

2006 Federal and State Update

Credit for federal telephone excise tax on 2006 returns.

After several appeals courts held that the 3% federal excise tax was being improperly applied to long distance telephone services, the IRS conceded the legal dispute and agreed to refund the taxes paid on long distance and wireless services billed after February 28, 2003, and before August 1, 2006.

Individuals can obtain the refund on their 2006 Forms 1040, 1040A, or 1040EZ by claiming a standard IRS rate, or they can rely on phone records to get a refund of their actual tax payments. Individual who are not otherwise required to file a 2006 return must file Form 1040 EZ-T to request a refund.

The IRS standard rate is based on the number of exemptions claimed by the taxpayer on his or her 2006 return and not on the number of telephones in the household. The minimum standard rate of \$30 for taxpayers claiming one exemption is increased by \$10 for each additional exemption but only up to \$60 for four or more exemptions. These amounts may not reflect the true taxes paid in a household with several cell phones in addition to a land line, so for such taxpayers, claiming a refund for actual taxes paid would be more beneficial, but only if they have 41 months of old phone bills to back up the claim.

Check the IRS instructions for conditions on claiming the actual tax payment.

How to file for deductions passed by Congress too late to be included on 2006 forms.

The IRS announced new guidance to help tax filers in 2007 claim the extended deductions and other tax advantages in the Tax Relief and Health Care Act of 2006 (P.L. 109-432) signed into law late in December. While the start of the 2007 filing season will begin on time, the recent changes in the law mean the IRS will not be able to process a small percentage of individual tax returns until early February, primarily involving three tax deductions: the state and local sales tax, higher education tuition and fees, and educator expenses

For people using IRS e-file or Free File, tax software will be updated to include the three key tax provisions. The IRS urged taxpayers to use e-file instead of the paper forms to minimize confusion over the late changes and reduce the chance of making extender-related errors on their returns.

Taxpayers can use existing lines on the current Form 1040 and other tax documents to claim the three major extenders provisions. The key forms (Forms 1040, 1040A, Schedule A & B, and instructions) went to print in early November and reflected the law in effect at that time. The instructions contain a cautionary note to taxpayers that the legislation was pending at the time of printing. While the majority of taxpayers file electronically, taxpayers using a paper Form 1040 will have to follow special instructions if they are claiming any of the three deductions. Form 1040 will not be updated. Instead, taxpayers should follow the steps outlined on the next page.

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State and Local General Sales Tax Deduction: The deduction for state and local general sales taxes must be claimed on Schedule A (Form 1040), line 5, "State and local income taxes." Enter "ST" on the dotted line to the left of line 5 to indicate you are claiming the general sales tax deduction instead of the deduction for state and local income tax. The IRS also will issue Publication 600 for 2006, which includes the state and local sales tax tables, a worksheet and instructions for figuring the deduction. This option is available to all taxpayers regardless of where they live, though it's primarily designed to benefit residents of the eight states without state and local income taxes.

Higher Education Tuition and Fees Deduction: Taxpayers must file Form 1040 to take this deduction for up to \$4,000 of tuition and fees paid to a post-secondary institution. The deduction for tuition and fees must be claimed on Form 1040, line 35, "Domestic production activities deduction." Enter "T" on the dotted line to the left of that line entry if claiming the tuition and fees deduction, or "B" if claiming both a deduction for domestic production activities and the deduction for tuition and fees. Taxpayers entering "B" must attach a breakdown showing the amounts claimed for each deduction.

Educator Expense Adjustment to Income: Educators must file Form 1040 in order to take the deduction for up to \$250 of out-of-pocket classroom expenses. The deduction for educator expenses must be claimed on Form 1040, line 23, "Archer MSA Deduction." Enter "E" on the dotted line to the left of that line entry if claiming educator expenses, or "B" if claiming both an Archer MSA deduction and the deduction for educator expenses on Form 1040. If entering "B," taxpayers must attach a breakdown showing the amounts claimed for each deduction.

California

Split Refunds.

For taxable years beginning on or after January 1, 2006, individual taxpayers may request that his or her refund be electronically deposited into more than one checking or savings account. (Applies to both federal and state) This allows more options for managing your refund. For example, you can request part of your refund go to your checking account to use now and the rest to your savings account to save for later. For federal refunds use form 8888.

Registered Domestic Partners

Beginning with the 2007 tax year, registered domestic partners are required to file a joint California return or separate returns using the same rules applicable to spouses. If you are a registered domestic partner, you may choose to modify your withholding or estimated tax payments for 2007 in anticipation of this change.

Teacher Retention Credit

The Teacher Retention Credit is suspended for taxable year 2006.

