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Highlights of 2006 Tax Changes



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Introduction

This publication highlights tax law changes that take effect in 2006, 2007, and later years. The chapters are divided into sections based on when the changes take effect.



The tax information for 2007 and later years is accurate as of the time this publication went to print. Subsequent changes to the tax law may occur.

District of Columbia Emancipation Day. Under federal law, holidays observed in the District of Columbia have an impact on federal tax return due dates. Under recently enacted city legislation, April 16 is a holiday in the District of Columbia. The IRS became aware of the interaction of the national filing due date and the local observance of the new Emancipation Day holiday after most forms and publications for the current tax filing season went to print. Any IRS form, instruction, or publication that currently shows an “April 16, 2007” due date should now be read as “April 17, 2007.” The extended time to file and pay is because April 15 falls on a Sunday in 2007 and the following day, Monday, April 16, is Emancipation Day, a legal holiday in the District of Columbia. Emancipation Day will not impact filing due dates next year because April 15 is on a Tuesday in 2008. The normal due date will apply. The next year that Emancipation Day could affect filing due dates is 2011.

The April 17, 2007, due date will apply to the following.

- 2006 federal individual income tax returns, whether filed electronically or on paper.
- Requests for an automatic six-month tax-filing extension, whether submitted electronically or on Form 4868.
- Tax year 2006 balance due payments, whether made electronically (direct debit or credit card) or by check.

- Individual estimated tax payments for the first quarter of 2007, whether made electronically or by check.
- Individual refund claims for tax year 2003, where the regular three-year statute of limitations is expiring.
- Calendar-year 2006 partnership returns (Form 1065 and Form 1065-B).
- Annual information returns (Form 990) and unrelated business income tax returns (Form 990-T) for tax-exempt organizations with a fiscal year ending on Nov. 30, 2006.
- Calendar-year Form 990-T for certain employee trusts, retirement plans, and education saving plans.
- 2006 gift tax returns (Form 709).
- Extension requests for any return normally due April 15.
- The March tax deposit for employers (generally, small businesses) required to deposit withholding taxes on a monthly basis.
- Withholding-tax deposits for larger employers, subject to the next day deposit rule.

Other tax-filing and payment requirements affected by this change are described in Publication 509, Tax Calendars for 2007.

Adjusting your withholding or estimated tax payments for 2007. If your tax for 2007 will be more or less than your 2006 tax, you may need to adjust your withholding or estimated tax payments accordingly. If your tax will decrease, you can get the benefit of lower taxes throughout the year. If you will owe more tax, you can avoid a penalty when you file your tax return.

See the following table for forms and publications that will help you adjust your withholding or estimated tax payments. See chapter 8 for information on ordering forms and publications.

To adjust your...	Get Form...	And Publication...
Withholding	W-4 , Employee's Withholding Allowance Certificate	919 , How Do I Adjust My Tax Withholding?
Estimated tax payments	1040-ES , Estimated Tax for Individuals	505 , Tax Withholding and Estimated Tax

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1-800-THE-LOST (1-800-843-5678)** if you recognize a child.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

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Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

1.

Tax Changes for Individuals

Note. Some of the changes listed in this section apply to both individuals and businesses.

2006 Changes

Credit for Federal Telephone Excise Tax

If you were billed after February 28, 2003, and before August 1, 2006, for the federal telephone excise tax on long distance or bundled service, you may be able to request a credit or refund of the tax paid. You had bundled service if your local and long distance service was provided under a plan that does not separately state the charge for local service.

You cannot request the credit if you have already received a credit or refund from your service provider. If you request the credit, you cannot ask your service provider for a credit or refund and must withdraw any request previously submitted to your provider.

If you are required to file an individual income tax return, Form 1040-PR, or Form 1040-SS, request the credit on that return. If you are not required to and do not file any of these returns and would like to request a refund of the tax paid, file Form 1040EZ-T, Request for Refund of Federal Telephone Excise Tax.

You can request the standard amount or the actual amount you paid. If you believe you paid more than the standard amount, it can be to your benefit to request the actual amount. If you request the actual amount paid, you must file Form 8913 showing the amount paid and keep records to substantiate the amount. If you were a sole proprietor, farmer, or lessor of rental real estate, you may be able to estimate your actual expenses. See Form 8913, Credit for Federal Telephone Excise Tax Paid, for details.

Standard amount. The standard amount you can request depends on the number of exemptions you claimed on your individual income tax return. The standard amounts, which include both the tax paid and interest owed on that tax, and are shown in the table below.

IF the number of exemptions you claimed on your income tax return is ...	THEN the standard amount is...
0*	\$0
1	30
2	40
3	50
4 or more	60

*Even though your standard amount is zero, you can request the actual amount paid on Form 8913.

If you file Form 1040EZ-T, Form 1040-PR, or Form 1044-SS, the standard amounts above depend on the number of exemptions you would be allowed to claim if you were required to file an individual income tax return.

If you request the standard amount and you later want to change it to the actual amount, you must file an amended return.

If you request the standard amount, you do not have to include the credit in income for any tax year.

Alternative Minimum Tax (AMT)

The following changes to the AMT went into effect for 2006. For more information, see Form 6251, Alternative Minimum Tax—Individuals, and its instructions.

AMT exemption amount increased. The AMT exemption amount has increased to \$42,500 (\$62,550 if married filing jointly or qualifying widow(er); \$31,275 if married filing separately).

Exemption amount for a child. The minimum exemption amount for a child under age 18 has increased to \$6,050. (Before 2006, the limit applied to a child under age 14.)

Foreign Earned Income Tax Worksheet. Taxpayers claiming the foreign earned income exclusion or the housing exclusion must determine the tax on their nonexcluded income using the tax rates that would have applied had they not claimed the exclusion(s). If you filed Form 2555 or 2555-EZ, you must use the *Foreign Earned Income Tax Worksheet* in the Form 6251 instructions to figure the amount to enter on Form 6251, line 31.

Qualified cellulosic biomass ethanol plant property. No AMT adjustment is required for depreciation of qualified cellulosic biomass ethanol plant property that is eligible for the special depreciation allowance under section 168(l).

Direct Deposit of Refund

If you choose to receive your refund by direct deposit, you can now have your refund split among up to three different accounts. You can have your refund deposited into savings accounts, checking accounts, and other accounts, including individual retirement arrangements (IRAs), that have valid routing and account numbers. You cannot request a deposit to an account that is not in your name. To have your refund split among two or three accounts, you must file Form 8888, Direct Deposit of Refund to More Than One Account. You cannot split your refund if you file Form 1040EZ-T, Request for Refund of Federal Telephone Excise Tax, or Form 8379, Injured Spouse Allocation. To have your refund deposited to only one account, do not file Form 8888. You can designate the account directly on your tax return.

Residential Energy Credits

You may be eligible for two new credits, the nonbusiness energy property credit and the residential energy efficient property credit, for making energy saving improvements to your home. The nonbusiness energy property credit applies to tax years 2006 and 2007. The residential energy efficient property credit applies to tax years 2006 through 2008. To take the credit, you must file Form 5695, Residential Energy Credits. For credit purposes, costs are treated as being paid when the original installation of the item is completed, or in the case of costs connected with the construction or reconstruction of a building, when your original use of the constructed or reconstructed building begins. If less than 80% of the use of an item is for nonbusiness purposes, only that portion of the costs that are allocable to the nonbusiness use can be used to determine the credit.

A home includes a house, houseboat, mobile home, cooperative apartment, condominium, and certain manufactured homes. You must reduce the basis of your home by the amount of credit allowed.



If you are a member of a qualified condominium management association for a condominium you own or a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your proportionate share of any costs of such association or corporation.

Nonbusiness energy property credit. You may be able to take a credit equal to the sum of:

- 10% of the amount paid or incurred for qualified energy efficiency improvements installed during the tax year, and
- Any residential energy property costs paid or incurred during the tax year.

However, this credit is limited as follows.

- A total combined credit limit of \$500 for all tax years after 2005.
- A combined credit limit of \$200 for windows for all tax years after 2005.
- A credit limit for residential energy property costs for all tax years after 2005 of \$50 for any advanced main air circulating fan; \$150 for any qualified natural gas, propane, or oil furnace or hot water boiler; and \$300 for any item of energy efficient building property.

Qualified energy efficiency improvements. Qualified energy efficiency improvements are the following building envelope components installed on or in your main home located in the United States if these components are new and can be expected to remain in use for at least 5 years.

- Any insulation material or system that is specifically and primarily designed to reduce the heat loss or gain of a home when installed in or on such home.
- Exterior windows (including certain storm windows and skylights).
- Exterior doors (including certain storm doors).
- Any metal roof installed on a home, but only if this roof has appropriate pigmented coatings which are specifically and primarily designed to reduce the heat gain of the home.

For information on determining if a home is your main home, see Form 5695.



To qualify for the credit, qualified energy efficiency improvements must meet certain energy efficiency requirements.

Residential energy property costs. Residential energy property costs are costs of new qualified energy property that is installed on or in connection with your main home located in the United States that you owned during the tax year. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property. Qualified energy property is any of the following.

- Certain electric heat pump water heaters; electric heat pumps; geothermal heat pumps; central air conditioners; and natural gas, propane, or oil water heaters.
- Qualified natural gas, propane, or oil furnaces or hot water boilers.
- Certain advanced main air circulating fans used in natural gas, propane, or oil furnaces.



To qualify for the credit, qualified energy property must meet certain performance and quality standards.

Residential energy efficient property credit. You may be able to take a credit of 30% of your costs of qualified solar electric property, solar water heating property, and fuel cell property. This includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property and for piping or wiring to interconnect such property to the home. This credit is limited to:

- \$2,000 for qualified solar electric property costs,
- \$2,000 for qualified solar water heating property costs, and
- \$500 for each half kilowatt of capacity of qualified fuel cell property for which qualified fuel cell property costs are paid.

For more details, see Form 5695.

Standard Mileage Rate

Business-related mileage. For 2006, the standard mileage rate for the cost of operating your car for business use is 44½ cents per mile.

Car expenses and use of the standard mileage rate are explained in chapter 4 of Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Medical- and move-related mileage. For 2006, the standard mileage rate for the cost of operating your car for medical reasons or as part of a deductible move is 18 cents per mile. See *Transportation* under *What Medical Expenses Are Includable* in Publication 502 or *Travel by car* under *Deductible Moving Expenses* in Publication 521.

