

TaxPlan

by

**DeRienzo
& Rossi**
Certified Public Accountants

Tax Facts for Individual Taxpayers

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DeRienzo & Rossi, CPA's would like to take this opportunity to welcome you back to our **nineteenth year** of providing professional and personalized tax and accounting and income tax services for individuals, corporate and non-profit taxpayers throughout the Hudson Valley. The partners and staff of **DeRienzo and Rossi, CPA's** take your confidence and trust seriously and reaffirm our pledge to deliver the highest quality service that has made our success possible.

DeRienzo & Rossi, CPA's has been providing our clients retirement planning analysis, investment portfolio review, college tuition planning evaluation, and tax advantaged investments made possible because of our relationship with **Ryan Beck & Co.** Taking advantage of an opportunity to look at your total financial picture with financial professionals that know and understand your situation not only makes sense- it's also FREE! When you call to make your tax preparation appointment, ask to meet with our in house financial advisor, Alex Gallego an Accredited Asset Management Specialist.

Energy Tax Incentives Act of 2005

Credit for insulation, replacement windows and high efficiency heating and cooling units

In 2006 and 2007, there are several different energy credits available for home improvements, solar property, energy efficient homes and hybrid vehicles. The Nonbusiness Energy Property Credit provides that 10% of the cost of qualified energy efficient improvements and the amount of residential energy property expenditures paid or incurred during the year qualify. The sum of both these cannot exceed \$500 for both years combined. The Residential Energy Efficient Property Credit provides a credit for photovoltaic property, solar water heating property and fuel cell property all subject to separate limitations. Ask you tax professional at DeRienzo and Rossi, CPA's for the details.

Telephone Excise Tax Refund

Taxpayers may claim a credit or refund of taxes

After 108 years of collecting the 3% federal excise tax on **long distance** telephone calls, the appeals courts declared the tax illegal. This has created a \$15 billion dollar pot of additional refunds to be distributed back to taxpayers. The refunds are available for amounts paid on your long distance calls after February 28, 2003 and before August 1, 2006. The refund amount is either the amount you actually paid (substantiated by telephone bills) or the IRS "standard amount" from \$30- \$60 based on the number of exemptions claimed.

Giving to Charity

New rules require diligent recordkeeping

Keeping the receipts from your charitable contributions just became more of a priority. Starting January 2007, you will **NOT** be allowed to deduct charitable contributions of any amount unless you have the proof. What does this mean for you? Starting in 2007, each cash contribution you make must be substantiated with a bank record, receipt, letter, or other written communication from the donee organization that states the name of the donee, the date the contribution was made, and the amount of the contribution. **Without this substantiation, you will not be allowed to deduct the contribution on your tax return.**

Items you donate may not qualify for a deduction

It used to be that you could take all your unused clothing and household items to the local Goodwill, Salvation Army, or thrift store and reap a nice charitable contribution deduction. All you needed was a receipt stating the fair market value and the deduction was allowed. The rules have changed for any donation of non-cash items to charitable organizations after August 17, 2006.

A charitable contribution deduction of clothing or household items will only be allowed if the item is in good used condition, or better, and you have a receipt. The IRS can deny a deduction for any item that has little monetary value. There is an exception for single items that have a value of more than \$500 and for which you have a qualified appraisal.

Naming a Beneficiary to Your Retirement Plan

Non-spouse beneficiaries have new options

If you are the beneficiary of a decedent's qualified retirement plan, and you are not the spouse of the decedent, you now have additional options for distributions. In the past, only a spouse beneficiary was permitted to roll the account into an IRA. Now, beginning in 2007, if you are the beneficiary, you may roll the distribution into an IRA that has been established to receive the qualified plan.

Under this new option, you will be subject to the rules for distributions that apply to inherited IRAs, as opposed to the more strict rules that apply to distributions from qualified plans. Many qualified plans require beneficiaries to take the entire amount from the plan within five years of the date of death. The rules that apply to inherited IRAs allow the beneficiary to take distributions over his or her life expectancy, thus spreading the tax liability over several more years. If the decedent was over age 70½, the distribution rules are a bit different. Here you have the option of taking the distributions from the inherited IRA over your life expectancy, or the remaining life expectancy of the owner, assuming he or she was still living.

