

Tax & Financial Guide

Business and Personal ACCOUNTING, TAX,
SOFTWARE & FINANCIAL PLANNING SERVICES

Some Tax Changes Offer Benefits

Mileage Deductions... The business mileage deduction rate for 2007 will increase to 48½ cents per mile. The rate for medical trav-

el and moving expenses will rise to 20 cents per mile. Charitable travel will remain at 14 cents per mile.

Hybrid Cars... You can still buy a hybrid car and get an energy credit, although credits are limited by the number of vehicles sold. Full credit for Toyota hybrids purchased was used up prior to October 1, 2006. Toyota and Lexus hybrid purchases after September 30, 2006 and through March, 2007 will receive a 50% credit, while those bought after March 30, 2007 will get only a 25% credit.

Sales of hybrids from other manufacturers have not reached the 60,000 vehicle limit so they still receive the 100% credit. When

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Other Tax Considerations

If you've underpaid taxes withheld for 2006, change your withholding now. Taxes withheld are treated as though they were paid evenly during the year. So, if you will be short you can have additional taxes withheld at year-end and will not be subject to underpayment penalties. You can also do this on payouts from retirement plans.

Inherited retirement plans can now be transferred to nonspousal heirs' IRAs. Previously, only spouses could inherit a retirement fund and put it in their IRA. Payouts made in 2007 are eligible even if the account owner died in 2006.

The kiddie tax has been increased to age 18. Children under the age of 18 will now be taxed at their parents' highest rate if their unearned income is over

\$1,700. The two exceptions to this rule are 1) if the child is married and filing a joint return with their spouse and 2) if the income is from certain qualified disability trusts.

The Social Security wage base will rise to \$97,500 in 2007. FICA and Medicare rates stay the same so the extra tax bill on the wage base increase will be \$252.



Fourth quarter Federal tax estimates are due January 15, 2007 and state tax estimates are due December 31, 2006 or January 15, 2007 depending on your circumstances. Please get your income and expenses to our office by December 20, 2006. Call us if you aren't sure when to pay your state tax estimate.

Please call our office to discuss any of the items in this newsletter that may pertain to you.



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DONATION BOX

Charitable Contributions

Now that I trained you to keep records of your cash charitable contributions, congress changed the requirements. For your 2007 tax return you must have documentation for all monetary contributions: A cancelled check, bank record, or written documentation from the organization that received your donation. Clothing or household items donated must be in at least "good" condition. Any single item worth over \$500 must be appraised.

Taxpayers with IRAs need to take minimum distributions once they reach age 70½. But instead of taking money from their retirement accounts, they can specify that annual payouts of up to \$100,000 go directly to charitable organizations. These donations are not taxable to the taxpayer, cannot be made from SIMPLE or SEP plans, and cannot be made to charitable remainder trusts. Donors must not receive anything of value for the donation, and must get a receipt from the charity before their tax return is filed.

Taxpayers can donate stock to charity. If you owned the stock for more than a year, you can deduct the value of the stock instead of your cost. If you sell the stock first, you must pay tax on the capital gains. So when you donate the sale price, reduced by the taxes paid, you have a smaller donation.

Murphy Financial Services, Inc.

web site is at www.murphyEA.com

If you misplace your newsletters, or your information sheets that I have given you (i.e. contributions, enrolled agents, etc.), you will be able to find them on the web site.

Please note that our e-mail address is: info@murphyea.com.

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information only to IRS or state authorities and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.



IRS News

General tax advice provided by the IRS will not hold up in an audit. Even though IRS employees now give their name and ID number, their advice may or may not be accurate. To get reliable advice from the IRS, you need a private letter ruling. First pay them a fee, then give them your details. They in turn prepare a letter with a decision which would hold up in an audit.

The Internal Revenue Service is increasing their audits of upper-income and self-employed filers, as well as large and mid-size businesses. Congress now allows the IRS to resume doing full audits during which they verify every line on a return. The IRS stopped doing them years ago because they didn't generate enough tax dollars to make them worthwhile. The IRS is also continuing to audit S Corporations.

The IRS is on the warpath against employers' tool reimbursement plans, with more audits planned. If the tool plans require substantiation on the employees' part and the employee must return any excess allowances, payments received will not be taxable. If employees can keep any excess allowances or don't account to their employer for the actual tools purchased, they will probably have taxable income.

Tax Benefits

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the limit is reached, the credit will be reduced.

Energy Credits... There are also energy credits available for storm doors and windows, insulation, electric heat pumps, certain air conditioners, and water heaters using other forms of energy. These qualify for a maximum lifetime \$500 credit (10%-100% of the cost). Solar heating panels, qualified fuel cells, and solar water heaters each qualify for credits. Call us for details.

Telephone Credit... Taxpayers will receive a credit for the telephone tax that they paid between March 1, 2003 and July 31, 2006. This credit will be between \$30 and \$60 depending on the number of exemptions claimed on your 2006 income tax return. Taxpayers who don't file taxes because their income is below the filing requirements must file a Form 1040EZ-T to get their refund. Businesses and tax-exempt organizations will have to file a claim based on the amount of taxes they actually paid during the above period.



Also Of Note

Do you ever wonder why your taxes are so high? One reason is tax cheats cost Americans \$70 billion. Offshore tax accounts are so big, not even the government thinks they can go after them. Another area of tax cheating is the large amount of cash income that is not being claimed each year. Our taxes could be reduced drastically if everyone paid their

fair share.

If it's more convenient, you can drop off your tax records and pick up your completed tax returns at our associated office, Happy Returns, 7200 W. Center St. That office will be open Mondays through Thursdays 9:00 am to 8:00 pm, Fridays 9:00 am to 5:00 pm, Saturdays 9:00 am to 3:00 pm. Or at other times by appointment.



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