

Katrina and Rita Tax Legislation

Congress passed legislation that affects victims of Hurricane Katrina and Hurricane Rita. If you were living in the counties affected, or had property there, let us know at our appointment.

Tax Break for Those Providing Temporary Housing to Katrina Victims

Anyone providing rent-free housing to Hurricane Katrina victims, including relatives who are not your dependents, for at least 60 days will be able to take a tax deduction of \$500 per person. The maximum deduction is \$2,000 for 2005 and 2006, but you can't claim the same person more than once. Question 19 on the checklist we ask every client to fill out each year should be checked for our appointment.

Gifts

Annual Gift Limit Increased

For 2003-2005, you could give a gift to anyone for up to \$11,000 with no tax cost or government filing requirement. For gifts made in 2006, this limit has been raised to \$12,000.

A gift can be given to anyone. Only a gift to a charitable organization is a deduction for income tax purposes. A gift is not income, so a person receiving a gift does not report it on their tax return.

Unlimited Charitable Gifts Through the End of 2005

The Katrina tax legislation made two changes for cash donations made between August 28 and December 31, 2005. First, the annual limit of 50% of total income that can be deducted is raised to 100%. Very few people ever get close to giving 50% of their income to charity. This may impact you if your income is very low or if you made a major gift. The gift does not have to be related to Katrina charities; it can be given to any qualified charity.

Secondly, itemized deductions are reduced 3% by the difference between your income and \$145,950. For cash charitable gifts made in this period, the charitable gift deduction will not be reduced by the 3%. This will affect everyone who made over \$145,950.

Our tax organizer is designed to ask you for cash gifts made after August 27. If you don't fill in our organizer, and you made over \$145,950, we will ask you for that information.

Both of these provisions apply to cash donations. This means that your car donation or your clothing given to Goodwill does not qualify.

Tax Credits

Hybrid Vehicle Credit

This new tax credit is available for the purchase of a hybrid gas/electric, electric, or other alternative fuel vehicle. It can be used for personal or business purposes. The credit amounts vary from \$1,700 to \$3,000, depending on various factors, but in certain situations, can provide as much as \$3,400 on the purchase of a qualifying vehicle.

The credit replaces a deduction for 2005 providing up to \$2,000 in deductions (10% of vehicle cost) for the purchase of a hybrid vehicle. The credit will be available for tax years 2006-2009. One caveat, however, is that the credit is limited to the first 60,000 vehicles from each auto manufacturer. Therefore, prior to purchasing one of these vehicles, you should check with the dealer to make sure that the credit would be available for your purchase.

Energy Saving Home Improvements

A tax credit of up to 10% of the cost of energy saving improvements made to your primary residence is available for 2006-2007. The credit is limited to a lifetime maximum of \$500. Qualifying improvements would include such things as adding insulation, installation of energy efficient windows, or high efficiency heating and air conditioning. Any amount spent on windows or doors is limited to a \$200 lifetime maximum.

Solar Powered Systems

A tax credit for up to 30% of the cost of installing a solar powered hot water system or electricity-generating solar (photovoltaic) system between 2006-2007 is available. The maximum credit is \$2000 per year. A solar hot water system to heat swimming pools or hot tubs does not qualify. Unlike the energy savings credit above, it is not limited to your primary residence.

Sales Tax Deduction

Congress allowed us to deduct the higher of sales tax or state income tax as an itemized deduction in 2004 and 2005. This has not been extended to 2006. In addition to the table on page four, you can deduct the sales tax on cars, trucks, boats, motorcycles, trailers, RVs, motor homes, and the materials to build a home. You cannot deduct the sales tax on car repairs or home maintenance. IRS has not stated whether new home improvements are allowed.

Telephone calls

Telephone excise tax on long distance calls illegal

Three federal appeals courts have declared the 3% federal excise tax on most long distance calls to be illegal. Passed to help fund the Spanish-American War, the long distance tax is based on calls whose charge varies with time and distance. Since almost all long distance calls are now sold at a flat rate per minute, the tax is illegal.

IRS cannot stop collecting the tax from the phone companies until Congress changes the law or the Supreme Court strikes it down. However, you can notify your phone company that you don't wish to pay the tax. The media reports that AT&T, Cingular Wireless, MCI, and Verizon Wireless now remove the tax charge from phone bills when asked to do so by customers. Since they do, I imagine their competitors do as well.

For taxes already paid, there's a premium on filing refund claims now. Because of the statute of limitations, after a certain period has elapsed (generally three years), you can no longer go back and file claims. So every three months a quarter's worth of old tax payments are lost forever.

If you want to get money back from IRS, we can prepare the returns for you. However, in our case, the 3% we paid in 2005 on long distance was less than \$20. Unless you paid for a lot of long distance, it may not be economic to get the taxes back. If you would like to fill out the claim forms yourself, please see the article at <http://tinyurl.com/bm2ph>

How to block most telemarketer calls

The National DO NOT CALL list blocks your number for five (5) years. To register call 1-888-382-1222 or go to <http://www.donotcall.gov>.

