

# Tax Tidbits

Once again, we are faced with the end of another tax year. Congress has approved tax law changes during the year that will have an effect on some people along with other tax changes that have the potential of impacting virtually all taxpayers. This newsletter will help you to comprehend some of the changes that pertain to you. Several years ago, Congress passed a number of various tax incentives that had a variety of expiration dates. Some of those changes simply involved making the expiration date more uniform by coordinating them to expire all at the same time in 2010. There are still some tax scenarios and deadlines that expired at the end of 2005 that have not been extended, yet are expected to be.

We have registered our company to be able to pay our clients' Federal tax payments electronically. We successfully tested this process with a handful of our clients and are now "ramping" that up to include all clients that have asked VASI to make payments on their behalf. We expect this to be in place by the first quarter of 2007. Many states are in the process of providing the ability to make electronic payments.

Training is always on the forefront. The tax team has attended a number of tax seminars throughout the year to stay current with all of the changes in the tax landscape. Additionally, on a daily basis, we receive e-mails of up-to-date events happening at the Federal and State levels from tax law companies like Commerce Clearing House, the Internal Revenue Service and state tax authorities. In some cases, such as with the repeal of the Florida intangibles tax, we were in direct contact with the office of the Governor of Florida.

To help us serve you more effectively, we ask that you bring in or send in **all** of the tax documentation needed to prepare your tax return. Sometimes it cannot be helped, but please try your best to give us all of your documents initially. Let Valicenti Advisory Services, Inc. take the burden off your shoulders by preparing your tax return this year. We are here all year long, not just during tax season. Throughout the year, we assist clients with tax planning, transaction analysis and estimated tax payment management.

Remember, planning for specific deductions can be done now. These items must be completed by December 31, 2006 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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## **I. Credit for Federal Excise Tax on Long Distance Telephone Service**

This year you can claim a tax credit for federal excise tax paid on long distance telephone services. The safe harbor tax credit ranges from \$30.00 to \$60.00. Businesses must file for the credit using the actual phone tax paid.

The same goes for tax-exempt organizations. They will need to obtain copies of previous bills if they do not have them on file. The tax credit period spans 41 months. Many phone companies are charging clients for additional copies of previous phone bills.

For those people that no longer file, they can claim the credit on a new 2006 IRS form. Interest will be paid on the refund amount.

## **II. Choice of Up to 3 Accounts to Put Refund Money Using Direct-Deposit**

Taxpayers have more options for depositing their 2006 tax refunds next year than previously thought. They can choose Health Savings Accounts, Coverdell education savings accounts or Archer medical savings accounts, in addition to an IRA or a checking or savings account. Caution will have to be exercised in order to avoid excess contributions into qualified retirement accounts. Care should also be taken when depositing a joint refund into a single named account. If the bank does not accept it, it will slow down the process and will likely be paid with a paper check.

**WHY USE DIRECT DEPOSIT?**

- You receive your refund faster by direct deposit than you do by check.
- Payment is more secure. There is no check that can be lost or stolen.
- It is more convenient. You do not have to go to the bank to deposit your check.
- It saves tax dollars. It costs the government less to refund by direct deposit.

## **III. Phase-out of Reductions of Personal Exemptions and Itemized Deductions**

There is a reduction of personal exemptions and itemized deductions if your income exceeds \$ 225,750 for Marrieds Filing Jointly and \$150,500 for Singles. In 2006, the reduction amount is only 2/3 of the amount that would normally apply. Congress is aiming to remove the total reduction by 2010.



## **IV. Qualified Roth Contribution Programs**

This program is new for 2006. This is not the same as the Roth 401(k) that was established in 2005.

This is only applicable to 401(k) and 403(b) plans that create a qualified Roth contribution program which allows participants to treat part

or all of their deferrals as after tax Roth contributions.

The plan administrator must add this option to the plan and must establish a separate account for designated Roth contributions and earnings.

Contributions are subject to elective deferral limits, but not any of the income limits that apply to Roth IRAs.

## **V. IRA Deduction**

Maximum deductible contribution increased to \$5,000 for taxpayers age 50 or older at the end of the year. For those under age 50, the maximum contribution is still \$4,000.

The Modified Federal Adjusted Gross Income (MFAGI) phase out range increased to \$75,000 - \$85,000 for Married Taxpayers Filing Jointly and Qualifying Widow(er)s. There are no changes for other taxpayers.

Nonspousal heirs get help on inherited qualified plan accounts. They can roll them into their own IRAs, just as spouses can now, and start taking required payouts.

## **VI. Higher Limits for Employee Contributions to 401(k), 403(b), 457, and SIMPLE Plans**

In an effort to encourage taxpayers to increase their contributions to their retirement accounts, Congress increased the allowable contribution amount again in 2006. The maximum allowable contribution for 401(k), 403(b) and 457 accounts is \$15,000. For those over age 50, the maximum is \$20,000. For SIMPLE plans, the comparable amounts are \$10,000

and \$12,500, respectively. There are more generous limits for participants in 457 plans who are within 3 years of retirement.

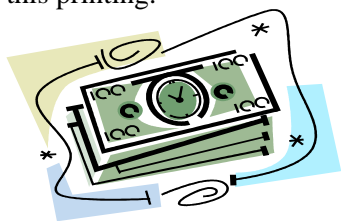
## VII. Expired Individual Provisions

There are a number of individual tax benefits that expired at the end of 2005.

