

Tax Tidbits

Tax Tidbits is being provided for you to better understand the tax law changes that will affect you; thereby allowing you to focus on the information needed to complete your tax returns. The timing of this mailing will allow you enough time to get your records together, as well as to consider your situation and to call us with questions that you may have.

Almost 100% of our individual tax clients filed electronically in the prior tax season. This was a large learning experience for our client base and an expanded experience for the tax team. We will continue to file electronically our individual tax clients' returns with the hope of reaching our goal of 100% processed. The trust, partnership, and corporate tax returns will come online as our software provider allows.

Continuous training keeps our tax team's skills honed. Paul

Your Business Services Team



Paul E. Hornbuckle and Sandy Cook

Hornbuckle attended the three day 2005 IRS National Tax Forum in New York City in August. Paul took 18 different tax courses ranging from new tax law changes to Section 1031 exchanges. This information is subsequently shared with the staff, which has participated in tax training teleconferences and have been given written tests to sharpen its knowledge. Beside calculating and monitoring estimated tax calculations and payments, the tax team has also played a role in assisting clients and determining the proper income tax to be withheld from their wages. Having the proper tax withheld from pay is looked at much more favorably by the IRS and is much smoother than making estimated tax payments. Even as this tax newsletter goes to print, the President is trying to put additional tax cuts into place. Some of the cuts could affect the most talked about tax topic yet; Alternative Minimum Tax (AMT). We will continue to monitor these changes and how they will affect the taxes of our client base, collectively and, most importantly, individually. There is still time to make charitable contributions, with either cash or appreciated assets. Planning for specific deductions can take place now. These items must be done prior to December 31, 2005 in order to claim the tax benefits.

Remember, the earlier we receive your information, the better we can serve you, so please make your appointment early

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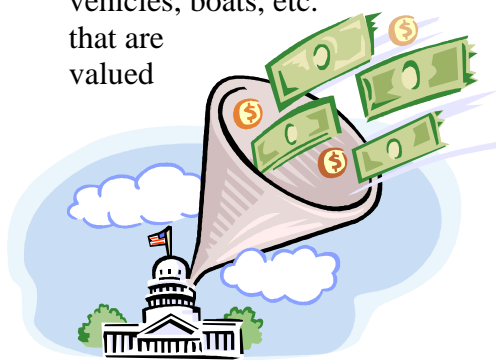
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Miscellaneous New Items for 2005

For 2005, a dependent can be either a qualifying child or a qualifying relative. A qualifying child must be a relative who lives with you for more than half of the year. You must provide more than half of the child's support and he/she must be under the age of 19, a student under age 24, or permanently disabled. A qualifying relative must either be a relative or any other person who lived in your home all year as a member of your household. The qualifying relative must have earned less than \$3,200 in gross income and you must have provided over half of his/her support. There are other criteria that you may need to talk to us about in order to determine the applicability of your situation. You may claim head of household if you paid over one half the upkeep costs of the main home of a parent for all of 2005 who you can claim as a dependent. You must have lived for more than half

the year in the house with your qualifying child or any other person who you can claim as a dependent. You cannot use head of household filing status for a person who is your dependent only because he/she lived with you for all of 2005 or you are entitled to claim him/her as a dependent under a multiple support agreement.

Donations of motor vehicles, boats, etc. that are valued



over \$500, may be listed on your Schedule A. No longer can you simply use the fair market value to determine the amount of your charitable deduction. Receipts and documentation for all donations of non cash items are very important for you to keep in your tax files.

The IRA deduction has been expanded so that you and your spouse may each be

able to deduct up to \$4,000 (\$4,500 if age 50 or older).

Through August 31, 2005, standard mileage rates were 40 ½ cents a mile for business and 15 cents a mile for medical care. As of September 1, 2005 until December 31, 2005, the IRS raised the business rates to 48 ½ cents and the medical care rates to 22 cents a mile due to the increase in gasoline prices.

The 2005 standard deductions are \$10,000 for married filing jointly or a qualifying widow, \$7,300 for head of household and \$5,000 for single or married filing separately.

Capital gains rates for 2005 have not changed from 2004. If you are in the 10% to 15% tax brackets you will pay 5% on capital gains from sales of investments. If you are in a higher tax bracket you will pay 15% on your capital gains.

See page 4 for chart with federal income-tax brackets for 2005.

