



ALLIANT ADVISORS

FIND DIRECTION



The Navigator

Important Markers To Guide Your Way

January 2007

Dear Client:

The biggest tax development in the past quarter was passage of the Tax Relief and Health Care Act of 2006, which retroactively extended key provisions that had expired at the end of 2005 and made other key changes. However, there were a number of other important tax developments that occurred in the past three months that may affect you, your family, and your livelihood. We've summarized these developments, some of which involve IRS responses to the extenders, below. Please call us for more information about any of these developments and what steps you should implement to take advantage of favorable developments and to minimize the impact of those that are unfavorable.

We hope you will enjoy and value this information. If you do not wish to receive this information by email please respond to this message and we will remove you from the list. For more information about any aspect of our services, visit www.alliant-advisors.com or call your local office.

The Alliant Team

IRS explains how individuals claim three extended deductions on paper forms for tax year 2006 that it won't be updating.

In November of 2006, when the IRS sent paper forms to the printer for tax year 2006, Congress had not yet retroactively extended the deductions for state and local sales tax, higher education tuition and fees, and educator expenses. As a result, these paper forms don't reflect these deductions, all of which were subsequently revived by the Tax Relief and Health Care Act of 2006, which was signed into law on Dec. 20, 2006. The IRS has said that it will not reprint the paper forms, such as Form 1040, for 2006.

(1) Claim the deduction for state and local general sales taxes on Schedule A (Form 1040), line 5, "State and local income taxes" by entering "ST" on the dotted line to the left of line 5 to indicate you are deducting sales taxes instead of state and local income taxes. IRS will mail Pub. 600, carrying the optional state and local sales tax tables and instructions for claiming the sales tax deduction, to taxpayers who receive the 2006 Form 1040 package.

(2) Claim the deduction for up to \$4,000 of tuition and fees paid to a post-secondary institution on Form 1040, line 35, domestic production deduction, by entering "T" on the dotted line to the left of that line entry.

If you claim both a deduction for domestic production activities and the deduction for tuition and fees, enter "B" on the dotted line and attach a breakdown showing the amounts claimed for each deduction.

(3) Educators claim the deduction for up to \$250 of out-of-pocket classroom expenses on Form 1040, line 23, "Archer MSA Deduction" by entering "E" on the dotted line to the left of that line entry. If you claim both an Archer MSA deduction and a deduction for educator expenses, enter "B" on the dotted line and attach a breakdown showing the amounts claimed for each deduction.

IRS highlights key charitable contribution changes for individuals.

The IRS has alerted individuals to the following key charitable contribution changes made by the Pension Protection Act of 2006 (signed into law on Aug. 17, 2006) that may affect the 2006 return and the 2007 tax year:

(1) For 2006 and 2007, an IRA owner who is age 70 1/2 or over can directly transfer tax-free up to \$100,000 per year from an IRA to an eligible charitable organization. Amounts transferred are not taxable and a deduction can't be claimed for the amount given to the charity. Transferred amounts are counted in determining whether the owner has met the IRA required minimum distribution rules.

(2) Clothing and household items (e.g., furniture, furnishings, electronics, appliances, and linens) donated to charity after Aug. 17, 2006 is deductible only if it is in good used condition or better. However, you may claim a deduction of more than \$500 for any single item, regardless of its condition, if you include a qualified appraisal of the item with your income tax return.

(3) After 2006, individuals can't deduct any charitable donation of money unless they have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution. A bank record includes canceled checks, bank or credit union statements and credit card statements. Bank or credit union statements should show the name of the charity and the date and amount paid. Credit card statements should show the name of the charity and the transaction posting date.

2007 standard mileage rate for business auto use.

The optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) is 48.5¢ for business travel after 2006, up 4¢ from the 44.5¢ amount for 2006. The mileage allowance deduction replaces separate deductions for lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance and license and registration fees. You may, however, claim separate deductions for parking fees and tolls connected to business driving. The standard mileage rate can be used for a purchased auto only if a number of conditions are met. For example, you can't use it if you previously depreciated the auto under the regular accelerated depreciation rules. Related business-auto mileage changes: For 2007, employers that require employees to supply their own vehicles may reimburse them at 48.5¢ a mile for employment-connected business mileage, whether the vehicles are owned or leased. The reimbursement will be tax-free to the

employee if he or she substantiates the time, place, business purpose, and mileage of each trip. Additionally, an employee's personal use of lower-priced company vehicles during 2007 (\$15,100 for a car, \$16,100 for a van or truck) may be valued at 48.5¢ per mile if certain conditions are met.

Other mileage deduction rules for 2007. For 2007, individuals who use a car to get medical care or in connection with a move that qualifies for the moving expense deduction may deduct 20¢ per mile (was 18¢ per mile for 2006). The mileage rate for driving an auto for charitable use during 2007 remains unchanged at 14¢ per mile.