**The Tax Institute
Quick Tax Facts**

Key Figures for the 2006 tax year

STANDARD DEDUCTIONS

Married, filing joint return	\$10,300
Surviving spouse	\$10,300
Head of Household	\$7,550
Single	\$5,150
Married, filing separate return	\$5,150
Dependent standard deduction minimum	\$850
Additional amount for blindness and / or age	\$1,000
Additional amount as above if single or HH	\$1,250

EXEMPTIONS

Personal and Dependent Amount	\$3,300
Estate Amount	\$600
Simple Trust Amount	\$300
Complex Trust Amount	\$100
Joint returns or surviving spouse (Phaseout)	\$225,750
Head of Household (Phaseout)	\$188,150
Single (Phaseout)	\$150,500
Married, filing separate return (Phaseout)	\$112,875

ITEMIZED DEDUCTIONS

Married, filing separate (Phaseout)	\$75,250
Others (Phaseout)	\$150,500

TRANSPORTATION

Fringe Benefit: Employer-provided passes and vehicles	\$105/mo.
Fringe Benefit: Qualified parking limit	\$205/mo.
Business Mileage Rate	\$0.445
Charitable Mileage Rate	\$0.14
Medical and Moving Mileage Rate	\$0.18
Depreciation Component of Standard Mileage Rate	\$0.17
High Cost Per Diem Travel Rate (after 10/31/04)	\$226
Low Cost Per Diem Travel Rate (after 10/31/04)	\$141

RETIREMENT PLANS

Maximum Annual Benefit for Defined Benefit Plan	\$175,000
Maximum Annual Contribution Defined Contribution Plan	\$44,000
Highly Compensated Employee Definition (In general)	\$100,000
SIMPLE Contribution Limit	\$10,000
SEP De minimis Compensation Amount	\$450
SEP Nondiscrimination Compensation Amount	\$220,000
401 (k) Maximum Compensation Amount	\$220,000
401(k) Maximum Exclusion (In general)	\$15,000
IRA Deduction Limit (In general)	\$4,000
Catch-up Contributions (Extra amount for taxpayers over age 49)	
Traditional and Roth IRAs	\$1,000
SIMPLEs	\$2,500
401(k), 403(b) and 457 Plans	\$5,000

Key Figures for the 2006 tax year

CAPITAL GAIN RATES (ASSETS HELD MORE THAN 12 MONTHS)

General Rate:	15%
Low Rate: (Taxpayers in 10% or 15% bracket)	5%
High Rate: Collectibles (coins, art, antiques)	28%
Recaptured gain on real estate (Sec. 1250 gain)	25%
Dividends, qualified (General rate)	15%
Dividends, qualified (Taxpayers in 10% or 15% bracket)	5%

PAYROLL TAXES

Soc. Sec. (Self-employed) Combined rate (OASDI+Medicare)	15.3%
Soc. Sec. (Employer or Employee) Rate (OASDI+Medicare)	7.65%
OASDI Maximum Base	\$94,200
FUTA Rate	6.2%
FUTA Wage Base	\$7,000
Nanny Tax Threshold	\$1,500

ADJUSTED GROSS INCOME LIMITS

Casualty Loss Threshold	10%
Medical Deduction Threshold	7.5%
Miscellaneous Itemized Deduction Floor	2%

EDUCATIONAL TAX INCENTIVES

Hope Scholarship Credit	\$1,650
Lifetime Learning Credit	\$2,000
Higher Education Deduction	\$4,000
Coverdell Education Savings Account Contribution	\$2,000
Student Loan Interest Deduction	\$2,500
U.S. Savings Bond Interest Exclusion (Phaseout)	
Married, filing joint return	\$94,700
Single, QW or head of household	\$63,100
Married, filing separate return	\$0

VARIOUS OTHERS

Exclusion of gain from sale of residence:	
joint filers	\$500,000
single filers	\$250,000
Maximum child tax credit (per qualifying child)	\$1,000
Maximum Section 179 deduction limitation	\$108,000
Teacher's Classroom Expense Deduction	\$250
Foreign earned income exclusion	\$82,400

CALIFORNIA KEY FIGURES FOR 2006

Dependent exemption credit	\$285
Personal exemption credit, single, MFS or HH	\$91
Personal exemption credit, MFJ or QW	\$182
Standard Deduction Single or Married filing Separate	\$3,410
Standard Deduction Married filing Joint, Head of household, or Qualifying widow	\$6,820
State Disability Insurance rate (2006)	0.80%
State Disability taxable wage limit (2006)	\$79,418
Maximum State Section 179 Deduction Limitation	\$25,000
Renter's Credit (nonrefundable):	
Single or MFS and AGI does not exceed \$32,272	\$60
HH and married couples and AGI does not exceed \$64,544	\$120