Charitable-related mileage. For 2006, the standard mileage rate for the cost of operating your car for charitable purposes remains 14 cents per mile.

Hurricane Katrina. The special standard mileage rate in effect for 2006 for the cost of operating your car for providing charitable services solely related to Hurricane Katrina is 32 cents per mile.

Alternative Motor Vehicle Credit

You may be able to claim this credit if you place an alternative motor vehicle in service for business or personal use after 2005. An alternative motor vehicle must meet certain requirements and be a new:

- Advanced lean burn technology vehicle,
- Qualified alternative fuel vehicle,
- Qualified fuel cell vehicle, or
- Qualified hybrid vehicle.

For more details, see Form 8910, *Alternative Motor Vehicle Credit*.

Alternative Fuel Vehicle Refueling Property Credit

You may be able to claim this credit if you place qualified alternative fuel vehicle refueling property in service for business or personal use after 2005. This includes certain property used to store or dispense a clean-burning fuel or recharge motor vehicles propelled by electricity. For more information, see Form 8911, Alternative Fuel Vehicle Refueling Property Credit.

Earned Income Credit (EIC) Amounts Increased

The following paragraphs explain the changes to the credit for 2006. For details, see Publication 596.

Amount of credit increased. The maximum amount of the credit has increased. The most you can get is:

- \$2,747 if you have one qualifying child,
- \$4,536 if you have more than one qualifying child, or
- \$412 if you do not have a qualifying child.

Earned income amount increased. The maximum amount of income you can earn and still get the credit has increased. You may be able to take the credit if:

- You have more than one qualifying child and you earned less than \$36,348 (\$38,348 if married filing jointly),
- You have one qualifying child and you earned less than \$32,001 (\$34,001 if married filing jointly), or
- You do not have a qualifying child and you earned less than \$12,120 (\$14,120 if married filing jointly).

The maximum amount of adjusted gross income (AGI) you can have and still get the credit also has increased. You may be able to take the credit if your AGI is less than the amount in the above list that applies to you.

Investment income amount increased. The maximum amount of investment income you can have and still get the credit has increased to \$2,800.

Advance payment of the credit. If you get advance payments of the credit from your employer with your pay, the total advance payments you get during 2006 can be as much as \$1,648.

Standard Deduction Amount Increased

The standard deduction for people who do not itemize deductions on Schedule A (Form 1040) is, in most cases, higher for 2006. The amount depends on your filing status, whether you are 65 or older or blind, and whether an exemption can be claimed for you by another person. The *2006 Standard Deduction Tables* are shown in Publication

501, Exemptions, Standard Deduction, and Filing Information.

Exemption Amount Increased

The amount you can deduct for each exemption has increased to \$3,300 in 2006.

You lose part of the benefit of your exemptions if your adjusted gross income is above a certain amount. The amount at which the phaseout begins depends on your filing status. For 2006, the phaseout begins at:

- \$112,875 for married persons filing separately,
- \$150,500 for single individuals,
- \$188,150 for heads of household, and
- \$225,750 for married persons filing jointly or qualifying widow(er)s.

Beginning in 2006, you can lose no more than $\frac{2}{3}$ of the dollar amount of your exemptions. In other words, each exemption cannot be reduced to less than \$1,100.

If your adjusted gross income is above the amount shown for your filing status, use the *Deduction for Exemptions Worksheet* in the Form 1040 or Form 1040A instructions to figure the amount you can deduct for exemptions. However, if you are claiming a \$500 exemption for housing an individual displaced by Hurricane Katrina, use Form 8914 instead.

Charitable Contributions

The following paragraphs explain the changes to charitable contributions for 2006. For details, see Publication 526, Charitable Contributions.

Standard mileage rate related to Hurricane Katrina. If you used your car in giving services to a charitable organization to provide relief related to Hurricane Katrina, the standard mileage rate for 2006 is 32 cents a mile.

Clothing and household items. You cannot take a deduction for clothing or household items you donate after August 17, 2006, unless the clothing or household items are in good used condition or better.

Limit on qualified conservation contributions increased. The limit on the deduction for a qualified conservation contribution has been increased from 30% of adjusted gross income (AGI) to 50% of AGI. The limit is 100% of AGI for certain farmers and ranchers.

Taxidermy property. New rules limit deductions for contributions of certain taxidermy property after July 25, 2006. Generally, the deduction is limited to the property's basis or fair market value, whichever is less.

Recapture of deductions for contributions of property. Part or all of the deduction for contributions of tangible personal property after September 1, 2006, will be recaptured, or the amount of the deduction limited, if the recipient organization sells the property within 3 years and does not certify its exempt use.

Fractional interest in property. New rules apply to donations after August 17, 2006, of a fractional interest in tangible personal property. Recapture of the charitable contribution deduction is required in certain cases. If recapture is required, you also will have to pay interest and an additional tax that is 10% of the amount recaptured.

Easements on buildings in historic districts. You cannot claim a deduction for a contribution of an easement on a building in a registered historic district made after July 25, 2006, unless the contributed interest includes restrictions preserving the entire exterior of the building (including front, sides, rear, and height) and prohibiting any change to the exterior of the building inconsistent with its historical character. If you claim a deduction for this type of contribution in a tax year beginning after August 17, 2006, you must include with your return a qualified appraisal, photographs of the building's exterior, and a description of all restrictions on development of the building.

Penalty for overstatement valuation. The penalty for overstating the value or adjusted basis of donated property is 20% of the amount by which you underpaid your tax because of the overstatement, if:

1. The value or adjusted basis claimed on your return is 200% (150% for returns filed after August 17, 2006) or more of the correct amount, and
2. You underpaid your tax by more than \$5,000 because of the overstatement.

The penalty is 40%, rather than 20%, if the value or adjusted basis claimed on your return is 400% (200% for returns filed after August 17, 2006) or more of the correct amount.

Qualified charitable distributions. If you were at least age 70½ when you had a qualified charitable distribution (QCD) from your individual retirement arrangement (IRA) made directly by the trustee to a charitable organization, the QCD may be nontaxable. However, you cannot claim a charitable contribution deduction for the QCD.

Food inventory. The special rules that apply to contributions of food inventory were due to expire at the end of 2005 but have been extended to contributions made in 2006 and 2007.

Reduction of qualified conservation contribution for rehabilitation credit. If you make a qualified conservation contribution after August 17, 2006, and claimed the rehabilitation credit for a building on the donated property for any of the 5 tax years before the year of the contribution, your deduction is reduced.

Temporary suspension of 50% limit expired. For 2006, the temporary suspension of the 50% of adjusted gross income limit has expired. This means you can no longer elect to treat contributions by cash or check as "qualified contributions" on Form 1040 (Schedule A). Qualified contributions for which you made this election were not subject to the 50% limit or the overall limit on itemized deductions.

Educator Expenses Deduction

If you were an eligible educator in 2006, you can deduct up to \$250 of qualified expenses you paid in 2006 as an adjustment to gross income, rather than as a miscellaneous itemized deduction. This provision, which had expired for tax years after 2005, has been extended through tax year 2007. If you and your spouse are filing jointly and both of you were eligible educators, the maximum deduction is \$500. However, neither spouse can deduct more than \$250 of his or her qualified expenses.

Eligible educator. An eligible educator is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide who worked in a school for at least 900 hours during a school year.

Qualified expenses. Qualified expenses include ordinary and necessary expenses paid in connection with books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom. An ordinary expense is one that is common and accepted in your educational field. A necessary expense is one that is helpful and appropriate for your profession as an educator. An expense does not have to be required to be considered necessary.

Qualified expenses do not include expenses for home schooling or for nonathletic supplies for courses in health or physical education.

You must reduce your qualified expenses by the following amounts.

- Excludable U.S. series EE and I savings bond interest from Form 8815.
- Nontaxable qualified tuition program earnings.
- Nontaxable earnings from Coverdell education savings accounts.
- Any reimbursements you received for these expenses that were not reported to you in box 1 of your Form W-2.

How the deduction is claimed. You must file Form 1040 (or Form 1040NR) to take this deduction. The deduction is claimed on Form 1040, line 23 (or Form 1040NR, line 24), "Archer MSA Deduction." Enter "E" on the dotted line to the left of that line entry if claiming educator expenses, or "B" if claiming both an Archer MSA deduction and the deduction for educator expenses. If entering "B," you must attach a statement with a breakdown of the amount claimed for each deduction.

Tuition and Fees Deduction

You may be able to deduct qualified tuition and fees paid during the year for yourself, your spouse, or your dependent. This provision, which had expired for tax years after 2005, has been extended through tax year 2007.

Who can claim the deduction. You can take this deduction only if all of the following apply.

- You paid qualified tuition and fees in 2006 for yourself, your spouse, or your dependent(s).
- Your filing status is any status except married filing separately.
- Your modified adjusted gross income (AGI) is not more than: \$80,000 if single, head of household, or qualifying widow(er); \$160,000 if married filing jointly. Use lines 1 through 3 of the Tuition and Fees Deduction Worksheet to figure your modified AGI.
- You, or your spouse if filing jointly, cannot be claimed as a dependent on someone's (such as your parent's) 2006 tax return.
- You are not claiming an education credit for the same student. See the instructions for Form 8863.
- You were a U.S. citizen or resident alien for all of 2006 or you were a nonresident alien for any part of 2006 and you are filing a joint return.

How the deduction is figured. Use the Tuition and Fees Deduction Worksheet to figure your deduction.

Exception. Use Worksheet 6-1 in Publication 970 instead of the worksheet in this publication to figure your tuition and fees deduction if you file Form 2555, 2555-EZ, or 4563, or you exclude income from sources within Puerto Rico.

Qualified tuition and fees. Qualified tuition and fees are amounts paid in 2006 for tuition and fees required for the student's enrollment or attendance at an eligible educational institution during 2006. Tuition and fees paid in 2006 for an academic period that begins in the first 3 months of 2007 can also be used in figuring your deduction. Amounts paid include those paid by credit card or with borrowed funds. An eligible educational institution includes most colleges, universities, and certain vocational schools.

Qualified tuition and fees do not include amounts paid for the following items.

