



February 2007

TMA Report

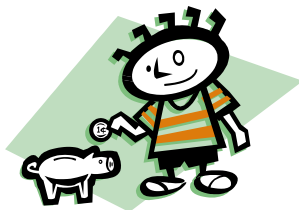
What's Included?

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KIDDIE TAX NOW AFFECTS CHILDREN UP TO AGE 17

Until 2006, the Kiddie Tax imposed the parents' top tax rate on the investment income of their children under age 14. In May 2006, Congress expanded the reach of the Kiddie Tax to include children who are not yet 18 as of December 31, beginning in 2006.

For 2006, the first \$850 of an under age 18 child's unearned income is tax-free, and the next \$850 is taxed at the child's marginal rate (generally 10%). But unearned income exceeding \$1,700 is taxed at the parents' income tax rate, if the child is not 18 by the end of the year. Fortunately, the Kiddie Tax only applies to unearned income such as interest, dividends, rents and capital gains. It does not apply to the wages or other income earned by the child.



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TAX RELIEF AND HEALTH CARE ACT OF 2006

In early December, Congress passed the Tax Relief and Health Care Act of 2006 (TRHCA). The new legislation includes mainly favorable provisions, some of which are retroactive back to the beginning of 2006 and will impact information needed to prepare your 2006 returns. This article briefly explains the most important changes.

TRHCA extended a number of popular federal income tax breaks for individuals that had expired at the end of 2005, including (but not limited to) the following:

State and Local Sales Tax Deduction. For 2004 and 2005, taxpayers could elect to claim an itemized deduction for state and local sales taxes in lieu of deducting state and local income taxes. TRHCA extended this election for two years through 2007. You can base this deduction on actual sales taxes paid, but only if you have receipts to back it up. Otherwise, you can determine the amount of deductible sales taxes for 2006 by using tables provided by the IRS. However, if during 2006 you purchased a motor vehicle, boat, aircraft, home (including mobile home and prefabricated homes), paid sales tax on a leased vehicle, and/or materials to build a home, please let us know, as sales tax paid on such purchases can be added to the IRS table amount.

Tuition Deduction. TRHCA extends for two years, through 2007, the deduction of up to \$4,000 (depending on your income) of tuition and fees paid for higher education. You don't have to itemize to get this deduction, but no deduction is allowed if your adjusted gross income is over \$80,000 (\$160,000 for joint filers).

Deduction for Teacher Classroom Expenses. Before 2006, teachers were allowed to deduct up to \$250 of classroom expenses paid during the tax year. Eligible expenses included books, supplies (other than athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment and supplementary materials used in the classroom. TRHCA extends this deduction for two years, through 2007. ♦

NEW DUE DATE: APRIL 17, 2007

As April 15th, the traditional tax deadline, falls on a Sunday this year, and April 16th is Emancipation Day, a legal holiday in the District of Columbia, taxpayers in the entire country will have until Tuesday, April 17th to file their 2006 returns and pay any taxes due. Despite the extra day allowed, we encourage all taxpayers to get an early start on their taxes to make sure that their return is prepared accurately as well as on time. ♦

NEW DIRECT DEPOSIT OPTIONS FOR TAX REFUNDS

At the present, you have two options to receive your tax refund: a check in the mail, or a direct deposit into either your checking or savings account. But starting January 2007, in an effort to encourage savings and discourage refund anticipation loans, the Internal Revenue Service has created a new program to allow taxpayers to direct deposit their refunds into multiple accounts. To take advantage of the split-refund program, a new Form 8888 was created to allow taxpayers to deposit their refund in up to 3 financial accounts. More than 75% of taxpayers receive refunds each year, many of them using the system like a Holiday Account savings program. Unable to save money on their own, they use their automatic tax withholding as a piggy bank for a future expense. The IRS is hoping that with the multiple account direct deposits, some of that money will now be deposited into a savings or retirement account. This program will be available to all individual filers who submit any of the 1040 series forms. ♦

TAX BENEFITS FROM EDUCATION & WORK-RELATED EXPENSES

Q: What types of educational expenses are deductible?

A: Tuition, books, supplies, laboratory fees, and similar items; correspondence courses and formal training and research you do as part of an educational program; transportation and travel expenses to attend qualified educational activities may also be deductible.

Q: Can I deduct the cost of classes I need for work?

A: You can deduct the cost of classes you need for work if they maintain or improve skills required in your present job, or serve a business purpose and are required by your employer, or by law, to keep your present salary, status, or job.

