

# 2007 TAX SEASON NEWSLETTER

## I) 2006 TAX UPDATES

### ENERGY TAX INCENTIVES ACT OF 2005

#### **Alternative Motor Vehicle Credit**

Starting January 1, 2006 the new law allows a tax credit for the following four types of new vehicles:

- 1) Qualified Hybrid
- 2) Advanced Lean Burn Technology
- 3) Qualified Fuel Cell
- 4) Qualified Alternative Fuel

The credits are allowed for both personal and business vehicles and the credit is calculated based on a complicated set of rules. For example, the credit for qualified hybrid motor vehicles is based on fuel economy, efficiency improvements and conservation of anticipated lifetime fuel savings. The credits will vary based on the vehicle purchased.

#### **Personal Energy Property Credit**

Beginning in 2006, taxpayers can claim a personal tax credit equal to the sum of:

- 1) 10% of expenditures for qualified energy efficiency improvements installed during the year, plus
- 2) 100% of residential energy property expenditures paid during the year.

To be eligible, the improvements must be done to the taxpayers' principal residence. The lifetime credit is \$500 for any taxpayer, including married filing jointly returns. The credit is only available for property placed in service in 2006 and 2007.

Please note there are many specific guidelines and components that make up this new credit. The credit varies on the specific improvements placed in service. Items included in this credit are the following:

- 1) Insulation materials or systems designed to reduce heat loss or gain.
- 2) Exterior windows, including skylights.
- 3) Exterior doors.
- 4) Metal roofs coated with heat-reduction pigments.
- 5) Energy-efficient building property-qualified electric heat pumps, electric heat pump water heaters, geothermal heat pumps and central air conditioners.
- 6) Qualified natural gas, propane and oil furnaces and qualified hot water boilers.
- 7) Advanced main air circulating fans, a fan used in a natural gas, propane or oil furnace.

### **TAX INCREASE PREVENTION AND RECONCILIATION ACT OF 2005 (TIPRA) AND THE PENSION PROTECTION ACT OF 2006 (PPA)**

The following tax law changes were enacted with the TIPRA and PPA legislation effective for the 2006 tax years:

#### **Alternative Minimum Tax (AMT) Adjustments**

The AMT exemption amount increased to \$42,500 for Single and Head of Household filers, \$62,550 for Married Filing Jointly filers, and \$31,275 for Married Filing Separately filers. This is effective for the 2006 tax year only.

### **Kiddie Tax**

Starting with the 2006 tax year, the Kiddie Tax (Form 8615) applies to children under the age of 18. The Kiddie taxes unearned income at the parent's rate. Previously the law used to apply to children under the age of 14.

Also, the amount of investment income/unearned income a child can have in 2006 increased from \$1,600 in 2005 to \$1,700 in 2006.

### **Capital Gain and Dividend Rates**

The maximum 15% rate for long-term capital gains and dividends is extended through 2010. The 0% rate for taxpayers in the 10% to 15% tax bracket will apply from 2008 – 2010.

### **Direct Deposit of Refunds**

Starting in 2006, Form 888 allows taxpayers to split their federal tax refund into two or three accounts.

### **Tax-Exempt Interest Reporting**

Starting in 2006, payers of interest paid on tax-exempt bonds must report the interest paid to IRS and the taxpayer.

### **IRA Distributions to Charities**

Taxpayer's age 70 ½ or older in 2006 or 2007 can transfer up to \$100,000 from their IRA accounts to a qualifying charity without paying tax on the IRA distribution.

*Please note, no charitable deduction is allowed on the transfer.*

### **Itemized Deduction and Personal Exemptions**

The phase-out limit on personal exemptions and itemized deductions is reduced by 1/3 in 2006 and 2007.

### **Telephone Excise Tax Credit**

<http://www.prattassociates.com/organizers/teletax.pdf>

### **Hope Scholarship Tax Credit**

The Maximum Hope scholarship tax credit rises to \$1,650 in 2006 up from \$1,500 in 2005.

### **Cash Charitable Contributions**

Starting in 2007, no deduction is allowed for cash charitable contributions unless the taxpayer has either (1) bank records i.e.: cancelled checks or (2) written acknowledgement from the charitable organization detailing the contribution amount and date.

### **Non-Cash Charitable Contributions**

Starting in 2007 no deduction is allowed for clothing or household goods unless the items are in good used condition or better. IRS has not yet defined what is "good condition or better"

### **Direct Deposit to Individual Retirement Accounts (IRA's) of Tax Refund**

Starting in 2007, taxpayers can elect to have all or a portion of their Federal tax refund deposited into their IRA.

### **Rollovers of Deceased Individuals Retirement Plan**

Starting in 2007, a non-spouse beneficiary of a deceased individuals IRA or qualified employers retirement plan can roll the funds over tax-free in a direct trustee to trustee transfer.