- Room and board, insurance, medical expenses (including student health fees), transportation, or other similar personal, living, or family expenses.
- Course-related books, supplies, equipment, and nonacademic activities, except for fees required to be paid to the institution as a condition of enrollment or attendance.
- Any course involving sports, games, or hobbies, unless such course is part of the student's degree program.

Qualified tuition and fees must be reduced by the following benefits.

- Excludable U.S. series EE and I savings bond interest from Form 8815.
- Nontaxable qualified tuition program earnings.
- Nontaxable earnings from Coverdell education savings accounts.
- Any scholarship, educational assistance allowance, or other payment (but not gifts, inheritances, etc.) excluded from income.

How the deduction is claimed. You must file Form 1040 to take this deduction. The deduction is claimed on Form 1040, line 35, "Domestic production activities deduction." Enter "T" on the line to the left of that line entry if claiming the deduction for tuition and fees, or "B" if claiming both a deduction for domestic production activities and the deduction for tuition and fees. If entering "B," you must attach a statement with a breakdown of the amount claimed for each deduction.

Tuition and Fees Deduction Worksheet

Keep for Your Records



Before you begin:	✓ ✓ Figure any write-in adjustments to be entered on the dotted line next to Form 1040, line 36. Be sure you read the Exception to see if you can use this worksheet instead of Worksheet 6-1 in chapter 6 of Publication 970 to figure your deduction.
1. Enter the amount from Form 1040, line 22	1. _____
2. Enter the total from Form 1040, lines 23 through 33, jury duty pay included on line 34, plus any write-in adjustments you entered on the dotted line next to line 36	2. _____
3. Subtract the amount on line 2 from the amount on line 1. If the result is more than \$80,000 (\$160,000 if married filing jointly), you cannot take the deduction for tuition and fees.	3. _____
4. Tuition and fees deduction. Is the amount on line 3 more than \$65,000 (\$130,000 if married filing jointly)? <input type="checkbox"/> Yes. Enter the total qualified tuition and fees you paid in 2006. Do not enter more than \$2,000. Also, include this amount on Form 1040, line 35 (see <i>How the deduction is claimed</i>). <input type="checkbox"/> No. Enter the total qualified tuition and fees you paid in 2006. Do not enter more than \$4,000. Also, include this amount on Form 1040, line 35 (see <i>How the deduction is claimed</i>). . .	4. _____
Note. Do not include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.).	

More information. See chapter 6 of Publication 970 for more information about this deduction.

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2006 is \$94,200. There is no limit on the amount of wages subject to the Medicare tax.

Income Limits Increased for Hope and Lifetime Learning Credits

For 2006, the amount of your Hope or lifetime learning credit is phased out (gradually reduced) if your modified adjusted gross income (MAGI) is between \$45,000 and \$55,000 (\$90,000 and \$110,000 if you file a joint return). You cannot claim an education credit if your MAGI is \$55,000 or more (\$110,000 or more if you file a joint return). For more information, see chapters 2 and 3 in Publication 970, Tax Benefits for Education.

Earned Income for Additional Child Tax Credit

For 2006, the minimum earned income amount used to figure the additional child tax credit has increased to \$11,300.

Limit on Itemized Deductions Increased

If your adjusted gross income is above a certain amount, you may lose part of your itemized deductions. In 2006, this amount is increased to \$150,500 (\$75,250 if married filing separately). Beginning in 2006, the amount by which these itemized deductions are reduced is only $\frac{2}{3}$ of the amount of the reduction that otherwise would have applied. See the instructions for Schedule A (Form 1040), line 28, for more information on figuring the amount you can deduct.

Deduction for State and Local General Sales Taxes

The Tax Relief and Health Care Act of 2006 extended the election to deduct state and local general sales taxes through 2007. The act was enacted after Schedule A (Form 1040), Itemized Deductions, and its instructions were printed. Because we were not able to include the instructions for figuring the deduction in the Schedule A instructions, we developed Publication 600 to help you figure the deduction for 2006. For more information, see Publication 600, available on the IRS website at www.irs.gov/pub/irs-pdf/p600.pdf, and the sales tax deduction calculator, available on the IRS website at www.irs.gov/individuals/article/0,,id=152421,00.html.

Health Savings Account (HSA) Deduction Limits Increased

For 2006, the maximum HSA deduction increased to \$2,700 (\$5,450 for family coverage). The maximum additional deduction for individuals age 55 or older increased to \$700. For HSA purposes, the minimum annual deductible of a high deductible health plan increased to \$1,050 (\$2,100 for family coverage) and the maximum annual deductible and other out-of-pocket expenses limit increased to \$5,250 (\$10,500 for family coverage). For more information, see Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans.

Adoption Benefits Increased

For 2006, the maximum adoption credit has increased to \$10,960. Also, the maximum exclusion from income for benefits under your employer's adoption assistance program has increased to \$10,960. These amounts are phased out if your modified adjusted gross income (MAGI) is between \$164,410 and \$204,410. You cannot claim the credit or exclusion if your MAGI is \$204,410 or more. See Form 8839, Qualified Adoption Expenses, and its instructions for more information.

Investment Income of Child Under Age 18

A child's investment income may be subject to tax at the parent's tax rate if the child is under age 18 (previously under age 14) at the end of 2006 and had investment income of more than \$1,700. For details, see Publication 929, Tax Rules for Children and Dependents.

Income Limits Increased for Reduction of Education Savings Bond Exclusion

For 2006, the amount of your interest exclusion is phased out (gradually reduced) if your filing status is married filing jointly or qualifying widow(er) and your modified adjusted gross income (MAGI) is between \$94,700 and \$124,700. You cannot take the deduction if your MAGI is \$124,700 or more.

For all other filing statuses, your interest exclusion is phased out if your MAGI is between \$63,100 and \$78,100. You cannot take a deduction if your MAGI is \$78,100 or more. For more information, see chapter 9 in Publication 970, Tax Benefits for Education.

Increase in Deductible Limit for Long-Term Care Premiums

For 2006, the maximum amount of qualified long-term care premiums you can include as medical expenses has increased. You can include qualified long-term care premiums, up to the amounts shown below, as medical expenses on Schedule A (Form 1040).

- Age 40 or under – \$280.
- Age 41 to 50 – \$530.
- Age 51 to 60 – \$1,060.
- Age 61 to 70 – \$2,830.
- Age 71 or over – \$3,530.

Note. The limit is for each person.

Medicare Part D Premiums Deductible as Medical Expenses

Medicare Part D is a voluntary prescription drug insurance program for persons with Medicare A or B. You can include as a medical expense on Schedule A (Form 1040) premiums you pay for Medicare D.

Increase in Limit on Long-Term Care and Accelerated Death Benefits Exclusion

The limit on the exclusion for payments made on a *per diem* or other periodic basis under a long-term care insurance contract increased for 2006 to \$250 per day. The limit applies to the total of these payments and any accelerated death benefits made on a *per diem* or other periodic basis under a life insurance contract because the insured is chronically ill.

Under this limit, the excludable amount for any period is figured by subtracting any reimbursement received (through insurance or otherwise) for the cost of qualified long-term care services during the period from the larger of the following amounts.

- The cost of qualified long-term care services during the period.
- The dollar amount for the period (\$250 per day for any period in 2006).

See Section C of Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, and its instructions for more information.

Electric and Clean-Fuel Vehicles

The clean-fuel vehicle deduction expired for vehicles placed in service in 2006. The qualified electric vehicle credit is reduced by 75% for vehicles placed in service in 2006.

Archer MSA Limits Increased

For Archer MSA purposes for 2006, the minimum annual deductible of a high deductible health plan increased to \$1,800 (\$3,650 for family coverage). The maximum annual deductible of a high deductible health plan increased to \$2,700 (\$5,450 for family coverage). The maximum out-of-pocket expenses limit increased to \$3,650 (\$6,650 for family coverage).

District of Columbia First-Time Homebuyer Credit Extended

The credit for the first-time purchase of a home in the District of Columbia was extended through 2007. To claim this credit, use Form 8859.

Conflict-of-Interest Sales

If you are a judicial officer and you sell property at a gain after December 20, 2006, according to a certificate of divestiture issued by the Judicial Conference of the United States (or its designee) and purchase replacement property (permitted property) within 60 days after the sale, you may elect to defer part or all of the realized gain. This election also applies to sales by certain persons related to the judicial officer and to sales by trustees of certain trusts in which the judicial officer or related person has a beneficial interest.

Judicial officer. Judicial officers are the following.

1. Chief Justice of the United States.
2. Associate Justices of the Supreme Court.
3. Judges of the:
 - a. United States courts of appeals,
 - b. United States district courts, including the district courts in Guam, the Northern Mariana Islands, and the Virgin Islands,
 - c. Court of Appeals for the Federal Circuit,
 - d. Court of International Trade,
 - e. Tax Court,
 - f. Court of Federal Claims,
 - g. Court of Appeals for Veterans Claims,
 - h. Court of Appeals for the Armed Forces, and
 - i. Any court created by an Act of Congress, the judges of which are entitled to hold office during good behavior.

Permitted property. Permitted property is any obligation of the United States or any diversified investment fund approved by regulations issued by the Office of Government Ethics.

Reporting of sales. Report these sales on Part IV of Form 8824, Like-Kind Exchanges. You can also see Form 8824 for additional information.

Sale of Main Home by Employees of the Intelligence Community

If you are an employee of the intelligence community, you may be able to exclude from income a gain from selling your main home, even if you did not live in it for the required 2 years during the 5-year period ending on the date of sale.

You can choose to have the 5-year test period for ownership and use suspended during any period you or your spouse serve on qualified official extended duty as an employee of the intelligence community at a duty station located outside of the United States. This choice applies to any sale of a main home after December 20, 2006, and is now included under a special rule that already provides similar benefits to members of the uniformed services and Foreign Service of the United States. For more information, see Publication 523, *Selling Your Home*.

Publication 1212, Guide to Original Issue Discount (OID) Instruments

Publication 1212 will no longer be revised annually and therefore does not contain the original issue discount (OID) tables, Sections I-A through III-G. The tables are only available on the IRS website at www.irs.gov/formspubs/article/0,,id=109875,00.html. They are posted to the website in late November or early December of each year.

