

# ON YOUR SIDE

Volume 9

An informative presentation from your Pre-Paid Legal District of Columbia/Maryland Provider

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FROM THE DESK OF Jeffrey M. Lippman, Managing Partner

## FINANCIAL TIP/TAX TIP

FYI - Some important limits on retirement vehicles have increased for 2007. Some of these contributions can still be included as deductible for 2006 tax purposes. The latter generally applies to IRA accounts and the deadline is generally April 16, 2007. You should talk to your financial advisor to see if



this applies to you. However, the contribution amounts for 401(K)'s and 403(B)'s have increased from \$15,000.00 to \$15,500.00. The

catch-up amount for individuals age fifty (50) or older remains at \$5,000.00. IRA contribution limits remain at \$4,000.00 and the catch-up amount for individuals age fifty (50) or older remains at \$1,000.00.

You may wish to review The Pension Protection Act of 2006 with your financial advisor to see if any other aspects of the law impacts you favorably.

CONSUMER CORNER, By J C Amos, Esquire

## TIPS FOR TAX PREPARATION

Tax season is upon us and it is time for each of us to take steps to prepare our tax returns. I would like to share some helpful tips to make tax time easier. I have learned many of these from attending audits and working with businesses and the IRS.

- If you don't know much about taxes, don't rely on tax preparation software. I have found it is often misleading when the person inputting information doesn't understand the purpose of the question.
- Gather all the records you

need to file your returns, including W-2's, state income tax refunds, 1099's, 1098's, other mortgage statements, medical bills, receipts for donations, disaster losses or thefts, and unreimbursed business expenses (and receipts and expense records if you have your own business). Having all these ready will mean that you can start and complete the tax returns in less time. If you are hiring a tax preparer, having organized records will save you money in the long run.

- Do not leave your records with the tax preparer when your return is finished. If he wants to keep them, allow him to make copies, but keep your originals with your copies of the tax returns. Store your returns in a plastic water tight container. The IRS has heard about too many flooded basements to be sympathetic to "my records were lost in a flood."

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## CONSUMER CORNER, By J C Amos, Esquire

### TIPS FOR TAX PREPARATION

*Continued from page 1*

- Review your tax return carefully with your preparer or after you have printed it. Does it make sense? If it seems too good to be true, it probably is. Have it prepared over again by another preparer. Unfortunately, there are many unscrupulous tax preparers out there who don't care if your returns are accurate because the IRS is going to come after you, not them. For example, if you earned \$100,000, didn't have any withholdings and the tax is only \$2000, there's a really good chance that the return is wrong. It's too good to be true. Specifically you should check :
  - \* Is all the income included? If you have received interest from a bank, that is income. You don't want to be audited for \$200 in interest or dividends.
  - \* If you itemized your deductions last year and got a state tax refund, you have to add the refund back this year.
  - \* Are your charitable donations, as

listed on schedule A, reasonable? If not, they could trigger an audit. After August 2006, you need proof for cash contributions over \$250. That means canceled checks, letters from the church signed by an official, and contemporaneous signed cash receipts. Donations of non-cash items have to be in good condition and can only be valued at their garage sale value. The IRS doesn't care that you paid \$200 for a sweater and never wore it, you can't get more than \$5 at a yard sale. And those donations have to be itemized for the IRS to accept them.

- \* If you have your own business, are the income and expenses reported reasonable? If your business had income of \$100 and expenses of \$18,000, you need to have a business plan that explains what happened and how you will make money next year. Losses from a new business for more than two of the first five years will trigger an audit faster than any other known condition. That does not mean you shouldn't claim them if they are real and you can support them but

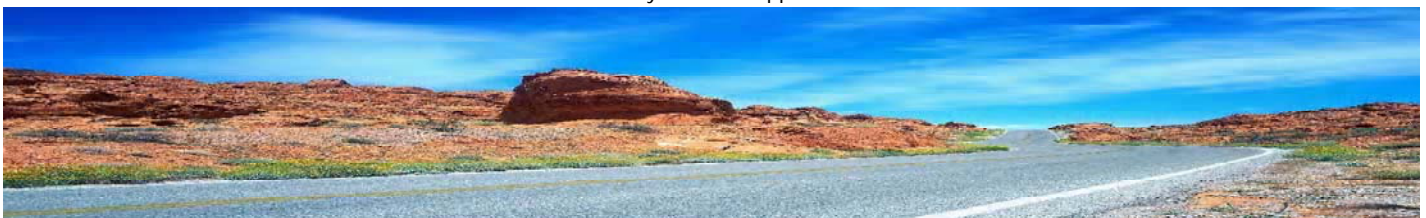


Some tax preparers tend to "overestimate" business expenses and the taxpayer winds up in trouble.

- \* If you bought and sold stocks, has a Schedule D been completed? The IRS will receive a report of your proceeds from the sales. If you can't prove your basis in the stock, you will have to claim the whole proceeds as income.

Remember, if you find it daunting to gather all these records now for 2006, at least start now keeping records to make it easy for 2007.

Finally, if you receive notice of an audit from the IRS, call us immediately. You may be eligible for subsidized hours of legal service under Title IV of your PPL Plan.



### MILEAGE RATES

Beginning Jan. 1, 2006, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

44.5 cents per mile for business miles driven;

18 cents per mile driven for medical or moving purposes; and

14 cents per mile driven in service of charitable organizations, other than activities related to Hurricane Katrina relief.

Beginning Jan. 1, 2007, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

48.5 cents per mile for business miles driven;

20 cents per mile driven for medical or moving purposes; and

14 cents per mile driven in service to a charitable organization

# CONGRATULATIONS CORNER

Dear Weinstock, Friedman & Friedman, P.A.

