



CRISER | GOUGH | PARRISH

February 2007

Criser, Gough, & Parrish

The Advisor

“Working together for you.”

Extenders Legislation

You may be able to take advantage of certain tax breaks enacted in the final days of 2006.

State and Local General Sales Tax 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

This deduction is for up to \$4,000 of tuition and fees paid to a post-secondary institution.

Educator Expense Adjustment to Income

Teachers and other educators (including classroom aides, counselors, and principals) can deduct as much as \$250 that they spent to purchase classroom supplies last year.

(Source: IRS Tax Tip 2007-07 and IR-2006-195, 12/22/06)

Form 1098-T, Tuition Payments Statement, is not acceptable documentation for educational expenses. The form, which is issued by universities, only documents tuition that the school billed, not what the student paid. Ensure that all tuition and expenses paid are backed up through proper records.

(Federal Taxes Weekly Alert, 10/26/06)

Your Financial Affairs—Organized or Outdated?

It's time get our personal taxes together, but while we are considering organizing our W-2's and deductions, maybe we should organize a few other things like:

- **Financial plan;** since all of our information is in one place maybe this would be a great time to schedule an appointment with Greg Gough or your own financial planner. A well thought out and professional financial plan should change the future for the better. **You Need This.**
- **Legal plan;** is your will or trust in order? Call Steve Mardis and he can direct you to a perfect attorney to get the important matters in order. Neglecting this important area will almost guarantee your wishes upon death will not be followed.
- **Beneficiary plan;** are the beneficiaries up to date on your insurance policies and retirement plans? Neglecting this area of planning can be a tax or family disaster if the unexpected does occur. There are new tools that can give you almost magical powers in directing how money you leave in your IRA could actually fund your children's retirement. Ask about these new opportunities to control your money after death.
- **Succession plan;** are you going to work in your business the rest of your life or maybe, just maybe, a succession plan may be in order. At the very least, a meeting exploring options would be recommended. Call us.
- **Liability plan;** have we reviewed your liability insurance policies lately. Contact your agent for a review. It's a dangerous world out there. If you have assets to protect, then protect them.
- **Tax plan;** hey, we are good at this. Call us.

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Highlights of 2006 Tax Law Changes

More information about the changes, summarized below, can be found on the IRS website (<http://www.irs.gov>), or you can contact our office.

New Energy-Saving Tax Credits

- A 10% credit can be claimed for various energy-saving improvements made to a taxpayer's main home. This credit is based on the cost of new energy-efficient improvements, including insulation, exterior windows, exterior doors, water heaters, heat pumps, central air conditioners, furnaces, and hot water boilers. The overall credit is limited to \$500 and further dollar limits apply to specific components (for example, \$200 for windows).
- Separately, there is a 30% credit for the cost of photovoltaic property, solar water property, and fuel cell property.

Contribution Limits Raised for IRAs and Other Retirement Plans: Special Rules for Military

- For 2006, the contribution limit for Roth and traditional IRAs rises to \$5,000, up from \$4,500 in 2005, for those age 50 and over. For those under 50, the limit remains unchanged at \$4,000.
- The \$10,000 phase-out range for IRA deductions for those covered by a retirement plan begins at income of \$75,000 if married filing jointly or a qualifying widow(er), up from \$70,000 in 2005. It still begins at \$50,000 for a single person or head of household and at \$0 for a married person filing a separate return.
- The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), and most 457 plans rises to \$15,000. For SIMPLE plans, the limit remains at \$10,000. The catch-up contribution limit for persons age 50 or older rises to \$5,000 for 401(k), 403(b), and 457 plans and to \$2,500 for SIMPLE plans.

- Beginning in 2006, 401(k) and 403(b) plans can create a qualified Roth contribution program so that participants may choose to have part or all of their elective deferrals to the plan designated as after-tax contributions. Despite the name, a so-called "Roth 401(k)" is not the same as a Roth IRA.
- Military members serving in Iraq, Afghanistan, and other combat zone localities can count tax-free combat pay when figuring how much to contribute to a Roth or traditional IRA. See IRS News Release IR-2006-129 for more information.
- Military reservists, including members of the National Guard, called to active duty can receive payments from their individual retirement accounts, 401(k) plans and 403(b) tax-sheltered annuities, without being subject to the additional 10% early-distribution tax. For more information, see IRS News Release IR-2006-152.

New Rules for Giving to Charity

- To be deductible, clothing and household items donated to charity after 8/17/06, *must be in good used condition or better*. However, a taxpayer may claim a deduction of more than \$500 for any single item, regardless of its condition, if the taxpayer includes a qualified appraisal of the item with the return. Household items include furniture, furnishing, electronics, appliances, and linens.
- *To deduct any charitable donation of money, taxpayers must have a bank record or a written communication from the recipient* showing the name of the organization and the date and amount of the contribution.. This provision applies to contributions made in taxable years beginning after 8/17/06. For taxpayers that file returns on a calendar-year basis, including most individuals, the new provision applies to contributions made beginning in 2007.