2007 Changes

Alternative Minimum Tax (AMT)

The following changes to the AMT went into effect for 2007.

AMT exemption amount decreased. The AMT exemption amount has decreased to \$33,750 (\$45,000 if married filing jointly or qualifying widow(er); \$22,500 if married filing separately).

Exemption amount for a child. The minimum exemption amount for a child under age 18 has increased to \$6,300.

Hurricane Katrina additional exemption expired. The additional exemption for taxpayers who provide housing for a person displaced by Hurricane Katrina has expired. Therefore, the additional exemption amount (formerly line 6 of Form 8914) is no longer allowable for the AMT.

Certain credits no longer allowed against the AMT. The credit for child and dependent care expenses, credit for the elderly or the disabled, education credits, residential energy credits, mortgage interest credit, and the District of Columbia first-time homebuyer credit are no longer allowed against the AMT, and a new tax liability limit applies. This limit is your regular tax minus any tentative minimum tax (figured without any AMT foreign tax credit).

Standard Mileage Rate

Business-related mileage. For 2007, the standard mileage rate for the cost of operating your car for business use is 48½ cents per mile.

Car expenses and use of the standard mileage rate are explained in chapter 4 of Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Medical- and move-related mileage. For 2007, the standard mileage rate for the cost of operating your car for medical reasons or as part of a deductible move is 20 cents per mile. See *Transportation* under *What Medical Expenses Are Includable* in Publication 502 or *Travel by car* under *Deductible Moving Expenses* in Publication 521.

Charitable-related mileage. For 2007, the standard mileage rate for the cost of operating your car for charitable purposes remains 14 cents per mile.

Earned Income Credit (EIC)

The following paragraphs explain the changes to the credit for 2007.

Amount of credit increased. The maximum amount of the credit has increased. The most you can get is:

- \$2,853 if you have one qualifying child,
- \$4,716 if you have more than one qualifying child, or
- \$428 if you do not have a qualifying child.

Earned income amount increased. The maximum amount of income you can earn and still get the credit has increased for 2007. You may be able to take the credit if:

- You have more than one qualifying child and you earn less than \$37,783 (\$39,783 if married filing jointly),
- You have one qualifying child and you earn less than \$33,241 (\$35,241 if married filing jointly), or
- You do not have a qualifying child and you earn less than \$12,590 (\$14,590 if married filing jointly).

The maximum amount of adjusted gross income (AGI) you can have and still get the credit also has increased. You may be able to take the credit if your AGI is less than the amount in the above list that applies to you.

Investment income amount increased. The maximum amount of investment income you can have and still get the credit has increased to \$2,900 for 2007.

Advance payment of the credit. If you get advance payments of the credit from your employer with your pay, the total advance payments you get during 2007 can be as much as \$1,712.

Nontaxable combat pay election extended. You can elect to have your nontaxable combat pay included in earned income when you figure your earned income credit for 2007. This election was previously due to expire at the end of 2006 but has been extended through 2007. For more information about the election, see Publication 596.

Standard Deduction Amount Increased

The standard deduction for people who do not itemize deductions on Schedule A (Form 1040) is, in most cases, higher for 2007 than it was for 2006. The amount depends

on your filing status, whether you are 65 or older or blind, and whether an exemption can be claimed for you by another person. The *2007 Standard Deduction Tables* are shown in Publication 505, Tax Withholding and Estimated Tax.

Exemption Amount Increased

The amount you can deduct for each exemption has increased to \$3,400 in 2007.

You lose part of the benefit of your exemptions if your adjusted gross income is above a certain amount. The amount at which the phaseout begins depends on your filing status. For 2007, the phaseout begins at:

- \$117,300 for married persons filing separately,
- \$156,400 for single individuals,
- \$195,500 for heads of household, and
- \$234,600 for married persons filing jointly or qualifying widow(er)s.

See Publication 505 for more information on figuring the amount you can deduct.

Charitable Contributions

New recordkeeping requirements for cash contributions. You cannot deduct a cash contribution, regardless of the amount, unless you keep as a record of the contribution a bank record (such as a canceled check, a bank copy of a canceled check, or a bank statement containing the name of the charity, the date, and the amount) or a written communication from the charity. The written communication must include the name of the charity, date of the contribution, and amount of the contribution. For more information, see Publication 526.

Contributions to donor advised funds. You cannot deduct a contribution to a donor advised fund after February 13, 2007, if the sponsoring organization is a war veterans' organization, a fraternal society, or a nonprofit cemetery company. There are also other circumstances in which you cannot deduct your contribution to a donor advised fund. Generally, a donor advised fund is a fund or account in which a donor can, because of being a donor, advise the fund how to distribute or invest amounts held in the fund. For details, see Internal Revenue Code section 170(f)(18).

Filing fee for easements on buildings in historic districts. A new \$500 filing fee must be paid for each qualified conservation contribution after February 12, 2007, that is an easement on a building in a registered historic district, if the claimed deduction is more than \$10,000. See Form 8283-V, Payment Voucher for Filing Fee Under Section 170(f)(13).

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2007 is \$97,500. There is no limit on the amount of wages subject to the Medicare tax.

Income Limits Increased for Student Loan Interest Deduction

For 2007, the amount of the student loan interest deduction is phased out if your modified adjusted gross income (MAGI) is between \$55,000 and \$70,000 (between \$110,000 and \$140,000 if married filing jointly). You cannot take the deduction if your MAGI is \$70,000 or more (\$140,000 or more if married filing jointly). For more information, see chapter 4 in Publication 970.

Income Limits Increased for Hope and Lifetime Learning Credits

For 2007, the amount of your Hope or lifetime learning credit is phased out (gradually reduced) if your modified adjusted gross income (MAGI) is between \$47,000 and \$57,000 (\$94,000 and \$114,000 if you file a joint return). You cannot claim an education credit if your MAGI is \$57,000 or more (\$114,000 or more if you file a joint return). For more information, see chapters 2 and 3 in Publication 970, Tax Benefits for Education.

Earned Income Amount for Additional Child Tax Credit

For 2007, the minimum earned income amount used to figure the additional child tax credit has increased to \$11,750.

Mortgage Insurance Premium Deduction

Premiums that you pay or accrue for "qualified mortgage insurance" during 2007 in connection with home acquisition debt on your qualified home are deductible as an itemized deduction. The amount you can deduct is reduced by 10% (.10) for every \$1,000 (\$500 if your filing status is married filing separately) by which your adjusted gross income exceeds \$100,000 (\$50,000 if your filing status is married filing separately). For the definitions of home acquisition debt and qualified home, see Publication 936, Home Mortgage Interest Deduction.

Mortgage insurance premiums you paid or accrued on any mortgage insurance contract issued before January 1, 2007, are not deductible as an itemized deduction. Mortgage insurance premiums you paid or accrued after December 31, 2007, or that are properly allocable to any period after December 31, 2007, are not deductible as an itemized deduction.

Qualified mortgage insurance. Qualified mortgage insurance is mortgage insurance provided by the Veterans Administration, the Federal Housing Administration, or the

Rural Housing Administration, and private mortgage insurance (as defined in section 2 of the Homeowners Protection Act of 1998 as in effect on December 20, 2006).

Special rules for prepaid mortgage insurance. If you paid premiums for qualified mortgage insurance that are properly allocable to periods after the close of the taxable year, such premiums are treated as paid in the period to which they are allocated. No deduction is allowed for the unamortized balance if the mortgage is satisfied before its term (except in the case of qualified mortgage insurance provided by the Department of Veterans Affairs or Rural Housing Administration).

Schedule A (Form 1040). You can deduct mortgage insurance premiums you paid or accrued during 2007 on line 13 of the 2007 Schedule A (Form 1040).

Limit on Itemized Deductions Increased

If your adjusted gross income is above a certain amount, you may lose part of your itemized deductions. In 2007, this amount is increased to \$156,400 (\$78,200 if married filing separately). See Publication 505 for more information on figuring the amount you can deduct.

Health Savings Accounts (HSAs)

High deductible health plan (HDHP). For HSA purposes, the minimum annual deductible of an HDHP increases to \$1,100 (\$2,200 for family coverage) and the maximum annual deductible and other out-of-pocket expenses limit increases to \$5,500 (\$11,000 for family coverage).

Deductible limitation on contributions. The annual deductible limitation for contributions to your HSA based on the amount of your health insurance deductible is repealed. For 2007, the maximum HSA deduction increases to \$2,850 (\$5,650 for family coverage) regardless of the amount of your health insurance deductible. The maximum additional deduction for individuals age 55 or older increases to \$800.

Deductible contributions for part-year coverage. For HSA purposes, you can be treated as an eligible individual for each month in your tax year if you are an eligible individual during the last month of your tax year. This applies to each month for which you would not otherwise qualify as an eligible individual. For these months, you are treated as enrolled in the same HDHP that you were enrolled in for the last month of your tax year. However, if you are not an eligible individual, for any reason other than death or becoming disabled, for the 12 months following the end of your tax year, any contribution attributable to these months is included in your income and is subject to an additional 10% tax. The income and additional 10% tax are reported for the tax year in which you cease to be an eligible individual.

Transfers from a health reimbursement arrangement (HRA) or health flexible spending arrangement (FSA)

to an HSA. Your employer can make a one-time direct transfer of the balance in your HRA or health FSA to your HSA without violating the requirements for those arrangements. The maximum allowable transfer is the smaller of the HRA or health FSA balance on September 21, 2006, or on the date of transfer. The amount transferred is not included in your gross income, is not taken into account in applying the HSA contribution limitation, and is not deductible. However, if you are not an eligible individual, for any reason other than death or becoming disabled, for the 12 months following the month of the transfer, the amount transferred is included in your income and is subject to an additional 10% tax. The income and additional 10% tax are reported for the tax year in which you cease to be an eligible individual.

If the employer makes a transfer available to any employee, all employees who are covered under an HDHP of the employer must be allowed to make a transfer. Otherwise, the employer is subject to an excise tax.

Generally, you are not an eligible individual for an HSA if you have health coverage other than an HDHP. For tax years beginning after 2006, coverage under a health FSA for the period immediately following the health FSA's plan year during which unused benefits or contributions remaining at the end of the year may be paid or reimbursed to you for qualified expenses incurred during that period does not disqualify you from being an eligible individual. The coverage does not disqualify you if the balance in the health FSA at the end of the plan year is zero or the entire remaining balance in the health FSA is transferred to your HSA as described above.