Electronic Filing – the status quo

As many of you that have Valicenti Advisory Services, Inc. prepare your tax returns

know, we recommended electronic filing during the last tax season. With the exception of a few clients we

were able to electronically file all Federal and State returns. The benefits are quicker refunds, confirmation that the

tax return was accepted and compliance with the law.

The Federal government has not mandated e-filing of individual tax returns yet. New York State has joined other states by requiring tax preparers that prepare more than 200 personal tax returns in 2005 and 100 in 2006, to file all returns electronically. There is a penalty for not filing electronically.

As long as the IRS sees an increasing trend, it probably will not be mandatory to e-file; however, it will be someday. Here at Valicenti, we like to be ahead of the curve.

Tax Traps and the Parallel Tax Universe

Something that the IRS gives all taxpayers is the standard deduction. In fact, for 2005 the amount is \$10,000 for married couples filing jointly. For people not being claimed by another taxpayer or not qualified to be claimed, the personal exemption amount is \$3,200 in 2005. The parity ends here. If you have deductions that exceed the standard deduction, you can lower your taxes even further. For upper income earners, there are two "stealth" taxes that date back to the early 1990's that affect them in particular. The first one causes the high income earner to lose part of specific itemized deductions, such as

state and local income taxes and charitable gifts, once your gross income reaches a certain level. This level of income starts at \$145,950 in 2005. Another hidden tax is the personal exemption phase out or PEP. This limitation phases out the personal exemption amount as income exceeds certain levels. For married couples filing jointly, the phase out will begin at \$218,950. For 2006, the law has changed to scale back the limitations and those taxpayers affected will only lose two thirds of the itemized deductions and personal exemption amounts that would be lost under the current law.

The parallel tax universe or Alternative Minimum Tax (AMT) is a tax that is affecting more and more Americans every year. In fact, in 2003, 2.4 million taxpayers were subject to AMT. In 2005, nearly 3.7 million taxpayers are expected to be subject to AMT. If current laws prevail, by 2010, 30.7 million taxpayers will be paying AMT, which virtually represents all middle class taxpayers.

How does AMT work? The calculation starts with your income before personal exemptions and adds back to that amount certain items. In all, there are 26 items that can positively or negatively affect the calculation in arriving at

alternative minimum taxable income. The top twelve items that trigger AMT are:

1. Personal exemptions
2. Standard deductions
3. State and local income taxes
4. Sales tax
5. Property taxes
6. Mortgage interest on refinanced mortgages or home equity loans not used to buy, build or improve a home
7. Medical expenses
8. Miscellaneous deductions subject to the 2% floor
9. Certain business tax deductions
10. Tax exempt bonds
11. Long term capital interest from private activity gains
12. Exercise of incentive stock options (ISOs).

Strategies at minimizing your AMT include deferring deductions, timing your income and considering exercising your ISOs and selling the stock in the same year, or not exercising the ISOs compared to other items in your tax picture.

As mentioned earlier in this article, there are exemption amounts in the AMT calculation which phase out with larger incomes. The AMT tax rates are generally between 26% and 28%.

There is some relief on the way. Both the House of Representatives and the Senate have legislation. It

seems the Grassley-Bacchus Bill, called the Individual AMT Repeal Act of 2005 (s.1103), has the best prospect for helping the American taxpayer. There is supposed

to be a vote by December of this year on one of the pending bills. There are strong indications that lawmakers will enact at least a temporary patch to slow the AMT's growth by year end.

Federal Income Tax Brackets for 2005 (continued from page 2)

	Married Filing Joint		Most Single Filers
Tax Rate	2005 Taxable Income		2005 Taxable Income
10%	Not over \$14,600		Not over \$7,300
15%	\$14,600 - \$59,400		\$7,300 - \$29,700
25%	\$59,400 - \$119,950		\$29,700 - \$71,950
28%	\$119,950 - \$182,800		\$71,950 - \$150,150
33%	\$182,800 - \$326,450		\$150,150 - \$326,450
35%	Over \$326,450		Over \$326,450

Our Tax Office on Church Street



Located at the northwest corner of West Church and Columbia Streets with parking in back

Our location at 350 West Church Street has become familiar to our clients. With adequate parking in the back lot, it is a convenient location to meet with tax preparers to discuss tax questions and solutions.

As a reminder, Church Street is now open to two way traffic.

Please call our office at (607) 734-2665 in order to set up appointments and to speak directly with one of our tax specialists.



This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.