



Tax Savings Opportunities

Individuals

What's New for Individuals in 2006

Always take a sensible approach when it comes to tax planning. Structuring transactions strictly on the tax consequences is seldom a good idea. Your investments, family financial planning, and business activities should have economic merit without the tax considerations. However, taxes are a fact of life, and a little planning can often save a lot of money.

Family-friendly tax breaks have been extended through 2006:

- The \$1,000 child tax credit
- Increased standard deductions and exemptions

AMT Exposure

Although Alternative Minimum Tax (AMT) was originally designed to apply only to taxpayers who took too much advantage of certain tax breaks, the current rules encompass many unsuspecting taxpayers. Certain items can increase your risk of AMT, including exercising incentive stock options, recognizing substantial long-term capital gains, claiming a high number of personal exemptions, and deducting a significant amount of state and local taxes.

! BEWARE: Although the AMT provision has provided a one-year "fix" through 2006, the AMT exemption of \$62,550 (Joint) and \$42,500 (Single) may revert back to \$45,000 (Joint) and \$33,750 (single) in 2007, increasing the exposure of taxpayers to the AMT.

Tighter Rules for Charitable Contributions

Donations of used clothing and household items made after 8/17/06 must be in "good" or better condition to be deductible. Consider keeping a list and a photo (to help establish the item's condition) of the donated items. **Note:** Starting in 2007, all charitable deductions must be substantiated with bank record (i.e. cleared check) or written communication (i.e. receipt) from the charitable organization; otherwise the IRS will disallow the deduction.

Hybrid Vehicle or Alternative Fuel Motor Vehicle (AFMV) Credits

The IRS is constantly updating the list of qualifying vehicles and the amount of these credits. The hybrid credits can be up to \$3,400 and the AFMV credits up to \$4,000 per vehicle.

New Kiddie Tax Rules – Beware!

Beginning in 2006, the age cut-off for the "kiddie tax" has risen from under age 14 to under age 18. Unearned income in excess of \$1,700 of dependent children, who are still under age 18 by 12/31/06, will be taxed at the parent's higher marginal federal income tax rate.

Residential Energy Property Credit

A tax credit of up to \$500 is available to individuals for nonbusiness energy property placed in service in **2006 and 2007**, such as residential exterior doors and windows, insulation, heat pumps, furnaces, central air conditioners and water heaters. Each improvement is limited to specific credit amounts and qualifications.

Tax Saving Ideas

Manage Your AGI

Many tax breaks are only available to taxpayers with adjusted gross income (AGI) below certain levels. Some common AGI-based tax breaks include the child tax credit, the \$25,000 rental real estate passive loss allowance, and the exclusion of social security benefits. In addition, joint taxpayers with 2006 AGI in excess of \$225,750 (\$145,950 single) begin losing part of their itemized deductions, to the extent of 3% of the excess. Accordingly, strategies that lower your income or increase certain deductions might not only reduce your taxable income, but also help increase some of your other tax deductions and credits.

"Specific Identification Method" to Minimize Capital Gains

If shares of investments are acquired at various times for various prices, identify the particular shares with the highest cost basis and the lowest value first. This will allow you to minimize your gains. Note: IRS regulations require that you must identify the shares you want sold by reference to their purchase date and per-share price.

Capital Loss Strategy

Consider selling "loss" securities (outside of retirement plans) before December 31, 2006 to reposition portfolios and offset capital gains and ordinary income with capital loss up to \$3,000. Be careful of the "Wash Sale rule", which results in a disallowed loss if the same security is acquired within 30 days before or after the sale date of the loss security. However, there are techniques to avoid the "Wash Sale rule".

ROTH IRA Planning

Under current regulations, only individuals with modified adjusted gross incomes of \$100,000 or less are eligible for *Roth IRA* conversions. For 2010 and beyond, however, the \$100,000 limitation is scheduled to disappear. This will allow you to convert your *Non-deductible IRA* to a *Roth IRA*, and take advantage of *Roth IRA* benefits.

! Tip: While you may not be eligible to make current *Roth IRA* contributions due to income limitations, you can now contribute to a *Non-deductible IRA*, then beginning in 2010 convert to a *Roth IRA*. (Note: Only the value above your *IRA* contribution "basis" is subject to income tax on the "conversion".)

Minimizing the "Kiddie Tax"

If you may become exposed to the new "kiddie tax", consider tax-exempt securities or investments that defer taxes until the child turns age 18. In addition, if college costs are in your future, consider contributing to a 529 Plan. 529 Plans offer a tax-advantaged way to put away cash for college expenses or to prepay tuition expenses. Earnings grow tax free for qualified education expenses.

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