Transfers from an individual retirement account (IRA) to an HSA. You can elect to make a one-time direct trustee-to-trustee transfer from your IRA (other than a Simple IRA or a SEP IRA) to your HSA. The maximum amount you can transfer is the maximum HSA contribution limitation for the year. The amount transferred is not included in your income, is not deductible, and reduces your HSA contribution limitation for the year. If the initial transfer is made during a month when you have self-only coverage at the beginning of the month, an additional transfer (up to the contribution limitation) can be made during a later month in that year in which you have family coverage. However, if you are not an eligible individual, for any reason other than death or becoming disabled, for the 12 months following the month of the transfer, the amount transferred is included in your income and is subject to an additional 10% tax. The income and additional 10% tax are reported for the tax year in which you cease to be an eligible individual.

Comparable contributions by an employer. An employer that makes contributions to the HSAs of employees must make comparable contributions to all comparable participating employees' HSAs. For tax years beginning after 2006, for purposes of making contributions to the HSA of an employee who is not highly compensated, a comparable participating employee does not include a highly compensated employee.

Adoption Benefits Increased

For 2007, the maximum adoption credit has increased to \$11,390. Also, the maximum exclusion from income for benefits under your employer's adoption assistance program has increased to \$11,390. These amounts are phased out if your modified adjusted gross income (MAGI) is between \$170,820 and \$210,820. You cannot claim the credit or exclusion if your MAGI is \$210,820 or more.

Income Limits Increased for Reduction of Education Savings Bond Exclusion

For 2007, the amount of your interest exclusion is phased out (gradually reduced) if your filing status is married filing jointly or qualifying widow(er) and your modified adjusted gross income (MAGI) is between \$98,400 and \$128,400. You cannot take the deduction if your MAGI is \$128,400 or more.

For all other filing statuses, your interest exclusion is phased out if your MAGI is between \$65,600 and \$80,600. You cannot take a deduction if your MAGI is \$80,600 or more. For more information, see chapter 9 in Publication 970, Tax Benefits for Education.

Credit for Prior Year Minimum Tax

If you have any unused minimum tax credit carryforward from 2003 or earlier years, your minimum tax credit allowable for 2007 is not less than the "AMT refundable credit amount." In addition, a portion of the credit may be refundable in 2007. That means, if the refundable part of the credit is more than your tax, you can get a refund of the difference. To figure the refundable amount of your minimum tax credit, and the AMT refundable credit amount, apply the rules that follow under *Long-term unused minimum tax credit, AMT refundable credit amount, and Credit refundable*.

Long-term unused minimum tax credit. To figure the refundable amount of your minimum tax credit, you must first determine whether you have any "long-term unused minimum tax credit." Your long-term unused minimum tax credit is the amount of your minimum tax credit carryforward from 2003 (2003 Form 8801, line 26), reduced by the amount of any minimum tax credits you claimed for 2004, 2005, and 2006 (line 25 of your 2004, 2005, and 2006 Forms 8801).

AMT refundable credit amount. After you figure your long-term unused minimum tax credit, you then must figure your "AMT refundable credit amount."

IF your long-term unused minimum tax credit is...	THEN your AMT refundable credit amount generally is...
Less than \$5,000	Your long-term unused minimum tax credit
At least \$5,000, but not more than \$25,000	\$5,000
More than \$25,000	20% of your long-term unused minimum tax credit

The AMT refundable credit amount is reduced if your adjusted gross income (AGI) exceeds certain threshold amounts based on your filing status. The AGI threshold amounts for 2007 are in the table that follows. Your AMT refundable credit amount is reduced by 2% (.02) for every \$2,500 (\$1,250 if your filing status is married filing separately) that your AGI exceeds the threshold amount. Use your 2006 tax return as a guide in figuring your AGI (2006 Form 1040, line 38, or Form 1040NR, line 36) for 2007.

If you are filing Form 2555, 2555-EZ, or 4563, or you are excluding income from sources within Puerto Rico, you must refigure your AGI by adding back any foreign earned income and housing exclusion (2006 Form 2555, line 45, or 2006 Form 2555-EZ, line 18), foreign housing deduction (2006 Form 2555, line 50), income from American Samoa that you are excluding (2006 Form 4563, line 15), and income from Puerto Rico that you are excluding.

For 2007, the AMT refundable credit amount is reduced if your AGI is more than the applicable amount in the second column of the following table and is eliminated if your AGI is more than the applicable amount in the third column.

Filing Status	AGI That Reduces Credit	AGI That Eliminates Credit
Single	\$156,400	\$278,900
Married filing jointly or qualifying widow(er)	\$234,600	\$357,100
Married filing separately	\$117,300	\$178,550
Head of household	\$195,500	\$318,000

Credit refundable. The refundable amount of your credit is the amount by which your minimum tax credit for the year exceeds the amount your minimum tax credit would be without regard to the above rules.

Form 8801. To claim the refundable and nonrefundable parts of this credit, use the 2007 Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts.

Increase in Deductible Limit for Long-Term Care Premiums

For 2007, the maximum amount of qualified long-term care premiums you can include as medical expenses has increased. You can include qualified long-term care premiums, up to the amounts shown below, as medical expenses on Schedule A (Form 1040).

- Age 40 or under – \$290.
- Age 41 to 50 – \$550.
- Age 51 to 60 – \$1,110.
- Age 61 to 70 – \$2,950.
- Age 71 or over – \$3,680.

Note. The limit is for each person.

Increase in Limit on Long-Term Care and Accelerated Death Benefits Exclusion

The limit on the exclusion for payments made on a *per diem* or other periodic basis under a long-term care insurance contract increases for 2007 to \$260 per day. The limit applies to the total of these payments and any accelerated death benefits made on a *per diem* or other periodic basis under a life insurance contract because the insured is chronically ill.

Under this limit, the excludable amount for any period is figured by subtracting any reimbursement received (through insurance or otherwise) for the cost of qualified long-term care services during the period from the larger of the following amounts.

- The cost of qualified long-term care services during the period.
- The dollar amount for the period (\$260 per day for any period in 2007).

Archer MSA Limits Increased

For Archer MSA purposes for 2007, the minimum annual deductible of a high deductible health plan increases to \$1,900 (\$3,750 for family coverage). The maximum annual deductible of a high deductible health plan increases to \$2,850 (\$5,650 for family coverage). The maximum out-of-pocket expenses limit increases to \$3,750 (\$6,900 for family coverage).

Capital Asset Treatment for Self-Created Musical Works

Musical compositions and copyrights in musical works are generally not capital assets. However, you can elect to treat these types of property as capital assets if you sell or exchange them in tax years beginning after May 17, 2006, and:

- Your personal efforts created the property, or
- You acquired the property under circumstances (for example, by gift) entitling you to the basis of the

person who created the property or for whom it was prepared or produced.

Whistleblower Fees

If you receive an award from the IRS for information provided after December 19, 2006, that substantially contributes to the detection of violations of tax laws by the IRS, you may be able to deduct attorney fees and court costs paid by you in connection with the award, up to the amount of the award includible in your gross income on account of the award, as an adjustment to income.

Frivolous Tax Submissions

For returns filed after March 15, 2007, the penalty for filing a frivolous tax return is increased to \$5,000. The \$5,000 penalty also applies to other specified frivolous submissions made and issues raised after March 15, 2007. Notice 2007-30, which will be published in Internal Revenue Bulletin 2007-14, contains a list of frivolous positions that will trigger the increased penalty amount. The penalty is in addition to any other penalty provided by law.

Expired Tax Benefits

Relief granted for Hurricanes Katrina, Rita, and Wilma. The following tax benefits have expired and will not apply for 2007.

- Tax-favored treatment of qualified hurricane distributions from eligible retirement plans.
- Increased limits and delayed repayment on loans from qualified employer plans.
- Special rules so a temporary relocation did not affect whether you provided more than half of an individual's support, whether you furnished more than half the cost of keeping up a household, and whether you could treat an individual as a student.
- Increased limits and an expanded definition of qualified education expenses for the Hope and lifetime learning credits.
- Additional exemption for housing individuals displaced by Hurricane Katrina.
- Exclusion from income for discharge of nonbusiness debt by reason of Hurricane Katrina.

Qualified electric vehicle credit. You cannot claim this credit for any vehicle you placed in service after 2006.

2.

Tax Changes for Businesses

2006 Changes

Depreciation and Section 179 Deduction

Increased section 179 limits. The maximum section 179 deduction you can elect for qualified section 179 property you placed in service in 2006 has increased to \$108,000 (\$143,000 for qualified enterprise zone property, qualified renewal community property, and qualified New York Liberty Zone property). This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds \$430,000. For qualified section 179 Gulf Opportunity (GO) Zone property, the maximum deduction is higher than the deduction for most section 179 property. See chapter 2 of Publication 946, *How to Depreciate Property*.

Depreciation limits on business vehicles. The total depreciation deduction (including the section 179 deduction) you can take for a passenger automobile (that is not an electric vehicle or a truck or van) you use in your business and first placed in service in 2006 is \$2,960. The maximum deduction for an electric vehicle is \$8,980. The maximum deduction you can take for a truck or a van you use in your business and first placed in service in 2006 is \$3,260. See *Maximum Depreciation Deduction* in chapter 5 of Publication 946.



These limits are reduced if the business use of the vehicle is less than 100%.

Limited applicability of special depreciation allowance. You may be able to claim a special depreciation allowance for certain aircraft and certain property with a long production period placed in service or manufactured before January 1, 2007, in areas affected by Hurricanes Katrina, Rita, or Wilma. See chapter 3 of Publication 946 and the 2006 Instructions for Form 4562.

Bonus depreciation for qualified cellulosic biomass ethanol plant property. A 50% special depreciation allowance is available for qualified cellulosic biomass ethanol plant property placed in service after December 20, 2006. You must have acquired the property by purchase after December 20, 2006, with no written binding contract for the acquisition of the property in effect on or before December 20, 2006.

Self-Employment Tax

The maximum amount of net earnings subject to the social security part of the self-employment tax for tax years beginning in 2006 has increased to \$94,200. All net earnings of at least \$400 are subject to the Medicare part of the tax.