I am writing this letter to thank Prepaid Legal Services and attorney William Brooke for representing me in my case against a well known builder for contractual issues. Mr. William Brooke was the best. He made me feel like I was a family member that he was representing. He was very professional, courteous and he not only returned my phone calls, but he some times called me before I could even call him first. I felt like I was important and a priority. Attorney William Brooke was able to recover all of our money from the builder (\$28,725) and saved me from having to file another claim and pay over \$58,000 in mediation and attorney fees if this case would have gone any further. Because of your service and dedication to my case my family and I will now be able to purchase the home of our choice. Words can not thank you enough.

## ONE TIME TELEPHONE TAX REFUND

Individuals, businesses and tax-exempt organizations can request a credit on their 2006 federal income tax returns for an over-charge of the federal excise tax that was charged on phone bills from February 28, 2003 through August 1, 2006.

The federal excise tax continues to apply to local-only telephone service. Likewise, various state and local taxes and fees paid by telephone customers are unaffected and thus, not eligible for the refund. Federal long-distance excise taxes paid on land-line, cell phone, fax and Voice over Internet Protocol (VoIP) service and for plans that do not separately list the charge for local service all qualify for the credit.

You can base their refund requests on the actual amount of tax paid. In order to do so, complete Form 8913, Credit for Federal Telephone Excise Tax Paid. Individuals and businesses should attach it to their regular 2006 income-tax returns. Tax-exempt organizations should attach it to Form 990-T.

But if you don't want to dig through 41 months of old phone bills or you lack the records they need to figure the actual amount of tax paid, the government created a standard amount that individuals can use to request the telephone excise tax refund. The amount is based on the number of persons and dependency exemptions an individual is eligible to claim on their tax returns. The standard amounts are:

- 1 exemption — \$30;
- 2 exemptions — \$40;
- 3 exemptions — \$50; or
- 4 exemptions — \$60.

There is a line to claim this credit on the 1040, the 1040A and the 1040EZ.

There is no standard amount for businesses and tax-exempt organizations, because they typically have more varied phone usage patterns than individuals. Instead, they can choose to use a special formula (also called the estimation method) to estimate the actual amount of tax on long-distance and bundled services paid. Please consult your tax preparer about the formula if you have a business phone.

## TAX CHANGES FOR 2007

Standard deductions for 2007

|  |          |
|--|----------|
| Married filing joint (and surviving spouses) | \$10,700 |
| Heads of Households                          | \$ 7,850 |
| Individuals                                  | \$ 5,350 |

- The personal exemption is \$3,400. (In some circumstances this is phased out.)
- For business owners, the Section 179 limit is \$112,000
- Some privately paid Long Term Care Insurance expenses are deductible. The amount varies by age. (See your tax professional to see if you qualify)
- The *de minimus* gift tax exclusion is \$12,000. This is the annual amount you can give away to any one person and not pay any gift tax.
- The limitation for gift tax exclusion for gifts to non-US Citizen spouses is \$125,000.
- Beginning in 2007, recipients of gifts from certain foreign persons may be required to report these gifts if the value of the gift is over \$13,258.
- Contributions to IRA: The maximum amount that can be deposited into an IRA, if you're eligible for the catch-up provisions (over age 50) is \$5000. Contact your tax professional to see if you qualify for IRA deductions. 2006 contributions can be made until April 17, 2006 or the day you file your return.
- Hope and Life Time Earning Credits are still available but the limits have changed. Consult your tax preparer for information on how these limits affect your situation.
- Remember to claim the Earned Income Credit if you qualify. The maximum credits this year are:

|                      |         |
|----------------------|---------|
| One child            | \$2,853 |
| Two or more children | \$4,716 |
| No children          | \$ 428  |

## TIGHTENED RULES FOR CHARITABLE DONATIONS

The IRS has tightened the rules for charitable deductions for the latter half of 2006 and for this year.

### Donations of Goods:

If you donate clothing or household items, they must be in good condition. You need to keep a listing of the items and it needs to be signed by the charity. The goods must be valued at garage sale value. The Salvation Army publishes guidelines for valuations at <http://www.salvationarmysouth.org/valueguide.htm>. If you donate anything other than a car or a boat that is valued at over \$500, you may need an independent appraisal of the value.

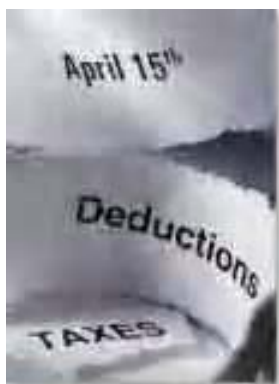
### Donations of Cars or Boats:

If you donate a used car or boat, the charity has to advise you of how much they sold the vehicle for and that is how much you can deduct. The only way to deduct the fair market value of the car or boat is if the charity elects to actually keep the car or boat and use it themselves.

### Donations of Cash:

If you donate cash of over \$250, you will need to have a contemporaneous receipt signed by a charity or a bank record of the contribution. The easiest way to comply is to PAY BY CHECK and keep copies of the cancelled check. (If your bank doesn't return canceled checks, make a copy of the check before you mail it and keep it with your bank statement.) Churches are still allowed to do an annual statement, but it must be signed by a church official.

These rules do not mean you have to mail in the supporting documents with your returns, but they do mean that if you are selected for an audit and you do not have the supporting documents, your donations will be disallowed.



## The Filing Deadline is April 17, 2007

Taxpayers will have extra time to file and pay because April 15th falls on a Sunday in 2007, and Monday, April 16th, is Emancipation Day, a legal holiday in the District of Columbia.