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NOT FOR PROFIT CORNER

PENSION ACT IMPACT ON DONORS AND CHARITIES

New limitations on donations of household goods

Congress has added new rules and more stringent bookkeeping requirements for charitable contributions. For contributions of clothing and household items made after August 17, 2006, a charitable deduction can only be taken if the items are in good used condition or better.

More substantiation now required

For all contributions after this date, whether cash or property, you must keep a bank record of a receipt or other written communication from the donee, showing the name of the charitable organization, the date of the contribution, and the amount of the contribution.

New restrictions on appraisals on large noncash contributions

In the case of noncash contributions valued individually (or collectively in the case of a group of similar items) at more than \$5,000, one of the requirements that applies before a deduction can be claimed is that the property must be appraised unless the donation consists of publicly traded securities. In theory, the appraisal can be performed up to the date (including extensions) of the return in which the donation is claimed. In practice, however, it is generally much easier and more practical to have the appraisal performed before the donation occurs. Such an appraisal can be performed any time up to 60 days prior to the donation and still be valid.

If you're considering a donation of a substantial amount of noncash property any time in the near future, please call us and we can go over the appraisal requirements with you in more detail.

New IRA distribution opportunities

An IRA owner over age 70½ can directly transfer tax-free, up to \$100,000 per year to an eligible charitable organization. The distribution from your IRA to charity counts toward your required minimum distribution, but you do not get a current charitable contribution. The benefit is that you are not required to pay tax on the distribution.

This option is available in tax years 2006 and 2007. Eligible IRA owners can take advantage of this provision regardless of whether they itemize their deductions. Distributions from employer-sponsored retirement plans, including SIMPLE IRAs and simplified employee pension (SEP) plans, are not eligible. ♦

KIDDIE TAX

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In some cases, the effect of the Kiddie Tax could be enough to consider shifting the child's investments from high-income to growth equities. A delayed sale of mutual funds or stock, until the year the child turns 18, might also be considered. This would allow you to use the child's lower 5% capital gain rate, compared to the 15% parents' rate.

One of the more unfortunate aspects of this Kiddie Tax law change is the added tax return preparation hassle. If a child under 18 has over \$1,700 of investment income, that child's tax return needs to be carefully coordinated with the parents' return. This means that the child's return can no longer be done separately and filed early. ♦



CHANGES IN WASHINGTON STATE TAX PENALTIES

In July 2003 the Department of Revenue added a mandatory five percent penalty to all billings or assessments for underpaid taxes it issued. This included, but was not limited to, tax assessments resulting from an audit, notices of balance due issued because of underpayments or mistakes made on tax returns, and tax assessments resulting from failing to file tax returns.

As of July 1, 2006, the five percent underpayment penalty will be assessed only if the taxpayer paid less than 80 percent of the total amount due for the period under review, and the underpayment was at least \$1,000. It will no longer apply to all billings or assessments. Interest on the underpaid taxes will continue to be due.

As of August 1, 2006, the due date for monthly excise tax returns for the State of Washington changed back to the 25th of each month and moved the deadline for paying taxes by debit electronic funds transfer from 5:00 p.m. to 11:59 p.m. on the due date. The due date change benefits more than 83,000 businesses that file monthly.

These changes are a result of Governor Gregoire's directive that the Department of Revenue's priority is to make paying taxes simpler and easier. ♦

TAX BENEFITS FROM EDUCATION & WORK-RELATED EXPENSES

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Q: What are the limits for deducting interest paid on a student loan?

A: The maximum deductible interest on a qualified student loan is \$2,500 per return; however, your modified adjusted gross income may reduce that amount to zero. There is no deduction if you file as married filing separately, you are claimed as a dependent, or if the loan is from a related party or a qualified employer plan.

Q: What about education credits?

A: The Hope Credit and the Lifetime Learning Credit may help offset the costs of higher education for yourself or a dependent. To qualify for either, you must pay post-secondary tuition and fees for yourself, your spouse or your dependent. The credit may be claimed by the parent or the student, but not by both. The credit also cannot be claimed by a student who is claimed as a dependent.

The Hope Credit and the Lifetime Learning Credit are phased out for Modified Adjusted Gross Income over \$43,000 (\$87,000 for married filing jointly) and eliminated completely for Modified AGI of \$53,000 or more (\$107,000 for married filing jointly). If the taxpayer is married, the credit may be claimed only on a joint return.