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2006 is \$94,200. There is no limit on the amount of wages subject to the Medicare tax.

Domestic Production Activities Deduction

The following changes to the domestic production activities deduction went into effect in 2006. For more information, see Form 8903, *Domestic Production Activities Deduction*, and its instructions.

Form W-2 wages. For tax years beginning after May 17, 2006:

- The limit equal to 50% of Form W-2 wages is no longer based on Form W-2 wages from all businesses. Only wages properly allocable to domestic production gross receipts are included.
- The rules for determining Form W-2 wages of partners and S corporation shareholders are simplified by determining Form W-2 wages without regard to any limit based on qualified production activities income.

Simplified deduction method. You may be able to use the simplified deduction method when figuring your domestic production activities deduction if your average annual gross receipts are \$100 million or less.

Activities in Puerto Rico. For tax years beginning after 2005, certain taxpayers can take the domestic production activities deduction for activities in Puerto Rico.

Deduction for Energy Efficient Commercial Building Property

For property placed in service in 2006 through 2008, you can deduct the cost of energy efficient building property. The maximum deduction for any building for all tax years is \$1.80 multiplied by the square footage of the building. Energy efficient building property includes property installed as part of:

- Interior lighting systems;
- Heating, cooling, ventilation, and hot water systems; and
- The building envelope.

The property must be certified as being part of a plan to reduce annual energy and power costs for those systems

by a least 50% in comparison to a reference building that meets certain requirements. For more information, see Notice 2006-52, 2006-26 I.R.B. 1175.

Work Opportunity and Welfare-to-Work Credits Extended

These credits were extended to cover employees who begin work for the employer before January 1, 2008.



After December 31, 2006, the welfare-to-work credit is combined with the work opportunity credit. Certain changes pertaining to members of targeted groups and claiming the credit exist for employees who begin work for the employer after December 31, 2006. For more information, see Work Opportunity Credit under 2007 Tax Changes, later.

Research Credit Expanded

If you are a fiscal year taxpayer with a tax beginning in 2005 and ending in 2006, you can elect on Form 6765 the alternative incremental credit (as modified) or the new alternative simplified credit. If you elect both the alternative incremental credit and the alternative simplified credit, the election of the alternative incremental credit will be considered revoked for the following tax year. For more information, see Form 6765, Credit for Increasing Research Activities.

Rehabilitation Credit

Additional time is provided for buildings in designated counties or parishes of the Gulf Opportunity (GO) Zone, Rita GO Zone, and Wilma GO Zone to meet certain tests in order to be a qualified rehabilitated building for the rehabilitation credit. For these buildings, the “24-month period” and the “60-month period” are extended by 12 months; the rehabilitation must have begun, but not completed, and the building placed in service prior to the date on which the President declared a disaster in the area in which the building is located. Also for these buildings, the taxpayer has 36 months to repair any damage and place the building back in service; the period begins on the date on which the President declared a disaster in the area in which the building is located.

For more information, see Form 3468, Investment Credit, and Notice 2006-38, 2006-16 I.R.B. 777.

Meal Expenses When Subject to “Hours of Service” Limits

In general, you can deduct only 50% of your business-related meal expenses. However, for 2006, you can deduct 75% of meal expenses while traveling away from your tax home for business purposes if the meals take place during or incident to any period subject to the Department of Transportation’s “hours of service” limits. Business meal expenses are covered in chapter 1 of Publication

463. Reimbursements for employee meal expenses are covered in chapter 11 of Publication 535.

Reporting Designated Roth Contributions on Form W-2

Internal Revenue Code section 402A, added by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), authorizes employers to offer, beginning in 2006, a qualified Roth contribution program as part of a section 401(k) plan or a section 403(b) plan. EGTRRA also amended section 6051(a)(8) of the Code to require separate reporting of designated Roth contributions.

Two new codes (Code AA—Designated Roth contributions under a section 401(k) plan and Code BB—Designated Roth contributions under a section 403(b) plan) are to be used in box 12 on the 2006 Form W-2 to report the amount of any designated Roth contributions.

Employees may make designated Roth contributions in place of pre-tax elective deferrals. The designated Roth contributions are subject to income tax withholding, social security and Medicare taxes, and, if applicable, railroad retirement taxes. On Form W-2, employers must include designated Roth contributions in boxes 1, 3, and 5, and must report the contributions using Code AA or Code BB in box 12. For information, see the 2006 Instructions for Forms W-2 and W-3.

Stock Basis Adjustments for S Corporation Shareholders

Shareholders in an S corporation must reduce their stock basis using their share of the adjusted basis, instead of the fair market value, of property the S corporation donates to certain charitable organizations in tax years beginning after 2005 and before 2008. For more information, see the *Shareholder’s Instructions for Schedule K-1 (Form 1120S)*.

Employer-Owned Life Insurance Contract

If you are the policyholder of an employer-owned life insurance contract, you must include in income any life insurance proceeds received that are more than the premiums and any other amounts you paid on the policy. Generally, this applies to contracts issued after August 17, 2006. You are subject to this rule if you have a trade or business, you own a life insurance contract on the life of your employee, and you (or a related person) are a beneficiary under the contract. For exceptions to this rule, see Publication 525, Taxable and Nontaxable Income.

Nonconventional Source Fuel Credit

For tax years ending in 2006 and later, the credit is part of the general business credit. In certain circumstances, the credit has been extended to facilities that produce coke or coke gas fuel from non-petroleum-based products. In order to qualify for the credit, the fuel must be produced and

sold after December 31, 2005. Qualified sales of coke and coke gas are not subject to a phaseout adjustment. For more information, see Form 8907, Nonconventional Source Fuel Credit.

Credit for Clean Renewable Energy and Gulf Tax Credit Bonds

New credits are available if you are a holder of a clean renewable energy bond or Gulf tax credit bond. If you hold a clean renewable energy bond or Gulf tax credit bond on one or more credit allowance dates of the bond, you are allowed a credit in the amount of 25% of the annual credit on each credit allowance date. For more information on these credits, see Form 8912, Credit for Clean Renewable Energy and Gulf Tax Credit Bonds.

Energy Efficient Home Credit

An eligible contractor may claim a credit of up to \$2,000 for each energy efficient home constructed and substantially completed by the contractor after August 8, 2005. The home must also be acquired after 2005 and before 2009 from the contractor by a person for use as a residence in the United States. The credit is allowed in the tax year the home was acquired from the contractor. Construction includes substantial reconstruction and rehabilitation. For a manufactured home, the manufactured home producer is treated as an eligible contractor. The home must be certified as having a level of annual heating and cooling at least 50% below the annual level of a comparable dwelling unit with the building envelope components accounting for at least a 10% reduction. For certain manufactured homes, the 50% requirement is reduced to 30%, or it does not apply if the home meets the requirements of the Energy Star Labeled Homes program. For more information, see Form 8908, Energy Efficient Home Credit.

Investment Credit for Energy Property Expanded

For periods in 2006 through 2008, the investment credit for energy property has been expanded to include the business installation of qualified fuel cells, stationary microturbine power plants, and equipment that uses solar energy for illumination. In addition, the credit percentage has increased to 30% for solar energy property placed in service in 2006 through 2008. For more information, see Form 3468.

Renewable Electricity, Refined Coal, and Indian Coal Production Credit

The credit has been expanded to include Indian coal sold after 2005 over a 7-year credit period. See Form 8835 for more information.

Fringe Benefit Parking Exclusion

You can generally exclude a limited amount of the value of qualified parking you provide to an employee from the employee's wages subject to employment taxes. For 2006, the monthly exclusion for qualified parking has increased to \$205. See *Qualified Transportation Benefits* in section 2 of Publication 15-B.

Withholding Income Tax on Wages of Nonresident Aliens

For wages paid after December 31, 2005, employers must use a new procedure to figure federal income tax withholding on wages of nonresident aliens. For more information, see Publication 15 (Circular E).

Annual Employment Tax Filing for Small Employers

To reduce burden on small employers, the IRS has simplified the rules for filing employment tax returns to report social security, Medicare, and withheld federal income taxes. Starting with calendar year 2006, certain employers must file new Form 944, Employer's ANNUAL Federal Tax Return, instead of the Form 941, Employer's QUARTERLY Federal Tax Return. The IRS sent a notice to each employer that must file Form 944. Generally, the first annual Form 944, for calendar year 2006, was due January 31, 2007.

Two Spanish versions of Form 944 are available, Forma 944-PR, Planilla para la Declaración Federal ANUAL del Patrono, for employers in Puerto Rico, and Forma 944(SP), Declaración Federal ANUAL de Impuestos del Patrono o Empleador, for employers in the United States. Employers in American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands use Form 944-SS, Employer's ANNUAL Federal Tax Return.

For more information about annual employment tax filing and tax deposit rules, see Publication 15 (Circular E).

Environmental Cleanup Cost Deduction Extended and Expanded

You can elect to deduct certain costs you pay or incur before January 1, 2008, to abate or control hazardous substances at a qualified contamination site. For costs paid or incurred after December 31, 2005 (after August 28, 2005, if for a Gulf Opportunity (GO) Zone site), petroleum products are treated as hazardous substances. For more information, see Publication 535, Business Expenses.

Amortization of Musical Compositions and Copyrights

For tax years beginning after 2005, you can elect to amortize certain capital expenditures paid or incurred in creating or acquiring musical compositions (and copyrights of such

compositions) instead of using the income forecast method. The property must be amortized ratably over a 5-year period beginning with the month the property is placed in service. The election does not apply to amortizable section 197 intangibles, qualified creative expenses, or to property for which a simplified procedure under section 263A(i)(2) applies. For more details, see Internal Revenue Code section 167(g)(8).

Energy Efficient Appliance Credit

For tax years beginning in 2006 and 2007, qualified producers and manufacturers of certain energy efficient appliances may be able to claim a tax credit for dishwashers, clothes washers, and refrigerators that meet certain energy efficient standards and are produced or manufactured during the calendar year ending with or within the tax year. This credit is NOT available to end-users or purchasers of the appliances. For more information, see Form 8909, Energy Efficient Appliance Credit.

