

2006 Tax Law Changes

- Exemptions & Deductions**
- Standard Mileage Rates**
- Deductions & Credits**

The Basics of Estimated Taxes

- Who Must File**
- How to File**

Alternative Minimum Tax

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2006 Exemptions & Deductions

- Social Security
 - 6.2% collected on 1st \$94,200 (maximum = \$5,840)
- Personal Exemption
 - \$3,300/person
 - phased out at \$150,500 for single filers and \$225,750 for MFJ
- Standard Deductions
 - \$5,150 for single filers, \$10,300 for MFJ
 - additional \$1,000 for age 65 & blindness (single & head of household) or \$1,000 (MFJ, qualifying widower)
- Itemized Deductions
 - phased out at AGI of \$150,500

2006 Standard Mileage Rates

- 2005
 - 40.5 cents per mile: January through August
 - 48.5 cents per mile: September through December
 - 15 cents per mile: Medical Driving
 - 14 cents per mile: Charitable Driving
 - 34 cents per mile: Katrina-Related Driving
- 2006
 - 44.5 cents per mile
 - 18 cents per mile: Medical Driving
 - 14 cents per mile: Charitable Driving
 - 32 cents per mile: Katrina-Related Driving

2006 Deductions & Credits

- Disappearing Soon...
 - Education Expenses remains at \$250 deduction
 - Section 179 Expensing continues through 2007, up to \$108,000 in purchases
 - Child Tax Credit remains at \$1,000 through 2010
 - Sales Tax Deduction – remains an option on Schedule A, perhaps ending after 2005

Estimated Taxes – Who Must File

- Year End Reconciliation
 - The filing of a year-end federal return should be looked at as a “reconciliation.”
 - Taxes are due throughout the year, not on April 15th
- Common for people with income sources such as
 - self employment, pensions,
 - interest or dividend income, capital gains
 - prize winnings (think Survivor)
- Threshold
 - Must be paid if you owe more than \$1,000 at the end of 2006
 - AND the total amount withheld from your income is less than the smaller of:
 - 90% of the tax to be shown on the 2006 return
 - 100% of the tax shown on the 2005 return (or 110% if AGI was more than \$150,000 in 2005)

Estimated Taxes – How To File

- How to Pay Estimated Taxes
 - Withholdings
 - Ask your pension provider to withhold taxes from each payment
 - Standard amount is 20% - 25% Federal and 4.63% State, but you should always calculate these amounts for yourself
 - If withholding isn't available, you should send in payments via Form 1040-ES and 104EP
 - Taxes should be paid in at or near the time the income is received.
 - Due Dates are 4/15/06, 7/15/06, 9/15/06 and 1/15/07

Alternative Minimum Tax

- The AMT is a separate tax system, formed so that high income people with many preferential deductions will be forced to pay some tax
- Calculated via Form 6251, which is part of 1040
- In effect, you are simply adding back some tax deduction and income exclusions to your regular taxable income to arrive at your alternative minimum taxable income, which is then subject to different tax tables (26% on the first \$175,000 of income)

Alternative Minimum Tax

- The AMT ignores several itemized deductions, including the most common:
 - investment expenses
 - employee business expenses
 - medical/dental expenses
 - investment-related transactions
 - income from tax-exempt bonds
 - the “spread” on incentive stock options
 - state and local taxes

Alternative Minimum Tax

- Calculating the AMT
 - Complete tax return in usual manner
 - Fill out Form 6251, which calculates taxable income using AMT rules
 - Subtract an exemption, based on marital status
 - End Result = new taxable amount of income
 - AMT tax is calculated via the AMT tax tables