You cannot claim both credits for the same student in the same year. ♦



NEW SALES TAX CALCULATOR

Since Congress extended the sales tax deduction, the IRS has created a new interactive tool to help taxpayers who itemize deductions determine if they would benefit by electing to deduct state and local sales taxes. This new sales tax calculator is available at: <http://apps.irs.gov/app/stdc/>

The calculator will help you determine how much sales tax you will be able to claim based on the IRS table. You can use this estimate to determine if it is worthwhile to add up your receipts and use the sales tax you actually paid rather than the IRS table. If you take the sales tax from this calculator and divide by your sales tax rate (.088 in King County WA) you can determine roughly how much in taxable purchases that equates to. ♦

**PROTECT YOURSELF FROM IRS
IMPERSONATORS**

The IRS has started contacting taxpayers who owe back taxes by using a private debt collection agency. However, there are scam artists who are trying to impersonate the IRS in an effort to get people to divulge personal and financial information. These hucksters are using e-mail, phone calls, and even personal appearances.

All those who will be contacted by the private collection agency working on behalf of the IRS will be contacted by letter from the IRS to inform them that they are in the program, and the letter will include the name of the agency. A second letter will be sent to the taxpayer from the collection agency. Compare the two letters to ensure the agency names agree. When paying the past due amount, pay by check written to the "U.S. Treasury," not to an individual or the collection agency name. The contracted agencies will never ask for cash or for the checks to be written to them.

Another "phishing" scam that has tricked taxpayers to reveal their financial information is one in which the victim receives what looks like an official IRS e-mail notification that they are due a refund. The e-mail directs the recipient to a website that looks similar to the official IRS website, but the forms have been modified to request detailed personal information. The IRS never asks taxpayers for pin numbers, passwords or similar secret information for credit cards or bank accounts.

If in doubt, call the IRS at 1-800-829-1040 for information, or check their website: IRS.gov ♦

BEST WORKPLACES FOR COMMUTERSSM



The Myers Associates, P.C. was designated one of the Best Workplaces for CommutersSM by the U.S. Environmental Protection Agency (EPA) and U.S. Department of Transportation (DOT).

We are able to achieve this distinction by offering Flex Passes to our employees through a discount program offered through the Urban Mobility Group in alliance with the Downtown Seattle Association. (To learn more

about how you too can benefit, see their website at: urbanmobilitygroup.com)

Best Workplaces for CommutersSM <www.bwc.gov> is a public-private partnership developed by the EPA and DOT. EPA and DOT have established a voluntary *National Standard of Excellence* for employer-provided commuter benefits. The program challenges employers across the country to voluntarily meet the *National Standard of Excellence*. ♦

TMA GOINGS ON

Tessa Dul, our newest Associate member, joined our staff in October. She earned her B.A. at the University of California, Davis and her M.B.A. at Seattle University. Tessa's previous employment was as a staff accountant at A Contemporary Theatre. She recently returned from a three month, round-the-world tour and is now ready to settle down and get some work done. ♦

ALWAYS FEEL FREE TO CONTACT US!

Call or e-mail us with your ideas for future articles on topics of interest or with names of others who may want to receive *TMA Report*. Also note that previous issues of all our newsletters, which include *On The Not-For-Profit Front* and *Small Business Outlook*, are included in the newsletter section on our website.

**THE MYERS ASSOCIATES, P.C.
STAFF DIRECTORY**

Following is a listing of our e-mail addresses and telephone extensions. To reach us, dial (206) 623-6116, wait for the greeting and press the extension of the person you would like to reach.

<u>Name</u>	<u>E-mail</u>	<u>Extension</u>
<i>General office</i>	tma@tma-cpas.com	0
<i>Mary Joyce, CPA</i>	Mary@tma-cpas.com	207
<i>Mark Long, CPA</i>	Mark@tma-cpas.com	204
<i>Julie Sandygren, CPA</i>	Julie@tma-cpas.com	203
<i>Michael Davis</i>	Michael@tma-cpas.com	210
<i>Tessa Dul</i>	Tessa@tma-cpas.com	205
<i>Warren Harrison</i>	Warren@tma-cpas.com	202
<i>Mary Ingersoll</i>	maryi@tma-cpas.com	206

If you would like further information on any of the articles in this *TMA Report* or would like to receive this newsletter in electronic format, please contact us.





