JENNIFER A. JONES, CPA, LTD.

Volume 7, Issue 3 | Client Newsletter | September 2006

Articles

Pension Protection Act of 2006: On August 17, 2006, President Bush signed into law another major tax act. The new Pension Protection Act of 2006 is the most sweeping overhaul to U.S. pension laws in more than 30 years. It also contains more than 100 tax provisions affecting tens of millions of taxpayers, including higher plan contribution deductions for employers, permanent IRA enhancements, permanent Roth 401(k)s, automatic 401(k) enrollment, new investment advice guidelines, permanent extension for 529 college plans, **new charitable donation rules**, tighter controls on exempt organizations, and much more. In a special Tax Briefing, CCH editors provide a quick-read summary of these changes. Click on headline for more info.

The new charitable donation rules require that cash donations, regardless of amount, must be substantiated either by a cancelled check, bank record, or a written communication from the charity indicating the amount of the contribution, the date the contribution was made, and the name of the charity. Also, no deduction is allowed for used household items and clothing unless the items are in "good" condition.

Verify Employee SSNs Online: The Social Security Number Verification Service (SSNVS) allows you to match the name and SSN of employees you hire with Social Security's records. To use the SSNVS go to the following address http://www.socialsecurity.gov/bso/bsowelcome.htm

Health Insurance Deduction for Self-Employed and S Corp Shareholders: In an item posted to the business section of the IRS' website, IRS addresses the issue of when self-employed proprietors and >2% Sub S shareholders can claim an above-the-line deduction for their health insurance premiums. Although this information is informal guidance, it is best to have the health insurance policy owned by the business. If not, the next best thing is to have a written company plan that outlines that the company will reimburse the owner/shareholder for a personally owned health policy. For Sub S shareholders, see http://www.irs.gov/businesses/small/article/0,,id=157049,00.html

Still using paper FTD Coupons Form 8109-B? Consider using the EFTPS. See http://www.irs.gov/businesses/small/article/0,,id=156581,00.html

Reference Guides

The Cost-of-Living Dollar Limits for 2006 Tax Year

Prior Years' COL Dollar Limits

Social Security

Full Retirement Age for Social Security Benefits

Deadlines & Due Dates

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
Patricia (PA) Moss, Enrolled Agent
J. Randolph Shull, Certified Professional Advisor

Unsubscribe to Newsletter

Have a Question?

If you have a subject or question that you would like covered, or comment, please email us at jenny@jajonescpa.com

Previous Articles and Newsletters

Recordkeeping Requirements and the Consequences of Lost, Destroyed or Stolen Records by Anne L. Christensen and William J. Kenny/The Tax Adviser. Taxpayers must substantiate the accuracy of their returns with appropriate books and records. This article reviews those requirements; covers the options available when records are lost, destroyed or stolen; methods to reconstruct those records; and the general record retention requirements. Click on title for article.

Telephone Excise Tax Refunds: The Internal Revenue Service has announced the standard amounts that most long-distance customers can use to figure their telephone excise tax refund. These amounts, which range from $30 to $60, will enable millions of individual taxpayers to request the telephone tax refund without having to dig through old phone bills.

In general, anyone who paid the long-distance telephone tax will get the refund on their 2006 federal income tax return. This includes individuals, businesses and nonprofit organizations. The 2006 return is usually filed during 2007.

The standard amounts are based on the total number of exemptions claimed on the 2006 federal income tax return. The standard amounts are $30 for a person filing a return with one exemption, $40 for two exemptions, $50 for three exemptions and $60 for four or more exemptions. For example, a married couple filing a joint return with two dependent children (for a total of four exemptions) will be eligible for the maximum standard amount of $60.

To get the standard amount, eligible taxpayers only need to fill out one additional line on their regular 2006 return. The IRS is creating a special short form (Form 1040EZ-T) for those who don’t need to file a regular return.

For more info See http://www.irs.gov/newsroom/article/0,,id=161504,00.html You may need to copy and paste this address into your browser.

The Best Use of Spare Cash: When you have some extra cash on hand, your prudent choices are investing, saving for college or retirement, or paying off debts. To maximize the after-tax rate of return, minimize risk and allow for asset diversification, the following order is suggested in this AICPA Journal of Accountancy article.

Invest in your 401(k) up to the full extent of the employer’s matching contributions.
Pay off debts-beginning with those that have the highest after-tax interest rates.
Invest in your state’s IRC 529 college savings plan up to the maximum amount eligible for state tax benefits.
Invest up to the max in either a Roth IRA or a deductible IRA.
Invest up to the max allowed in your 401(k).
Invest in any state’s IRC 529 plan.
Pay off moderate interest rate debts in order of higher to lower after-tax interest rates.
Invest in tax-efficient annuities, mutual funds and/or government bonds.
Pay off lower interest rate debts in order of higher to lower after-tax interest rates.

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 $108,000

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