### **Retirement Savings Credit**

The retirement savings credit was made permanent in 2006 and will be indexed for inflation starting in 2007.

***THE FOLLOWING DEDUCTIONS EXPIRED AT THE END OF 2005, BUT HAVE BEEN EXTENDED BY CONGRESS WITH THE TAX RELIEF AND HEALTH CARE ACT OF 2006.***

### **Itemized Deduction for State and Local General Sales Tax**

Taxpayers can elect to deduct their state and local general sales and use taxes as an itemized deduction, instead of deducting their state and local income taxes.

Taxpayers who make this election may choose from two options in calculating their sales tax deduction:

- 1) Deduct their actual sales taxes paid during 2005 or
- 2) Use IRS published tables plus sales tax paid for any motored vehicles, boats and other larger priced items specified by IRS.

***Please note: IRS has not issued the published tables at this time. They are hopeful to have the tables available by the start of the upcoming filing season. Itemized Deduction for State and Local Sales Taxes***

### **Tuition and Fees Deduction**

The Tuition and Fees Deduction is \$4,000 in 2006. The deduction allows for up to \$4,000 of tuition and fees paid for the enrollment at an eligible educational institution. In 2006 if taxpayer's Adjusted Gross Income is above the first phase out amounts of \$130,000 for Married Filing Jointly and \$65,000 for Single or Head of Household they can qualify for a reduced deduction. The reduced deduction of \$2,000 is available only if the taxpayer's Adjusted Gross Income does not exceed \$160,000 for Married Filing Jointly and \$80,000 for Single or Head of Household taxpayers.

### **Educator's Expenses**

Similar to 2005, an above the line deduction is available for kindergarten through grade 12 teachers, that purchase books, supplies, equipment used in the classroom. The deduction is limited to \$250 per taxpayer, as long as the taxpayer spends at least 900 hours during the year as an educator.

### **15-YEAR RECOVERY (DEPRECIATION) PERIOD FOR QUALIFIED LEASEHOLD IMPROVEMENTS & RESTAURANT PROPERTY**

### **Qualified Leasehold Improvements**

For property placed in service through 2007, the Act provides a statutory straight-line 15-year depreciation period for Qualified Leasehold Improvements. Previously, leasehold improvements were depreciated as a 39-year property.

In general terms, qualifying leasehold improvements are interior improvements made under a lease to commercial property and placed in service more than three years after the building was first placed in service. Certain structural improvements or expansions do not qualify.

#### **Qualifying Restaurant Property**

Similar rules apply for Restaurant Property placed in service through 2007. The act provides a 15-year straight-line depreciation for qualified restaurant property.

Qualified restaurant property is any improvement to a building if the improvement is placed in service more than three years after the building was originally placed in service and more than 50% of the building's square footage is devoted to the preparation of or seating for on-premises consumption of prepared meals.

#### **Standard Mileage Rate for 2006**

The standard mileage rate for 2006 is 44.5 cents per mile.

### **2006 NEW YORK STATE TAX LAW CHANGES**

#### **Standard Deduction**

Effective January 1, 2006 the standard deduction for Married Filing Jointly filers increased from \$14,600 to \$15,000 and the standard deduction for Married Filing Separately filers increased from \$6,500 to \$7,500.

#### **Empire State Tax Credit (Form IT-213)**

A new refundable tax credit is available to full-year NYS residents who qualify for the federal child tax credit. The credit is equal to 33 percent of the federal child tax credit or \$100 for each child whichever is greater. The credit applies to each child who qualifies for the federal child tax credit and is at least four years old.

#### **Home Heating System Credit (Form IT-240)**

A new credit up to \$500 is available to taxpayers who purchased an energy star label home heating system from July 1, 2006 – July 1, 2007.

#### **Non-Custodial Earned Income Credit (Form IT-209)**

Starting in 2006, a non-custodial earned income tax credit is available to NYS residents who have paid child support through a support collection unit.

