standard refund amount.
- ◆ Businesses and nonprofits must use actual amounts and file Form 8913, which is new in 2006.
- ◆ Another new form, 1040EZ-T, will be used to claim the refund for taxpayers not required to file a return.

Split Refunds Allowed

Taxpayers may use the new Form 8888 to directly deposit their refunds in up to three different financial accounts. This form will allow taxpayers to choose one, two, or three separate accounts, such as joint checking, taxpayer savings, and spouse checking accounts.

Standard Deduction Increases

The amount of the standard deduction for taxpayers who do not itemize deductions depends on your filing status, whether you are 65 or older or blind, and whether an exemption can be claimed for you by another taxpayer. The basic standard deduction amounts for 2006 are:

- ◆ Head of household — \$7,550
- ◆ Married filing jointly & qualifying widow(er) — \$10,300
- ◆ Married filing separately — \$5,150
- ◆ Single — \$5,150

The standard deduction amount for an individual who may be claimed as a dependent by another taxpayer may not exceed the greater of \$850 or the sum of \$300 and the individual's earned income.

Exemption Amount Increases

The amount you can deduct for each exemption has increased from \$3,200 in 2005 to \$3,300 in 2006. You lose all or part of the benefit of your exemptions if your adjusted gross income is above a certain amount. The amount at which the phase out begins depends on your filing status. For 2006, the phase out begins at:

- ◆ \$112,875 for married filing separately,
- ◆ \$150,500 for single individuals,
- ◆ \$188,150 for heads of household, and
- ◆ \$225,750 for married filing jointly or qualifying widow(er)s.

If your adjusted gross income is above the amount for your filing status, use the Deduction for Exemptions Worksheet, which can be found in your tax booklet or online at www.irs.gov.

Social Security & Medicare Taxes

For tax year 2006, the employer and employee will each continue to pay the same rates that applied in 2005, which are:

- ◆ 6.2% each for social security tax (old-age, survivors, and disability insurance), and
- ◆ 1.45% each for Medicare tax (hospital insurance).

For social security tax, the maximum amount of 2006 wages subject to tax as increased to \$94,200. For Medicare tax, all 2006 wages are subject to the tax.

Earned Income Credit Amount Increases

The maximum amount of adjusted gross income (AGI) you can earn and still get the credit is higher for 2006. You may be able to take the credit for 2006 if:

- ◆ You have more than one qualifying child and you earn less than \$36,348 (\$38,348 if married filing jointly),
- ◆ You have one qualifying child and you earn less than \$32,001 (\$34,001 if married filing jointly), or
- ◆ You do not have a qualifying child and you earn less than \$12,120 (\$14,120 if married filing jointly).

You may be able to take the credit if your AGI is less than the amount above that applies to you.

The maximum amount of investment income you can have in 2006 and still get the credit increases to \$2,800.

Standard Mileage Rates

For tax years beginning in 2006, the allowable deductions for the standard mileage rate are as follows:

- ◆ Business miles — The standard mileage rate for the cost of operating your car changes to 44.5 cents per mile.
- ◆ Charitable services — The standard mileage rate allowed for use of your car to provide charitable services to a charitable organization is 14 cents per mile.
- ◆ Charitable services — If you used your vehicle in providing services to a charitable organization for relief related to Hurricane Katrina, the standard mileage rate is 32 cents per mile.
- ◆ Medical reasons — The standard mileage rate allowed for medical reasons is 18 cents per mile.
- ◆ Moving — The standard mileage rate for determining moving expenses is 18 cents per mile.



What's New

Highlights of Basic Changes

In 2007, personal exemptions and standard deductions will rise, tax brackets will widen and income limits for IRAs will increase. By law, the dollar amounts for a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits, affecting virtually every taxpayer, are being adjusted for 2007. Key changes affecting 2007 returns include the following:

- ◆ The value of each personal and dependency exemption will be \$3,400, up \$100 from 2006.
- ◆ The new standard deduction will be \$10,700 for married couples filing a joint return (up \$400), \$5,350 for singles and married individuals filing separately (up \$200) and \$7,850 for heads of household (up \$300).
- ◆ Tax-bracket thresholds will increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket will be \$63,700, up from \$61,300 in 2006.
- ◆ In 2007, for the first time, inflation adjustments will raise the income limits that apply to the retirement savings contributions credit, contributions to a Roth IRA and deductible contributions to a traditional IRA where the taxpayer or the taxpayer's spouse is covered by a retirement plan at work.