Mine Rescue Team Training Credit

For tax years beginning after 2005 and before 2009, taxpayers who employ individuals as miners in U.S. underground mines can claim a credit of 20% of the training program costs paid or incurred during the tax year for training of qualified mine rescue team employees. The maximum amount of training program costs that may be taken into account annually for each qualified employee is \$50,000. The training costs include wages paid or incurred while the qualified employee is attending a training program. For more details, see Form 8923, Mine Rescue Team Training Credit.

Appraiser Penalty

An appraiser who prepares an incorrect appraisal that results in a substantial or gross valuation misstatement may have to pay a new penalty under section 6695A of the Internal Revenue Code. For details, see Publication 561, Determining the Value of Donated Property.

Extension of Expired Tax Benefits

The following tax benefits that had expired have been extended as shown below.

- Indian employment credit (for tax years beginning before 2008).
- Accelerated depreciation for qualified Indian reservation property (for property placed in service before 2008).
- 15-year recovery period for qualified leasehold improvements and qualified restaurant improvements (for property placed in service before 2008).
- Suspension of the 100% net income limit on percentage depletion for oil and gas from marginal wells (for tax years beginning before 2008).

- Deduction for corporate donations of computer technology or equipment (for donations made in tax years beginning before 2008).
- Certain tax incentives based on the designation of the District of Columbia Enterprise Zone (for any period before 2008).

Expired Tax Benefits

In addition to certain provisions discussed earlier, the following tax benefits have expired as shown below.

- Credit for electricity produced from a facility using solar energy (for a facility placed in service after 2005).
- Possessions corporation tax credit (for tax years beginning after 2005).

2007 Changes

Depreciation and Section 179 Deduction

Increased section 179 limits. The maximum section 179 deduction you can elect for qualified section 179 property placed in service in 2007 has increased to \$112,000 (\$147,000, for qualified enterprise zone and qualified renewal community property). This limit is reduced by the amount by which the cost of qualified property placed in service during the tax year exceeds \$450,000. For qualified section 179 Gulf Opportunity (GO) Zone property, the maximum section 179 deduction is higher than the deduction for most other section 179 property.

Depreciation limits on electric vehicles. The higher maximum depreciation deduction for a passenger automobile that is an electric vehicle does not apply to electric vehicles placed in service after December 31, 2006.

Limited reduction in Liberty Zone tax benefits. The special depreciation allowance for qualified New York Liberty Zone property does not apply to property placed in service after December 31, 2006 (except for qualified non-residential real property and qualified residential rental property).

Self-Employment Tax

The maximum amount of net earnings subject to the social security part of the self-employment tax for tax years beginning in 2007 has increased to \$97,500. All net earnings of at least \$400 are subject to the Medicare part of the tax.

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2007 is \$97,500. There is no limit on the amount of wages subject to the Medicare tax.

Domestic Production Activities Deduction

For tax years beginning after December 31, 2006, the domestic production activities deduction percentage increases to 6%. For more information on this deduction, see Form 8903, Domestic Production Activities Deduction, and its instructions.

Work Opportunity Credit

After December 31, 2006, the welfare-to-work credit was combined with the work opportunity credit. Use Form 5884, Work Opportunity Credit, to claim a credit for an employee who begins work for the employer after December 31, 2006.

Members of targeted groups. For employees who begin work after December 31, 2006, the following changes pertaining to targeted group members apply.

- Ex-felons are no longer required to be a member of a low-income family.
- Food stamp recipients must be at least age 18 when hired, but not age 40 or older.

Form 8850. The Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit, that you are required to file with the work opportunity tax credit (WOTC) coordinator for your state workforce agency (SWA) is now due no later than the 28th day after the job applicant begins work for you. See *Instructions for Form 8850* for more information.

Fringe Benefit Parking Exclusion and Commuter Transportation Benefit

You can generally exclude a limited amount of the value of qualified parking and commuter highway vehicle transportation and transit passes you provide to an employee from the employee's wages subject to employment taxes. For 2007, the monthly exclusion for qualified parking increases to \$215 and the monthly exclusion for commuter highway vehicle transportation and transit passes increases to \$110. See *Qualified Transportation Benefits* in section 2 of Publication 15-B, Employer's Tax Guide to Fringe Benefits.

Health Savings Accounts

Eligibility. For 2007, a qualifying high deductible health plan (HDHP) must have a deductible of at least \$1,100 for self-only coverage or \$2,200 for family coverage and must limit annual out-of-pocket expenses of the beneficiary to

\$5,500 for self-only coverage and \$11,000 for family coverage.

Employer contributions. Up to specified dollar limits, you can generally exclude your contributions (must be in cash) to the health savings account (HSA) of a qualified individual (determined monthly) from federal income tax withholding, social security tax, Medicare tax, and FUTA tax. For 2007, you can contribute up to the following amounts to a qualified individual's HSA.

- \$2,850 for self-only coverage or \$5,650 for family coverage.
- \$3,650 for self-only coverage or \$6,460 for family coverage for qualified individuals who are age 55 or older at any time during the year.

The Tax Relief and Health Care Act of 2006 allows employers to make larger HSA contributions for a nonhighly compensated employee than for a highly compensated employee.

For more information, see *Health Savings Accounts* in section 2 of Publication 15-B, Employer's Tax Guide to Fringe Benefits (For Benefits Provided in 2007).

Certain Transfers of Qualifying Geothermal or Mineral Interests

A 25% exclusion from gross income is allowed for long-term capital gain from certain conservation sales of qualifying mineral and geothermal interests located on eligible federal land. The sale must be to an eligible entity and occur after December 19, 2006. An excise tax may be imposed if an eligible entity fails to take steps consistent with the protection of conservation purposes.

For details, including the geographical location of eligible federal land, see section 403 of Title IV, Division C, of the Tax Relief and Health Care Act of 2006. Also see Form 8924, Excise Tax on Certain Transfers of Qualifying Geothermal or Mineral Interests, when it is released in 2007.

3.

IRAs and Other Retirement Plans

2006 Changes

Last Day for Contributions and Withdrawals

Contributions can be made to your traditional IRA for a year at any time during the year or by the due date for filing

your return for that year, not including extensions. Because Emancipation Day, April 16, 2007, is a legal holiday in the District of Columbia, contributions for 2006 must be made by April 17, 2007.

There is a 6% excise tax on excess contributions not withdrawn by the due date (plus extensions) for your return. You will not have to pay the 6% tax if any 2006 excess contributions are withdrawn by the due date (plus extensions).

Modified AGI Limit for Traditional IRA Contributions Increased

For 2006, if you were covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified adjusted gross income (AGI) is:

- More than \$75,000 but less than \$85,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$50,000 but less than \$60,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

Nontaxable Combat Pay

If you received nontaxable combat pay in 2004 or 2005, and the treatment of the combat pay as compensation means that you can contribute more for those years than you already have, you can make additional contributions to an IRA for 2004 or 2005 by May 28, 2009. The contributions will be treated as having been made on the last day of the year for which they were made. If you have already filed your return for a year for which you make a contribution, you must file Form 1040X, Amended U.S. Individual Income Tax Return, by the latest of:

- 3 years from the date you filed your original return for the year for which you made the contribution,
- 2 years from the date you paid the tax due for the year for which you made the contribution, or
- 1 year from the date on which you made the contribution.

Qualified Charitable Distributions

If you were at least age 70½ and you had a distribution made by the trustee of your IRA directly to a charitable organization, it may be nontaxable.

A qualified charitable distribution (QCD) is a nontaxable distribution made directly by the trustee of your IRA (other than a SEP or SIMPLE IRA) to an organization eligible to receive tax-deductible contributions. You must have been at least age 70½ when the distribution was made. Your total QCDs for the year cannot be more than \$100,000. If

you file a joint return, your spouse can also have a QCD of up to \$100,000. However, the amount of the QCD is limited to the amount of the distribution that would otherwise be included in income. If your IRA includes nondeductible contributions, the distribution is first considered to be paid out of otherwise taxable income.

Qualified Public Safety Employees

If you are a qualified public safety employee, distributions made after August 17, 2006, from a governmental defined benefit pension plan are not subject to the additional tax on early distributions. You are a qualified public safety employee if you provided police protection, firefighting services, or emergency medical services for a state or municipality, and you separated from service after you attained age 50.

Qualified Reservist Distributions

A qualified reservist distribution is not subject to the additional (10%) tax on early distributions. A qualified reservist distribution is a distribution (a) from an IRA or elective deferrals under a section 401(k) or 403(b) plan, or a similar arrangement, (b) to an individual ordered or called to active duty (because he or she is a member of a reserve component) for a period of more than 179 days or for an indefinite period, and (c) made during the period beginning on the date of the order or call and ending at the close of the active duty period. You must be ordered or called to active duty after September 11, 2001, and before December 31, 2007.

If you received a qualified reservist distribution before 2006 and paid the 10% additional tax, you can claim a refund of that tax by filing Form 1040X to amend your return for the year in which you received the qualified reservist distribution. You have until August 16, 2007, to claim any refund or tax credit that would otherwise be barred by a statute of limitations.

You can choose to recontribute part or all of the distributions to an IRA. Generally, these additional contributions must be made within 2 years after your active-duty period ends. However, if your active duty period ended before August 17, 2006, you have until August 17, 2008, to make these special contributions. You cannot take a deduction for these contributions. However, the normal dollar limitations for contributions to IRAs do not apply to these special contributions, and you can make regular contributions to your IRA, up to the amount otherwise allowable.

Rollovers From Designated Roth Accounts

If you have elected to treat part or all of your elective deferrals to a qualified retirement program (401(k) or 403(b) plans) as after-tax Roth contributions to a designated Roth account, any distribution from your designated Roth account can be rolled over on a tax-free basis only if the rollover is made to another designated Roth account or

Roth IRA that you maintain. See Publication 590, Individual Retirement Arrangements (IRAs), for more information.

Roth IRA Contribution Limit

If you were age 50 or older before 2007 and contributions on your behalf were made only to Roth IRAs, your contribution limit for 2006 is generally the lesser of:

- \$5,000, or
- Your taxable compensation for the year.

However, if your modified AGI is above a certain amount, your contribution limit may be reduced.