Direct Deposit of Your Tax Refund

More options are available to you

The IRS is now allowing taxpayers who are due a tax refund the option of having that refund split up and deposited in up to three different bank accounts. This can include a retirement savings account such as an IRA. This option is available to you whether you file a paper return or electronically file your return. However, if you file your tax return electronically and opt for direct deposit, you can receive your refund in two weeks or less. For your convenience our in house financial professional can establish an Individual Retirement Account at the time your direct deposit is arranged.

Are You Putting Investments in Your Child's Name?

New rules tighten your options

Beginning with the 2006 tax year, children, under the age of 18 who have unearned income in excess of \$1,700, are taxed at their parent's higher rate. Previously, this rule only applied to children who were under the age of 14. This new rule does not apply to married children who file a joint return, or to distributions from certain qualified disability trusts. Generally, unearned income includes interest and dividend income, capital gains, taxable social security benefits, and pension distributions.

Saving for Your Retirement

Certain taxpayers are eligible for a tax credit

If your adjusted gross income is less than \$50,000, you may be eligible for a nonrefundable credit against your income tax for elective contributions you make to §401(k) plans, §403(b) annuities, §457 plans, SIMPLE or simplified employee pension (SEP) plans, traditional or Roth IRAs, and voluntary after-tax employee contributions to a qualified retirement plan or a 403(b) annuity.

The amount of your credit can be as much as 50%, 20%, or 10% of your contribution depending upon your filing status and modified adjusted gross income, giving you a maximum annual credit of \$1,000 (\$2,000 if married filing jointly).

This credit was due to expire at the end of 2006; however, recently enacted legislation made this credit permanent. After 2006, the adjusted gross income limits will be indexed for inflation, making more taxpayers eligible for the credit.

Volunteer Firefighters and Ambulance Workers Credit

New York State Tax Credit

A \$200 tax credit is available for residents serving as active volunteer firefighters or ambulance workers and are active volunteers throughout the entire taxable year. You must not be receiving a real property tax exemption relating to such service to qualify for the credit. The credit is effective for taxable years beginning January 1, 2007

Senior Citizens Freedom to Work Act

Unlimited earnings after full retirement age

The Senior Citizens' Freedom to Work Act of 2000 provides that unlimited earnings start at full retirement age (the age when a taxpayer can receive full social security benefits.) After a taxpayer attains full retirement age, they may earn an unlimited amount of money from employment without forfeiting any social security benefits.

Long Term Care Premiums

Deductible as medical expenses

Long-term care premiums paid during the year are deductible as a medical expense on Schedule A, Form 1040, or as self-employed health insurance as applicable and a New York State tax credit is available as well. The amount that may be deducted is subject to limits based on your age before the close of the tax year. See your tax professional at DeRienzo and Rossi, CPA's for more details.

FYI

- Standard mileage rates for business are 44.5 Cents in 2006 and 48.5 Cents in 2007.
- The standard deduction amounts for 2006 are Married Filing Joint-\$10,300, Single/Married Filing Seperate-\$5,150 and Head of Household- \$7,550.
- The personal exemption amounts for 2006 is \$3,300 and is phased out in excess of certain income limits.
- If your income is less than \$50,000, you may be eligible for a credit against your income tax for elective deferrals to retirement plans and the credit can be as much as 50% of your contribution depending on your filing status.
- In 2006, the combined contribution limit for traditional IRS and Roth IRA's is \$4,000 (\$5,000 if 50 or older.)
- The annual gift tax exclusion for 2006 is \$12,000 per donee per year. The lifetime exclusion remains at \$1,000,000.
- Taxpayers with no children may be eligible for an Earned Income Tax Credit of up to \$412 with earned income within certain ranges. Taxpayers with one or two children may also be eligible for a significant credit.
- In 2006, the maximum adoption credit allowed for a child with special needs is \$10,960, regardless of the amount of qualified adoption expenses. For others the maximum credit allowed is the amount of qualified adoption expenses up to \$10,960 per child.
- Unearned income of children under 18 is taxed as if it was the parent's income. Unearned income includes but is not limited to taxable interest, ordinary dividends, capital gains including capital gain distributions, rents, royalties, etc.
- To avoid an estimated tax penalty, if the taxpayer's AGI was less than \$150,000 married filing joint, the taxpayer's withholding and estimated tax payments must be the smaller of 90% of the expected tax liability for 2006 or 100% of the tax shown on the taxpayer's 2005 tax return

Have a safe and happy holiday season. We look forward to seeing you this winter to serve all your tax planning, preparation and financial services needs this year and for many years to come.



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