Standard Mileage

The IRS has issued the 2007 standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes. Beginning Jan. 1, 2007, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

- ◆ 48.5 cents per mile for business miles;
- ◆ 20 cents per mile for medical or moving purposes; and
- ◆ 14 cents per mile for service to a charitable organization

The primary reasons for the higher rates were higher prices for vehicles and fuel during the year ending in October.

A taxpayer may not use the business standard mileage rate for a vehicle:

- ◆ after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS),
- ◆ after claiming a Section 179 deduction for that vehicle,
- ◆ for any vehicle used for hire or
- ◆ for more than four vehicles used simultaneously.

Tax Increase Prevention and Reconciliation Act of 2005

On May 17, 2006, President Bush signed the *Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA)*, H.R. 4297. The new law includes the following provisions:



Increased AMT Exemption Amounts

For tax year 2006 only, the AMT exemption amounts will be higher. If not extended, the 2007 AMT exemption amounts will revert to tax year 2000 levels.

Filing Status	2005 Exemption Amount	2006 Exemption Amount	2007 Exemption Amount
Single	\$40,250	\$42,500	\$33,750
Married Filing Joint	\$58,000	\$62,550	\$45,000
Married Filing Separate	\$29,000	\$31,275	\$22,500
Head of Household	\$40,250	\$42,500	\$33,750
Qualifying Widow(er)	\$45,000	\$62,550	\$45,000

Nonrefundable Tax Credits Extended

The act extends the following nonrefundable tax credits for one year. They are allowable against regular and AMT tax.

- ◆ Child and dependent care expense credit.
- ◆ Credit for elderly or the disabled.
- ◆ Mortgage interest credit.
- ◆ Education credits.
- ◆ Non-business energy property credit.
- ◆ Residential energy efficient property credit.

The following nonrefundable personal credits are permanent and can be used against regular and AMT tax after tax year 2006:

- ◆ Adoption expense credit.
- ◆ Child tax credit.
- ◆ Retirement savings contribution credit.

Qualified Dividends Extended

Taxation of qualified dividends at the 15% maximum capital gains rate will be extended two years until December 31, 2010. Also, TIPRA extends the ability to treat dividends as investment income for determining the deductible interest expense for two years. If you elect to treat dividends as investment income, they will not be eligible for the 15% maximum capital gains treatment.

Kiddie Tax

The Upper age limit for the kiddie tax will be raised from under age 14 to under age 18. Unearned income over \$1,700 will be taxed at the parent's highest marginal tax rate. Children can still earn \$850 tax free, while the next \$850 will be taxed at the child's rate.

There are two exceptions for the 18-year-old age requirement: (1) if the child is married and files a joint return with their spouse, or (2) if the income is from certain qualified disability trusts.

Section 179 Extended

The increased Section 179 limits will be increased for two year. The limits for tax year 2006 will be \$108,000, with the phase out starting at \$430,000. The taxpayer's right to revoke or change the Section 179 election without IRS approval will be extended two years. The provision to expense off-the-shelf software will also be extended two years.

Roth IRA Conversions

Beginning in tax year 2010, there will no longer be an adjusted gross income cap on individuals converting a traditional IRA to a Roth IRA. That cap is currently \$100,000.

The gross income from the Roth conversion can be included in the tax return during the year of the conversion, or it may be excluded in the current year and taxed in the next two tax years.

Example: A \$250,000 traditional IRA is converted to a Roth IRA in 2010, and the taxpayer elects to defer the income. In 2010, non of the IRA amount would be included in gross income. In 2011, \$125,000 would be included. In 2012, the final \$125,000 would be included in gross income.

Capital Gains Rates Extended

The act extends the lower capital gains rates for regular and AMT taxes for two years.

Year	Rates for 10% and 15% Bracket or Below	Rates for Above the 15% Bracket
2006	5%	15%
2007	5%	15%
2008	0%	15%
2009	0%	15%
2010	0%	15%

2007 Important Dates

January 16

- ◆ Individuals and Corporations—Final installment payment of estimated tax for 2006.

January 31

- ◆ All Businesses—Give annual information statements to recipients of payments you made during 2006, such as W-2s, 1099s, etc.
- ◆ Employers—File Form 941 for the fourth quarter of 2006. If you deposited the tax for the quarter in full and on time, you have until February 12 to file.
- ◆ Employers—File Form 940 for 2006. If your undeposited tax is more than \$500, you must deposit it. If you deposited the tax for the year in full and on time, you have until February 12 to file.

February 28

- ◆ Employers—File Form W-3, Transmittal of Wage and Tax Statements, along with Copy A of all the Forms W-2 you issued for 2006. If you file Forms W-2 electronically, your due date for filing them with the SSA will be extended to April 2. The due date for giving the recipient these forms remains January 31.
- ◆ Employers—File information returns (Form 1099) for certain payments made during 2006. Use a separate Form 1096 to transmit the forms for each type of payment. If you file Forms electronically, your due date for filing with the IRS will be extended to April 2. The due date for giving the recipient these forms remains January 31.