INDIVIDUAL TAX RATES FOR 2006

Married filing jointly:

<u>Taxable Income</u>				
<u>Over:</u>	<u>But not over:</u>	<u>Pay:</u>	<u>+ % on excess:</u>	<u>of the amount over:</u>
\$ 0	\$ 15,100	\$ 0.00	10%	\$ 0
15,100	61,300	1,510.00	15%	15,100
61,300	123,700	8,440.00	25%	61,300
123,700	188,450	24,040.00	28%	123,700
188,450	336,550	42,170.00	33%	188,450
336,550	-	91,043.00	35%	336,550

Single:

<u>Taxable Income</u>				
<u>Over:</u>	<u>But not over:</u>	<u>Pay:</u>	<u>+ % on excess:</u>	<u>of the amount over:</u>
\$ 0	\$ 7,550	\$ 0.00	10%	\$ 0
7,550	30,650	755.00	15%	7,550
30,650	74,200	4,220.00	25%	30,650
74,200	154,800	15,107.50	28%	74,200
154,800	336,550	37,675.50	33%	154,800
336,550	-	97,653.00	35%	336,550

Head of household:

<u>Taxable Income</u>				
<u>Over:</u>	<u>But not over:</u>	<u>Pay:</u>	<u>+ % on excess:</u>	<u>of the amount over:</u>
\$ 0	\$ 10,750	\$ 0.00	10%	\$ 0
10,750	41,050	1,075.00	15%	10,750
41,050	106,000	5,620.00	25%	41,050
106,000	171,650	21,857.50	28%	106,000
171,650	336,550	40,239.50	33%	171,650
336,550	-	94,656.50	35%	336,550

Married filing separately:

<u>Taxable Income</u>				
<u>Over:</u>	<u>But not over:</u>	<u>Pay:</u>	<u>+ % on excess:</u>	<u>of the amount over:</u>
\$ 0	\$ 7,550	\$ 0.00	10%	\$ 0
7,550	30,650	755.00	15%	7,550
30,650	61,850	4,220.00	25%	30,650
61,850	94,225	12,020.00	28%	61,850
94,225	168,275	21,085.00	33%	94,225
168,275	-	45,521.50	35%	168,275

2006 TAX INFORMATION FOR INDIVIDUALS

STANDARD DEDUCTION (The amount to deduct unless itemized deductions are greater)

<u>Filing Status</u>	<u>Under 65</u>	<u>65 or Over</u>	
Single	\$5,150	\$6,400	
Head of household (Blind - add \$1,250 to amounts above)	\$7,550	\$8,800	
	<u>Both Spouses Under 65</u>	<u>One Spouse 65 or Over</u>	<u>Both Spouses 65 or Over</u>
Married filing jointly/ Qualifying widow (er) (Blind - add \$1,000 to amounts above)	\$10,300	\$11,300	\$12,300

NOTE: If you can be claimed as a dependent on another person's return, your standard deduction is the greater of (a) \$850 or (b) your earned income plus \$300, up to the standard deduction amount. To this amount you can add the appropriate additional amount for the elderly or blind.

PERSONAL EXEMPTION

The personal exemption amount is \$3,300 for each individual, the individual's spouse, and each dependent. This amount is reduced by 2% for each \$2,500 (\$1,250 for married filing separately), or fraction thereof, by which adjusted gross income exceeds the following limits for each filing status:

Single	\$150,500
Head of household	188,150
Married filing jointly/Qualifying widow (er)	225,750
Married filing separately	112,875

NOTE: You may claim an exemption in 2006 for your qualifying child who is under age 19 or under age 24 at the end of 2006 and a full-time student. If you cannot claim the exemption under this rule, the child may claim an exemption on his or her own return.

ANNUAL GIFT AND ESTATE EXCLUSION AMOUNTS

For 2006, the maximum excludable gift is \$12,000 per donee. The first \$2,000,000 of your estate in 2006 and 2007 will not be subject to federal estate tax. Be aware that there is still Washington state estate tax on the amount above \$2,000,000.

STANDARD MILEAGE RATE FOR BUSINESS USE

In 2006, the standard mileage rate for all business use miles of a car is 44.5 cents a mile. In 2007, the standard mileage rate for all business use miles of a car is 48.5 cents a mile. You may be able to take a credit if you place an energy efficient motor vehicle or alternative fuel vehicle refueling property in service in 2006.

STANDARD MILEAGE RATE FOR CHARITABLE USE

The standard mileage rate for charitable use miles of a car in 2006 is 14 cents a mile. For charitable use mileage related to Hurricane Katrina, the rate is 32 cents a mile.