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- An IRA holder, age 70 1/2 or over, can directly transfer tax-free, up to \$100,000 per year to an eligible charity. This option is available in tax years 2006 and 2007. Eligible IRA holders can take advantage of this provision, regardless of whether they itemize their deductions. Funds must be contributed by the IRA trustee to the eligible charity. Transferred amounts are counted in determining whether the holder has met the IRA's required minimum distribution rules.

Kiddie Tax — Age and Income Changes

- Children under 18 who receive taxable investment income may need to figure tax using their parents' higher marginal rates. The tax does not apply to a married child who files a joint return. Also, the amount of taxable investment income a child can have without being taxed at their parent's rate rises to \$1,700, up from \$1,600. The rest of the child's taxable income—earned income plus unearned income minus the standard deduction—is taxed at the child's regular rates.

AMT Exemption Increased for One Year

- For tax year 2006, the alternative minimum tax exemption rises to \$62,500 for a married couple filing a joint return, up from \$58,000 in 2005, and to \$42,500 for singles and heads of household, up from \$40,250. Under current law, these exemption amounts will drop to \$45,000 and \$33,750, respectively, in 2007.

Standard Mileage Rates Adjusted for 2006

- 44.5 cents a mile for business use of a car, van, pick-up or panel truck. (Note: This increases to 48.5 cents a mile for 2007.)
- 18 cents a mile for the cost of operating a vehicle for medical reasons or as part of a deductible move.

(Note: This increases to 20 cents a mile for 2007.)

- 14 cents a mile for providing services to charitable organizations. (Note: This remains the same for 2007.)

Inflation Adjustments for 2006

- The value of each **personal exemption** is \$3,300.
- The standard deduction is \$10,300 for married couples filing a joint return and qualifying widow(er)s; \$5,150 for singles and married individuals filing separate returns; and \$7,550 for heads of household.
- The maximum **earned income tax credit** is \$4,536 for taxpayers with two or more qualifying children; \$2,747 for those with one child and \$412 for people with no children. The EITC helps taxpayers whose incomes are below \$38,348 for those with two or more children, \$34,001 for people with one child, and \$14,120 for those with no children.
- The maximum **Hope credit** rises to \$1,650 (100% of the first \$1,100 of eligible expenses and 50% of the next \$1,100 of expenses. The Hope and lifetime learning credits are phased out if a taxpayer's modified adjusted gross income is between \$45,000 and \$55,000; \$90,000 and \$110,000 if filing a joint return.

(Source: the IRS FS-2007-02, 1/07)

Pursuant to federal regulations imposed on practitioners who render tax advice ("Circular 230"), we are required to advise you that any tax advice contained herein is not intended or written to be used for the purpose of avoiding tax penalties that may be imposed by the IRS.

Hybrid Car Credit

Taxpayers who purchased or leased any of 44 different models of hybrid vehicles in 2006 may be entitled to a tax credit on their 2006 returns worth as much as \$3,150 for the most fuel-efficient models. Taxpayers may claim the credit on their 2006 tax returns only if they placed a qualified hybrid vehicle in service in 2006.

For the complete list of vehicles credits available go to <http://www.irs.gov/newsroom>. Click on "Fact Sheets," then click on "Credit Available for Taxpayers Who Purchased or Leased Hybrid Vehicles in 2006." Or contact our office for a copy.

Used and Leased Vehicles

A consumer that leases a hybrid vehicle is not eligible for the credit. The credit is allowed to the vehicle owner, including the lessor of a vehicle subject to a lease. A credit for a hybrid vehicle can only be claimed by the original purchaser of the vehicle, that is, the purchaser of a new vehicle. The credit does not apply to a used hybrid vehicle.

The Credit and the Alternative Minimum Tax

The Alternative Motor Vehicle Credit cannot be used to offset the Alternative Minimum Tax (AMT). A taxpayer cannot claim the credit unless the taxpayer's regular tax liability exceeds the taxpayer's AMT liability.

Regular Tax and the Hybrid Credit

If you claim the credit as a personal credit, the tax code limits the amount of the credit that you may claim to the amount of your regular tax liability. If your regular tax liability is zero, the amount of the credit for which you are eligible will be zero. The credit cannot be used to reduce your regular tax liability below zero, and cannot be carried forward or backward to another taxable year.

If the vehicle that you purchase is subject to the allowance for depreciation, then the credit is part of the general business credit and the rules applicable to the general business credit apply.

Sales to Tax Exempt Entities

A person who sells a qualified vehicle to a tax-exempt person or entity and makes a required disclosure can claim the credit. The tax code provides that in the case of a vehicle that is used by a tax-exempt person or entity and is not subject to a lease, the person who sold the vehicle to the tax-exempt person or entity is treated as the taxpayer that placed the vehicle in service. The amount of the credit allowable with respect to the vehicle must be disclosed in writing to the tax-exempt person or entity.

(Source: The IRS FS-2007-9, 1/07)

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