March 15

- ◆ Corporations—File 2006 calendar year income tax return (Form 1120 or 1120-A) and pay tax due. If you want an automatic 6-month extension of time to file, file Form 7004 and deposit the estimated tax owed.
- ◆ S corporations—File 2006 calendar year income tax return (Form 1120S) and pay tax due. Provide each shareholder with a copy of Schedule K-1. If you want an automatic 6-month extension of time to file, file Form 7004 and deposit estimated tax owed.

April 16

- ◆ Individuals—File 2006 tax return and pay tax due. If you want a 6-month extension of time to file, file Form 4868, or you can get an extension by phone or on the Internet. The due date is October 15.
- ◆ Individuals and Corporations—Pay or deposit the first installment for 2007 estimated tax.
- ◆ Partnerships—File 2006 calendar year return (Form

1065). Provide each partner with a copy of Schedule K-1. If you want a 6-month extension of time to file and provide Schedule K-1, file Form 7004. Then, file Form 1065 by October 15.

April 30

- ◆ Employers—File Form 941 for the second quarter of 2007. If you deposited the tax for the quarter in full and on time, you have until May 10 to file.
- ◆ Employers—Deposit federal unemployment tax owed through March if more than \$500.



June 15

- ◆ Individuals and Corporations—Pay or deposit the second installment for 2007 estimated tax.

July 31

- ◆ Employers—File Form 941 for the second quarter of 2007. If you deposited the tax for the quarter in full and on time, you have until August 10 to file.
- ◆ Employers—Deposit federal unemployment tax owed through June if more than \$500.

September 17

- ◆ Individuals and Corporations—Pay or deposit the third installment for 2007 estimated tax.
- ◆ Corporations—File 2006 calendar year income tax return (Form 1120 or 1120-A) and pay any tax due. Due date applies only if you requested an automatic 6-month extension.
- ◆ S corporations—File 2006 calendar year income tax return (Form 1120S) and pay any tax due. This due date applies only if you requested an automatic 6-month extension. Provide each shareholder with a copy of Schedule K-1.

October 15

Individuals—If you have a 6-month extension, file your income tax return for 2006.
Partnerships—File 2006 calendar year return (Form 1065). Due date applies only if you have a 6-month extension. Provide each partner with a copy of Schedule K-1.

October 31

Employers—File Form 941 for the third quarter of 2007. If you deposited the tax for the quarter in full and on time, you have until November 13 to file.
Employers—Deposit federal unemployment tax owed through September if more than \$500.

Home Office Deduction Reminders

In order to educate taxpayers regarding their filing obligations, the Internal Revenue Service has created this fact sheet, the fourth in a series, which explains the rules for deducting home office expenses.

Basic Requirements

Taxpayers who use a portion of their home for business purposes may be able to take a home office deduction if they meet certain requirements. Ex-



penses that may be deducted include the business portion of real estate taxes, mortgage interest, rent, utilities, insurance, painting, repairs and depreciation. Note: The amount of depreciation deducted decreases the basis of your property.

In order to claim a deduction for that part of a home used for business, taxpayers must use that part of the home:

- ◆ Exclusively and regularly as their principal place of business, as a place to meet or deal with patients, clients or customers in the normal course of their business, or in connection with their trade or business where there is a separate structure not attached to the home; or
- ◆ On a regular basis for certain storage use such as inventory or product samples, as rental property, or as a home daycare facility.

In addition, taxpayers working as employees can claim this deduction only if the regular and exclusive business use of the home is for the convenience of their employer and the portion of the home is not rented by the employer.

“Exclusive use” means a specific area of the home is used only for trade or business. “Regular use” means the area is used regularly for trade or business. Incidental or occasional business use is not regular use.

Non-business profit-seeking endeavors such as investment activities do not qualify for a home office deduction, nor do not-for-profit activities such as hobbies.

Example: An attorney uses the den in his home to write legal briefs or prepare clients’ tax returns. The family also uses the den for recreation. The den is not used exclusively in the attorney’s profession, so a

business deduction cannot be claimed for its use.

These requirements are discussed in greater detail in Publication 587, Business Use of Your Home.

Computing the Amount of Home Office Deduction

Generally, the amount of the deduction depends on the percentage of the home that is used for business. A taxpayer can use any reasonable method to compute business percentage, but the most common methods are to:

- ◆ Divide the area of the home used for business by the total area of the home, or
- ◆ Divide the number of rooms used for business by the total number of rooms in the home if all rooms in the home are about the same size.