Company contact information

Bob McCombs & Company, CPA's

We prepare over 500 tax returns between January and April. Bob McCombs sees clients between 10AM and 10 PM four to five days a week, including Saturday and Sunday. For this reason, we are closed on Tuesdays. Please do not expect anyone to be in the office to answer the door, for the phone to be answered, or for your calls to be returned on Tuesdays.

We try to answer the phone and return calls Monday, Wednesday, Thursday and Friday between 10AM and 6 PM.

The office numbers are (940) 566-2533 and (800) 475-2533.

Our fax machine is on 24 hours a day, seven days a week and that number is (940) 382-0433.

E-mail is still the best way to reach us. Email Beth to schedule or re-schedule an appointment, to request tax forms, or to request copies of tax returns at beth@dentoncpa.com. Email Bob to ask a tax question, to send information to complete a return, or to request more information about our services at bob@dentoncpa.com.

How to reach customer service 800 numbers of big companies

Have you ever tried to find the toll free phone number of a big company that is not listed with directory assistance or on their webpage? Try www.Google.com.

Enter the company name followed by 800 OR 877 OR 888 OR 866. An example would be "Ebay 800 OR 877 OR 888 OR 866".

Free 411 calls

By using 1-800-FREE411 you no longer have to pay for 411 calls. Cingular's 411 service charges \$1.29 per call. It also works on landlines. The catch? You have to listen to a 12 second advertisement if a related business has bought advertising. (Info from Mark at Boing Boing).

2005 Sales Tax Table for Texas

Income		Exemptions					
		1	2	3	4	5	Over 5
At least	But less than						
\$0	20,000	285	330	360	384	403	429
20,000	30,000	498	576	627	667	700	746
30,000	40,000	612	708	771	820	859	915
40,000	50,000	713	824	896	953	999	1064
50,000	60,000	805	929	1012	1076	1127	1200
60,000	70,000	890	1027	1118	1188	1246	1327
70,000	80,000	972	1121	1220	1296	1360	1447
80,000	90,000	1048	1209	1316	1398	1465	1559
90,000	100,000	1121	1292	1407	1494	1567	1667
100,000	120,000	1218	1404	1529	1624	1701	1811
120,000	140,000	1353	1559	1696	1802	1889	2010
140,000	160,000	1472	1696	1845	1960	2054	2186
160,000	180,000	1592	1835	1996	2120	2222	2363
180,000	200,000	1701	1960	2132	2264	2373	2524
200,000	Or more	2261	2603	2829	3003	3147	3346

Bob McCombs and Company
 Certified Public Accountants
 1013 N. Elm Street
 Denton, TX 76201-2938
 (940) 566-2533 • (800) 475-2533
 www.dentoncpa.com • bob@dentoncpa.com

ADDRESS SERVICE REQUESTED

Tax News You Can Use

Bob McCombs and Company
 February 22, 2006 Newsletter
 Issue 4

Some changes for 2005 and 2006

IRS has made several changes that will affect your federal income tax return for tax years 2005 and 2006. Due to these changes you may need to modify how you collect and organize your tax information. Some suggestions are included below for your convenience.

New Schedule D Detail Required

For those of you who have lots of stock sales, in the past we have been able to total the long term sales separate from the short term sales, say "Detail Available" in the description field of Schedule D, and put the totals on the return. IRS announced in the 2005 Schedule D instructions that "You must enter the details of each transaction on a separate line. If you have more than five transactions to report,...report the additional transactions on Schedule D-1...Do not enter 'see attached' and summary totals from an attachment in lieu of reporting the details of each transaction directly on Schedule D or Schedule D-1."

What this means is that if you have 50 stock sales, each one has to be listed on the IRS Schedule D and D-1. IRS announced in January that it would accept separate statements but they have to be in the same format as Schedule D-1. Most brokers have the ability to download the sale and purchase information into an Excel spreadsheet or PDF report. If we can get this additional report from your broker, it will save substantially on the time and fees to enter each transaction.

We will be happy to talk to your broker to get this information. Alternatively, if your account is accessible on the internet, we can download the information we need at your appointment.

Mileage Rates Change September 1, 2005

Because of the gas price increases last summer, IRS changed the 2005 mileage rates. This means that we need deductible mileage separated for the period January 1 thru August 31, then September 1 thru December 31.

MILEAGE RATES

	1/1 - 8/31 2005	9/1 - 12/31 2005	2006
Business mileage	40.5¢	48.5¢	44.5¢
Medical mileage	15¢	22¢	18¢
Moving mileage	15¢	22¢	18¢
Charity mileage	14¢	14¢	14¢
Charity related to Katrina	14¢	34¢	32¢

There is a separate rate of 29¢ for Katrina mileage between 8/25/05 and 8/31/05

Automatic Extensions

Beginning in 2006 only one six (6) month automatic extension for all income tax returns will be allowed. Calendar year corporations whose return is due March 15 will have until September 15. Individuals, partnerships, estates and trusts will have from April 15 until October 15 to file their returns.

Remember, if you expect to owe money, the money must be paid on the original due date to avoid interest and late PAYMENT penalties. An extension only allows you to avoid late FILING penalties.

If you want us to prepare your individual extension at no charge, please e-mail or call us before April 14. If you want us to send in a check with your extension, we need the check, payable to "United States Treasury", by April 14.