They are as follows:

- The deduction of \$250 for educator expenses.
- Tuition and fees deduction, which entitled eligible parents and students with up to \$4,000 in an adjustment in arriving at Adjusted Gross Income.
- The itemized deduction for state and local general sales taxes.
- The deduction for clean-fuel vehicles.

Congress is expected to extend these expiring provisions, but nothing has happened as of this printing.



## VIII. Tax Deductions Harder To Claim

The IRS may deny tax deductions of donations of clothing or household items – furniture, appliances, linens, electronics and similar items.

Any significant household items must be in “good” condition and, if valued at more than \$500, must be appraised before the taxpayer can take a deduction. A new rule requires that taxpayers who deduct cash

donations have a receipt or a bank record, such as a cancelled check, to deduct the gift.

## IX. IRS to Target Emmy, Oscar and Grammy Gift Bags

The IRS is targeting gift bags given to stars that pick up all the loot in award shows. The value of the 2006 Oscar gift bag was estimated at more than \$100,000. Gift bag takers will be required to fill out a tax form and the Academy of Television Arts & Sciences also will notify the IRS of the basket’s value if presenters take one.

## X. AMT Relief

The Tax Reconciliation Act, that became law in May 2006, extends and increases – for 2006 only – the Alternative Minimum Tax (AMT) exemption amount for individuals. The AMT exemption amount for Marrieds Filing Jointly is \$62,550 and for Singles is \$42,500. Without this relief, an additional 15 million taxpayers, many middle class, would be subject to the AMT.

## XI. Electronic Federal Tax Payment System (EFTPS)

The Electronic Federal Tax Payment System (EFTPS) is provided free by the Department of Treasury’s Internal Revenue Service (IRS) and Financial Management Service (FMS). The system enables Valicenti Advisory Services, Inc. to pay your federal taxes electronically using the Internet or phone. It’s convenient, secure and timesaving. We can issue your tax payment instructions at least one calendar day prior to the tax due date.

Based on your tax payment instructions, EFTPS initiates a debit against your bank account, sends the money to the U.S. Treasury and updates your records with the IRS.

Benefits of using EFTPS:

- It’s secure... the highest level of security online, plus 3 unique pieces of authentication are required online, so that your information is protected.
- It’s fast... we can make a tax payment in minutes.
- It’s accurate...because there are verification steps along the way. We are able to check and review your information before it is sent.
- It’s convenient...EFTPS is available to us by Internet or phone – 24 hours a day, 7 days a week.
- It’s easy to use...it’s a step-by-step process that tells us what information you need in order to make any federal tax payment.
- It helps reduce penalties...because we can schedule payment in advance and check the accuracy of your information.

For our clients, this provides an efficient way to take care of balances due and quarterly federal estimated tax payments, since we can handle these payments for you. For some of you, we are doing this already. Some states are implementing a similar system.

## XII. E-File

More and more Americans are choosing e-file, which lets us electronically file an accurate tax return or get an extension of time to file without sending any paperwork to the Internal Revenue Service. The 2005 tax season set a series of records, highlighted by more than 72 million tax returns filed electronically. Electronic filing and paying ensures that your tax information arrives and that your history is safe and secure.

We are committed to bringing our client services into the 21<sup>st</sup> century; therefore, this year we will continue to file your tax returns electronically, at no extra charge.

### **XIII. Extension of Capital Gains Rates**

The Tax Reconciliation Act extends the lower capital gains rates through December 31, 2010. These rates apply to capital gains and qualified dividends.

### **XIV. Unearned Income of Minors**

The unearned income of minor children that exceeds \$1,700 in 2006 is taxed at the parents' highest marginal tax rate if taxing the income at that rate results in a higher tax. The new law, Tax Reconciliation Act, raises the child's age limit to "under 18" from "under 14" by the close of the tax year, whose income is affected by the higher marginal tax rate. This change is retroactive to January 1, 2006.

### **XV. New York State Changes**

The standard deduction has been increased to eliminate the marriage penalty in the personal income tax. The standard deduction for Married Filing Jointly and Qualifying Widow(er)s is raised from \$14,600 to \$15,000 and Married Filing Separate is increased from \$6,500 to \$7,500.

The Empire State Child Credit is a new refundable credit effective for the 2006 tax year. For children ages 4 – 16, resident taxpayers may claim a credit equal to the greater of a) \$100 times the number of children who qualified for the Federal child tax credit or b) 33% of the taxpayers allowed Federal child tax credit. The Federal credit is currently a maximum of \$1,000 per qualifying child. The Federal credit phases out beginning at \$110,000 of Modified Federal Adjusted Gross Income (MFAGI) for marrieds filing jointly and \$75,000 for others. New York taxpayers with MFAGI above these thresholds may only claim a New York credit equal to 33% of their allowed Federal credit.

New York State exempts monies received by New York National Guard members who are called up to active service in the State by the Federal Government. The Tax Law already allows members of the New York National Guard who are called up to active service by the Governor to subtract the monies received for their active service performed within the

State from their Federal adjusted gross income.



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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.



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

*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.*