Taxpayers may not deduct expenses for any portion of the year during which there was no business use of the home. If the gross income from business use of the home is less than the total business expenses, the deduction for certain expenses is limited.

Personal Expenses Are Not Business Expenses

It is important for taxpayers to realize that business expenses may be deducted only if they are ordinary and necessary for the particular type of business. Personal, family and living expenses are not deductible under any circumstances. A common error is to deduct expenses for a portion of the home that is not used regularly and exclusively for business.

Example: The basic local telephone service charge, including taxes, for the first telephone line into a home is a nondeductible personal expense. However, charges for business long-distance phone calls on that line, as well as the cost of a second line into a home used exclusively for business, are deductible business expenses.

Quick Accounting Services

2007 Rate Chart



Rate for all Services	\$40.00 / hour
Corp. & Partnership Tax Processing	\$50.00 / return
Individual Federal Return E-Filing	\$35.00 / return
Individual State Return E-Filing	\$20.00 / return
Payroll Tax Service Subscription	\$50.00 / year

A basic tax return, with electronic filing, has only increased by \$5.00. The only real changes are my hourly rate, which increased from \$35.00 to \$40.00 per hour, and the annual payroll subscription fee.

Car and Truck Expense Deduction Reminders

The Internal Revenue Service reminds taxpayers to become familiar with tax law before deducting car- and truck-related business expenses. In an effort to educate taxpayers regarding their obligation to file accurate tax returns, this fact sheet, the fifth in a series, explains the rules for deducting car and truck expenses.

Deductible Car and Truck Expenses

Ordinarily, expenses related to use of a car, van, pickup or panel truck for business can be deducted as transportation expenses. Use of larger vehicles, such as tractor-trailers, is treated differently and is not part of this discussion. In order to claim a deduction for business use of a car or truck, a taxpayer must have ordinary and necessary costs related to one or more of the following:

- ◆ Traveling from one work location to another within the taxpayer's tax home area visiting customers.
- ◆ Attending a business meeting away from the regular workplace.
- ◆ Getting from home to a temporary workplace when the taxpayer has one or more regular places of work.

Expenses related to travel away from home overnight are travel expenses. These expenses are discussed in Chapter One of Publication 463, "Travel, Entertainment, Gift, and Car Expenses." However, if a taxpayer uses a car while traveling away from home overnight on business, the rules for claiming expenses are the same as above.

It is important to note that costs related to travel between a taxpayer's home and regular place of work are commuting expenses and are not deductible.

You can choose to use either standard mileage rate or actual expenses to compute the allowable business deduction. And, you may want to figure the deduction using both methods to see which provides larger deductions.

Standard Mileage Rate Method

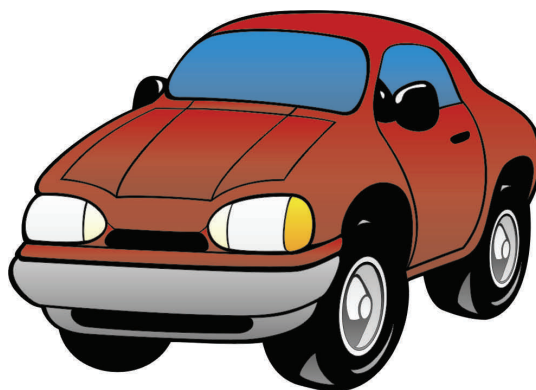
The standard mileage rate (44.5 cents per mile in 2006 and 48.5 cents per mile in 2007) may be used to figure the deductible costs of a vehicle that is owned or leased. If a taxpayer wishes to use the standard mileage rate for a leased vehicle, it must be used for the

entire lease period. *A taxpayer must use the standard mileage rate for the first year a vehicle is available for business use in order to use the standard mileage rate in subsequent years.*

The standard mileage rate is used in place of actual expenses. Taxpayers who choose the standard mileage rate may not deduct actual expenses. Business-related parking fees and tolls may still be deducted in addition to the standard mileage rate. Fees for parking at a taxpayer's main place of business or tolls related to commuting to and from that main place of business are personal expenses which are not deductible.

The standard mileage rate cannot be used if you:

- ◆ Use the car for hire (such as a taxi).
- ◆ Use five or more cars at the same time (as in fleet operations).
- ◆ Claim depreciation or a section 179 deduction.
- ◆ Are a rural mail carrier who receives a qualified reimbursement.