401(k) or 403(b) PLAN LIMITATION

If you are under 50, the 401(k) plan limitation on elective deferrals is \$15,000 for 2006 and will be \$15,500 for 2007. If you are 50 or over, the 401(k) plan limitation on elective deferrals is \$20,000 for 2006 and will be \$20,500 for 2007.

SIMPLE PLAN LIMITATION

If you are under 50, the SIMPLE plan limitation on elective deferrals is \$10,000 for 2006 and will be \$10,500 for 2007. If you are 50 or over, the SIMPLE plan limitation on elective deferrals is \$12,500 for 2006 and will be \$13,000 for 2007.

SOCIAL SECURITY TAX WAGE BASE FOR 2007

The social security tax rate will remain at 7.65% in 2007, but the wage base for the FICA tax portion (6.2%) will increase to \$97,500 in 2007, from \$94,200 in 2006. An unlimited amount of wages paid remains subject to the Medicare tax portion (1.45%). In other words, employers will withhold and match 7.65% on gross wages up to \$97,500 and 1.45% on all wages exceeding \$97,500.

Self-employed individuals will pay 15.3% on the first \$97,500 of net self-employment income and 2.9% on net self-employment income exceeding \$97,500.

INDIVIDUAL TAX RATES

See the chart on the reverse side for calculation of tax.





TAX CREDIT ALERT

THE MYERS ASSOCIATES, P.C.
Certified Public Accountants

520 Pike Street, Suite 1040
Seattle, Washington 98101-2397

(206) 623-6116
Fax (206) 623-6929
<http://www.tma-cpas.com>

IRS ANNOUNCES ONE-TIME TELEPHONE TAX REFUND

The IRS has formalized the details on a one-time tax refund available to long-distance telephone customers for 2006 which is available to individuals, businesses and tax-exempt organizations. This refund represents the 3% excise tax paid on long-distance and bundled services billed after February 28th, 2003 and before August 1st, 2006. Several recent federal court decisions have determined that this tax no longer applies to long-distance services as they are billed today. The government has since stopped collecting this tax on services billed after July 2006 and authorized a refund of taxes billed during the previous 41 months. Federal excise taxes on local telephone services remain in effect. Federal long-distance excise taxes paid on land-line, cell phone, fax and Voice over Internet Protocol (VoIP) service all qualify for the refund. This includes bundled services — local and long distance service provided under one plan that does not separate the long-distance charges from the local charges.

Individuals and businesses wishing to claim the actual amount of taxes paid should complete Form 8913, Credit for Federal Telephone Excise Tax Paid and attach it to their regular 2006 return. Tax-exempt organizations should attach Form 8913 to Form 990-T. In lieu of claiming the actual amount, individuals have the option of claiming a standard amount based on the number of exemptions while partnerships, corporations, estates, trusts and tax-exempt organizations have the option of using a formula which estimates your refund amount based on phone bills for 2 months rather than all 41 months included in the refund period. Individuals reporting more than \$25,000 of gross business, farm and rental income may also use this formula. For those who have not been required to file a return in the past, but would like to claim the refund, Form 1040EZ-T has been created exclusively for this purpose.

Please use the worksheet below to summarize the information necessary to calculate your telephone tax refund. Or simply provide us with the information detailed below and we can assist you in calculating your refund.

Individuals

➤ Standard Amount:

- 1 exemption — \$30, 2 exemptions — \$40, 3 exemptions — \$50 or 4 exemptions — \$60.

OR

➤ Actual Amount:

- Total excise tax paid on phone bills dated after Feb. 28th, 2003 and before Aug. 1st, 2006.

NOTE: The amount of actual excise tax paid on long-distance will not be separately identified on your phone bills. You must contact your phone company(s) and request that they break out this portion for you. This makes the "Actual Method" cost-prohibitive as most telephone companies will charge a fee for this service which will offset any additional amounts refunded over the "Standard Amount."

Businesses & Tax-Exempt Organizations

➤ Estimation Method:

- Total paid on phone bills dated during 2003 =
- Total paid on phone bills dated during 2004 =
- Total paid on phone bills dated during 2005 =
- Total paid on phone bills dated during 2006 =
- Excise tax from your April 2006 Total phone bill from April 2006 / % attributable to federal telephone excise tax = Excise tax from your September 2006 Total phone bill from September 2006 / % attributable to federal telephone excise tax =

OR

➤ Actual Amount:

- Total excise tax paid on phone bills dated after Feb. 28th, 2003 and before Aug. 1st, 2006.