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TO CONTACT US:

Jennifer A. Jones, CPA, Ltd.
10615 Judicial Drive, Suite 701
Fairfax, Virginia 22030

Phone: 703-352-1587
Fax: 703-352-1927

VISIT OUR
WEBSITE AT:

<http://www.jajonescpa.com/>

TO EMAIL US:

[Jennifer A. Jones, Certified Public Accountant](mailto:Jennifer.A.Jones@jajonescpa.com)
[Patricia \(PA\) MOSS, Enrolled Agent](mailto:Patricia.Moss@jajonescpa.com)
[I. Randolph Shull, Certified Professional Advisor](mailto:I.Randolph.Shull@jajonescpa.com)

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JENNIFER A. JONES, CPA, LTD.

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Client Newsletter

June 2006

Articles

2006 Tax Legislation: Congress recently passed the *Tax Increase Prevention and Reconciliation Act*. This Act extends many current tax breaks and contains other tax breaks that could help reduce your tax liability this year and in future years. There is also an important change in the “kiddie tax” rules that affects children under the age of 18. Click on headline for more info.

Roth 401(k) Update: An analysis of the Roth 401(k) shows that the vast majority of workers are better off sticking with the traditional 401(k) and making deductible contributions. As a result, most plan sponsors should think twice about putting too much effort into understanding and adopting the Roth feature. Click on headline for more info.

Energy Tax Credits for Homeowners: Tax credits are available for many types of home improvements including adding insulation, replacement windows, and certain high efficiency heating and cooling equipment. The maximum amount of homeowner credit for all improvements combined is \$500 during the two-year period of the tax credit. This tax credit applies to improvements made from January 1, 2006 through December 31, 2007.

For more info, http://www.energystar.gov/index.cfm?c=products.pr_tax_credits#1

New Taxpayer Burden Estimate Causes Headache for Software Industry: The IRS told taxpayers in its 2005 Form 1040 instructions that it is cheaper and faster to file their taxes on paper than electronically with tax preparation software. This latest pronouncement on cost has raised eyebrows in the tax software community since the IRS has promoted electronic filing and is under a Congressional mandate to have all taxpayers filing electronically by 2007. It also takes longer to file electronically—21.8 hours—versus 16.1 hours to file on paper, the instructions say.

Business Emergency Guide FEMA’s guide for setting up contingency plans.

[Previous Articles and Newsletters](#)

The Cost-of-Living Dollar Limits for 2006

IRA Contribution Limit \$4,000

IRA 50 & Over Catch-up Contribution \$1,000

401(k) deferral limit \$15,000

401(k) 50 & Over Catch-up Contribution \$5,000

SIMPLE Deferral limit \$10,000

SIMPLE 50 & Over Catch-up Contribution \$2,500

Annual Compensation limit \$220,000

Defined Contribution IRC Sec 415 limit \$44,000

Compensation limit for SEP eligibility \$450

IRC Section 179 \$105,000 (not yet updated)

Estate Tax Exclusion \$2,000,000

2006 Standard Mileage Rates:

Business mileage rate \$0.445/mile

Medical & Moving mileage rate \$0.18/mile

Charitable mileage rate \$0.14/mile

Hurricane Katrina Relief Services \$0.32/mile

1st Year depreciation limits:

Passenger Autos \$2,960

Trucks & Vans under 6,000 unloaded GVW \$3,260

Vehicles over 6,000 unloaded GVW \$25,000

(1st Year limits unchanged from 2005)

Prior Years' Cost of Living Dollar Limits

Social Security

Wage Base for 2006 \$94,200

Retirees under 65 may earn up to \$12,480 (\$1,040 a month). For each \$2 earned over the amount for the year, the retiree loses \$1 in benefits. Retirees turning 65 in 2006 can earn up to \$33,240 in the year without losing benefits, counting only earnings before the month they turn 65. For each \$3 earned over this limit, the retiree loses \$1 in benefits. No limit if 65 or over, effective January 1, 2000.

As you work and pay Social Security taxes, you earn "Credits", up to a maximum of 4 for each year. The amount of earnings it takes to earn a credit changes each year. In 2006, you earn one credit for each \$970 of your earnings. So if you have earned at least \$3,880 during the year, you get the maximum 4 credits. If you employ family members, you may want to be sure to pay them at least this amount so they earn their credits.

See www.ssa.gov for more info on Social Security and www.cms.hhs.gov for info on Medicare and Medicaid

Full Retirement Age for Social Security Benefits

Date of Birth	Full Retirement Age
1937 or earlier	65 years
1938	65 years + 2 months
1939	65 years + 4 months
1940	65 years + 6 months
1941	65 years + 8 months
1942	65 years + 10 months
1943-1954	66 years
1955	66 years + 2 months
1956	66 years + 4 months
1957	66 years + 6 months
1958	66 years + 8 months
1959	66 years + 10 months
1960 or later	67 years