Actual Expenses Method

Actual car or truck expenses include: depreciation, lease payments, registration fees, licenses, gas, insurance, maintenance and repairs, oil, garage rent, and tires. If business use of the vehicle is less than 100 percent, expenses must be allocated between business and personal use. Only the business use percentage of each expense is deductible.

Recordkeeping

In the case of car and truck expenses, the types of records required depend on whether the taxpayer claims the standard mileage rate or actual expenses.

To claim the standard mileage rate, appropriate records would include documentation identifying the vehicle and proving ownership or a lease and a daily log showing miles traveled, destination and business purpose.

For actual expenses, a mileage log helps establish business use percentage. Taxpayers should also retain receipts, invoices and other documentation to show cost and establish the identity of the vehicle for which the expense was incurred.

The New Energy Tax Acts

The two energy tax acts that passed in August 2005 provide several opportunities for saving money. The first credits are for making your principal residence more energy efficient and for buying certain energy efficient items. The second credits are for purchasing various types of alternative motor vehicles, including hybrids.

Credits for Making Home Energy Efficient

Residential Energy Property Credit

Individual taxpayers can claim up to \$500 credit for installing qualifying energy efficient property in a personal residence. The maximum, lifetime credit for all taxable years is \$500 – no more than \$200 of the credit can be attributable to expenses for windows. The credit is available on property placed in service during the 2006 and 2007 tax years only. There are two different ways of qualifying for and calculating the credit:

1. Improvements: Receive 10% credit for qualified energy efficient improvements. To qualify, a component must be installed in the taxpayer's main home in the United States. The following items are eligible:
 - ◆ Insulation systems that reduce heat loss/gain
 - ◆ Exterior windows (including skylights)
 - ◆ Exterior doors and Metal roofs (meeting applicable Energy Star requirements).
 - ◆
2. Purchases: Receive 100% credit for energy property purchases. The maximum dollar limit for purchases is:
 - ◆ \$50 for each advanced or main air circulating fan.
 - ◆ \$150 for each qualified natural gas, propane or oil furnace, or hot water boiler.
 - ◆ \$300 for energy efficient property including heat pumps, water heaters, and central air conditioners.

Residential Energy Efficient Improvements

Individual taxpayers can claim a 30% credit for the following qualified energy efficient improvements:

- ◆ Photovoltaic property expenditures or technology using solar cells to convert sunlight into electricity. The 30% credit will be limited to a maximum of \$2,000.
- ◆ Solar water heating expenditures typically consisting of a solar collector and a water

storage tank. The 30% credit is limited to a maximum of \$2,000.

- ◆ Fuel cell expenditures or fuel cells using hydrogen and oxygen to create electricity. The 30% credit is limited to a maximum of \$1,000. The credit may not exceed \$500 for each .5 kilowatt of capacity.

The residential credit will be available on property placed in service in 2006 and 2007. Unlike the Residential Energy Property Credit, any unused credit in 2006 can be carried forward to 2007.

Credit for Purchasing/Leasing Hybrid Vehicles



The Energy Policy Act of 2005 replaced the clean-fuel burning deduction with a tax credit. A tax credit is subtracted directly from the total amount of tax owed, thus reducing or even eliminating the taxpayer's tax. The tax credit for hybrid vehicles applies to vehicles purchased or placed in service on or after January 1,

2006, and could be as much as \$3,400. The credit is only available to the original purchaser of a new, qualifying vehicle. If a qualifying vehicle is leased to a consumer, the leasing company may claim the credit.

Hybrid vehicles have drive trains powered by both an internal combustion engine and a rechargeable battery. If you would like a list of certified models and credit amounts, e-mail me at cmeadows@lonesomemeadows.com.

The full credit is only available for the first 60,000 hybrid vehicles sold by an automobile manufacturer. And, the credit may only be claimed up to the end of the first calendar quarter after the quarter in which the manufacturer records its sale of the 60,000th hybrid and/or advanced lean-burn technology motor vehicle.

The phase out period for a manufacturer begins with the second calendar quarter after the manufacturer records its 60,000th sale. In the second and third quarters after meeting the 60,000-vehicle ceiling (for six months), taxpayers may claim 50 percent of the full credit. If you purchase in the fourth and fifth quarters after the 60,000-vehicle ceiling, you will qualify for 25 percent of the full credit. After the fifth quarter, no credit will be allowed.

As of June 30, 2006, Toyota and its Lexus subsidiary has sold 60,000 hybrid vehicles. Therefore, the above credits reflect a 50% decrease in the original credit amount as of 10/1/06, due to the manufacturers meeting quarterly sales of 60,000 qualified hybrid cars. Credit amounts are valid thru 3/31/07, at which time the credit will be reduced to 25% of the original credit amount.