## **II) 2006 TAX FIGURES**

### **Standard Deductions for 2006**

Married Filing Jointly	10,300.00
Single	5,150.00

Head of Household	7,550.00
Married Filing Separately	5,150.00

### Personal Exemptions for 2006

\$3,300.00 per person

### 2006 Phase-Out Amounts / Adjusted Gross Income Ranges

<u>Filing Status</u>	<u>Lifetime Learning &amp; Hope Scholarship</u>	<u>Coverdell ESA</u>	<u>Student Loan Int</u>
Married Filing Joint	\$90,000-110,000	\$190,000-220,000	\$105,000-135,000
Single	45,000 - 55,000	95,000 - 110,000	50,000-65,000
Head of Household	45,000 - 55,000	95,000 - 110,000	50,000-65,000
Married Separately	Do Not Qualify	95,000 - 110,000	Do Not Qualify

<u>Filing Status</u>	<u>Regular IRA Active Participant</u>	<u>Roth IRA</u>	<u>Child Tax Credit</u>
Married Filing Joint	\$75,000-85,000	\$150,000-160,000	(under)\$ 110,000
Single	50,000-60,000	95,000-110,000	(under) 75,000
Head of Household	50,000-60,000	95,000-110,000	(under) 75,000
Married Separately	0-10,000	0- 10,000	(under) 55,000

<u>Filing Status</u>	<u>Tuition &amp; Fees Deduction</u>	
	<u>First Phase out</u>	<u>Second Phase out</u>
Married Filing Joint	\$0-130,000	& \$130,000 – 160,000
Single	0-\$65,000	& \$ 65,000 – 80,000
Head of Household	0-\$65,000	& \$ 65,000 – 80,000
Married Separately	Do Not Qualify	

### III) **ELECTRONIC FILING PAYMENT OPTIONS**

#### New York State

New Electronic Filing requirements were enacted starting with the 2005 tax year. Starting January 1, 2005 any tax practitioners who prepared more than 200 NYS original tax returns for the 2004 tax year in 2005 and uses tax preparation software **MUST** e-file their clients 2005 tax returns. The mandate changes starting January 2007 for any preparers who prepared more than 100 NYS returns for the tax year 2005 in 2006. Also the Form IT-201E has been replaced with Form TR-579, NYS E-file Signature Authorization for Tax Year 2006. Taxpayers can elect out of electronic filing by submitting Form IT-800 with their paper return.

Taxpayers may elect to pay their balance due by authorizing a direct debit from their savings or checking account in 2006. Taxpayers must specify, at the time their return is electronically filed, the type of account (savings or checking), account number, routing number of the bank account and the date they wish the debit to occur. The direct debit option must be chosen before the state income tax is transmitted to New York State.

Taxpayers can pay their 2006 tax liability with their credit cards (American Express, Discover, MasterCard or VISA), by contacting one of the two credit card service providers listed below. Taxpayers must contact these providers directly.

Official Payments Corp  
Call - 1-800-2PAYTAX  
[www.officialpayments.com](http://www.officialpayments.com)

Link 2 Gov Corp  
Call – 1-866-TAXESNY  
[www.nytaxpayment.com](http://www.nytaxpayment.com)

You can also connect to either of these sites by visiting the NYS Tax Department's website [www.tax.state.ny.us](http://www.tax.state.ny.us)

#### Internal Revenue Service

Taxpayers can pay their federal taxes using a direct debit or credit cards (American Express, Discover, MasterCard or VISA) in 2005. Direct debit payments can be made by calling 1-888-353-4537 or by setting up the payment schedule with your tax preparer at the time of your tax appointment.

You can pay income taxes using either of the two credit card service providers listed below. Taxpayers must contact these providers directly.

Official Payments Corp  
Call - 1-800-2PAYTAX  
[www.officialpayments.com](http://www.officialpayments.com)

Link to Gov Corp  
Call - 1-888-PAY1040  
[www.PAY1040.com](http://www.PAY1040.com)

### **IV) WHAT'S AHEAD IN 2007**

#### **Dependency Exemption**

In 2007 the dependency exemption will increase to \$3,400.

#### **Estate Tax Exemption**

The Estate tax unified credit will increase to \$2,000,000 for 2006 through 2008.

#### **Standard Mileage Rate**

IRS has announced that the standard mileage rate for business use has adjusted to 48.5 cents for 2007.

#### **Social Security Tax**

Social Security tax will be assessed on the first \$97,500 of wages in 2007, up from \$94,200 in 2005.

#### **Roth IRA Contribution**

Starting in 2007 the ROTH IRA deductible phase-out limitations will be indexed for inflation.

#### **Mortgage Insurance Premiums**

Starting in 2007 mortgage payments made for PMI can be claimed as an itemized deduction, subject to phase-out limitations starting at \$100,000.

#### **PLEASE NOTE:**

REMEMBER, THE TOPICS COVERED IN THIS NEWSLETTER ARE AN ABRIDGED VERSION TO THE ACTUAL TAX LAWS AND CODES COVERED BY THE IRS AND NEW YORK STATE. THEREFORE SOME INFORMATION MAY BE SUBJECT TO CHANGE ON A CASE-BY-CASE BASIS. IF YOU HAVE ANY QUESTIONS REGARDING THE ABOVE INFORMATION PLEASE EMAIL US AT [KS@PRATTASSOCIATES.COM](mailto:KS@PRATTASSOCIATES.COM).