Catch-Up Contributions to Thrift Savings Plan (TSP)

Participants in the TSP who are age 50 or older at the end of the year generally can make catch-up contributions to the plan. For 2006, the maximum catch-up contribution increased to \$5,000. For more information, see Publication 721.

Traditional IRA Contribution and Deduction Limit

If you were age 50 or older before 2007, the most that could be contributed to your traditional IRA for 2006 is the smaller of the following amounts:

- \$5,000, or
- Your taxable compensation for the year.

Qualified Plans

The following changes apply to qualified plans. For more information, see Publication 560.

Limits on contributions and benefits. For 2006, the maximum annual benefit for a participant under a defined benefit plan has increased to the smaller of:

- \$175,000, or
- 100% of the participant's average compensation for his or her highest 3 consecutive calendar years.

For 2006, a defined contribution plan's maximum annual contributions and other additions (excluding earnings) to the account of a participant has increased to the smaller of:

- \$44,000, or
- 100% of the compensation actually paid to the participant.

Compensation limit. For 2006, the maximum compensation used for figuring contributions and benefits has increased to \$220,000.

Elective deferrals (401(k) plans). For 2006, the limit on elective deferrals for participants in 401(k) plans and SAR-SEPs (excluding SIMPLE plans) is \$15,000.

Catch-up contributions. For 2006, a plan can permit participants who are age 50 or older at the end of the calendar year to make catch-up contributions of up to \$5,000.

The catch-up contribution a participant can make for a year cannot exceed the smaller of:

- \$5,000, or
- The excess of the participant's compensation over the elective deferrals that are not catch-up contributions.

Simplified Employee Pensions (SEPs)

The following changes apply to SEPs. For more information, see Publication 560.

Elective deferrals (SARSEPs) limit. The limits on elective deferrals and catch-up contributions for participants in SARSEPs are discussed earlier under *Elective deferrals (401(k) plans)*.

Deduction limit increased. The maximum deduction for contributions to a SEP remains unchanged at 25% of the compensation paid or accrued during the year to your eligible employees participating in the plan. However, for 2006, the maximum combined deduction for a participant's elective deferrals and other SEP contributions has increased to \$44,000.

Contribution limit increased. For 2006, the annual limit on the amount of employer contributions to a SEP has increased to the smaller of:

- \$44,000, or
- 25% of an eligible employee's compensation.

Compensation limit. For 2006, the maximum amount of an employee's compensation you can consider when figuring SEP contributions (including elective deferrals) and the deduction for contributions has increased to \$220,000.

SIMPLE Plans

The following change applies to SIMPLE plans. For more information, see Publication 560.

Catch-up contributions. For 2006, a SIMPLE plan can permit participants who are age 50 or older at the end of the calendar year to make catch-up contributions up to \$2,500.

403(b) Plans

The following changes apply to 403(b) plans. For more information, see Publication 571.

Increase in the limit on elective deferrals. For 2006, the limit on elective deferrals has increased to \$15,000.

Catch-up contributions. If you are age 50 or older by the end of 2006, you may be permitted to make additional catch-up contributions of up to \$5,000 to your 403(b) plan.

Limit on annual additions. For 2006, the limit on annual additions has increased to \$44,000.

2007 Changes

Catch-Up Contributions if Employer Bankrupt

For 2007, if you participated in a 401(k) plan and the employer who maintained the plan filed for bankruptcy, you may be able to contribute an additional \$3,000 to your IRA. For this to apply the following conditions must be met.

- You must have been a participant in a 401(k) plan under which the employer matched at least 50% of your contributions to the plan with stock of the company.
- You must have been a participant in the 401(k) plan 6 months before the employer filed for bankruptcy.
- The employer (or a controlling corporation) must have been a debtor in a bankruptcy case in an earlier year.
- The employer (or any other person) must have been subject to indictment or conviction based on business transactions related to the bankruptcy.

If you choose to make these additional contributions, you cannot use the higher contribution and deduction limits for individuals who are age 50 or older.

Income Exclusion for Retired Public Safety Officer

For distributions in tax years beginning after 2006, you can elect to exclude from income an eligible retirement plan distribution if you are a retired public safety officer. The distribution must be from a governmental plan and must be transferred directly to pay premiums for accident or health insurance or qualified long-term care insurance for you, your spouse, or your dependents.

The maximum annual exclusion is \$3,000. You cannot deduct these premiums as medical expenses or, if you are self-employed, health insurance costs.

Modified AGI Limit for Traditional IRA Contributions Increased

For 2007, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is

reduced (phased out) if your modified adjusted gross income (AGI) is:

- More than \$83,000 but less than \$103,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$52,000 but less than \$62,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

For 2007, if you are not covered by a retirement plan at work, your deduction for contributions to a traditional IRA may be reduced (phased out) if you either live with your spouse at any time during 2007 or file a joint return for 2007.

If you either live with your spouse or file a joint return, and your spouse is covered by a retirement plan at work, but you are not, your deduction is phased out if your AGI is more than \$156,000 but less than \$166,000. If your AGI is \$166,000 or more, you cannot take a deduction for contributions to a traditional IRA. See *How Much Can You Deduct* in chapter 1 of Publication 590.

Rollovers by Nonspouse Beneficiary

After 2006, you may be able to roll over tax free all or a portion of a distribution you receive from an eligible retirement plan of a deceased employee. You must be the designated beneficiary of the employee, but you cannot be the surviving spouse. The distribution must be a direct trustee-to-trustee transfer to your IRA that was set up to receive the distribution. The transfer will be treated as an eligible rollover distribution and the receiving plan will be treated as an inherited IRA. For information on inherited IRAs, see Publication 590.

Modified AGI Limit for Retirement Savings Contribution Credit Increased

For 2007, you may be able to claim the retirement savings contribution credit if your modified adjusted gross income is not more than:

- \$52,000 if your filing status is married filing jointly,
- \$39,000 if your filing status is head of household, or
- \$26,000 if your filing status is single, married filing separately, or qualifying widow(er).

Rollover of Nontaxable Amounts

For tax years beginning after 2006, the nontaxable part of an eligible rollover distribution (such as after-tax contributions) from a qualified retirement plan can be rolled over to another qualified retirement plan or to an annuity contract described in section 403(b). Previously, this part of the

distribution could be rolled over only to another qualified retirement plan that was a defined contribution plan.

The rollover must be a direct trustee-to-trustee transfer. The plan to which the rollover is made must separately account for these contributions and the earnings on them.

Modified AGI Limit for Roth IRA Contribution Increased

For 2007, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least \$156,000. You cannot make a Roth IRA contribution if your modified AGI is \$166,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is \$10,000 or more.
- Your filing situation is different than either of those described above and your modified AGI is at least \$99,000. You cannot make a Roth IRA contribution if your modified AGI is \$114,000 or more.

Qualified Plans

The following changes apply to qualified plans. For more information, see Publication 560.

Limits on contributions and benefits. For 2007, the maximum annual benefit for a participant under a defined benefit plan has increased to the smaller of:

- \$180,000, or
- 100% of the participant's average compensation for his or her highest 3 consecutive calendar years.

For 2007, a defined contribution plan's maximum annual contributions and other additions (excluding earnings) to the account of a participant has increased to the smaller of:

- \$45,000, or
- 100% of the compensation actually paid to the participant.

Compensation limit. For 2007, the maximum compensation used for figuring contributions and benefits has increased to \$225,000.

Elective deferrals (401(k) plans). For 2007, the limit on elective deferrals (excluding catch-up contributions) for participants in 401(k) plans and SARSEPs (excluding SIMPLE plans) is \$15,500.

Simplified Employee Pensions (SEPs)

The following changes apply to SEPs. For more information, see Publication 560.

Elective deferrals (SARSEPs) limit. The limits on elective deferrals for participants in SARSEPs are discussed earlier under *Elective deferrals (401(k) plans)*.

Deduction limit increased. The maximum deduction for contributions to a SEP remains unchanged at 25% of the compensation paid or accrued during the year to your eligible employees participating in the plan. However, for 2007, the maximum combined deduction for a participant's elective deferrals and other SEP contributions has increased to \$45,000.

Contribution limit increased. For 2007, the annual limit on the amount of employer contributions to a SEP has increased to the smaller of:

- \$45,000, or
- 25% of an eligible employee's compensation.

Compensation limit. For 2007, the maximum amount of an employee's compensation you can consider when figuring SEP contributions (including elective deferrals) and the deduction for contributions has increased to \$225,000.

SIMPLE Plans

The following change applies to SIMPLE plans. For more information, see Publication 560.

Salary reduction contributions. For 2007, the limit on salary reduction contributions (excluding catch-up contributions) to a SIMPLE plan is \$10,500.

403(b) Plans

The following changes apply to 403(b) plans. For more information, see Publication 571.

Increase in the limit on elective deferrals. For 2007, the limit on elective deferrals (excluding catch-up contributions) has increased to \$15,500.

Limit on annual additions. For 2007, the limit on annual additions has increased to \$45,000.

4.

Exempt Organizations

2006 Changes

Public Inspection Requirements of Section 501(c)(3) Organizations

Under section 6104(d), a section 501(c)(3) organization that has gross income from an unrelated trade or business of \$1,000 or more must make its annual exempt organization business income tax return (including amended returns) available for public inspection. A section 501(c)(3) organization filing the Form 990-T only to request a credit for certain federal excise taxes paid does not have to make the Form 990-T available for public inspection. For more information, see the 2006 Instructions for Form 990-T.

Political Organizations

Political organizations only requesting a credit for federal telephone excise taxes paid should file Form 990-T instead of Form 1120-POL. For more information, see the Instructions for Form 990-T.

5.

Estate and Gift Taxes

2006 Tax Changes

Estate Tax Applicable Exclusion Amount Increased

An estate tax return for a U.S. citizen or resident needs to be filed only if the gross estate exceeds \$2 million for the year of death. The change is effective for estates of decedents dying after 2005 and before 2009.

Annual Exclusion for Gifts Increased

The annual exclusion for gifts of present interests made to a donee has increased to \$12,000. The annual exclusion for gifts made to spouses who are not U.S. citizens has increased to \$120,000.

Maximum Estate and Gift Tax Rate Reduced

For estates of decedents dying, and gifts made, during 2006, the maximum rate for the estate tax and the gift tax is 46%.

Generation-Skipping Transfer (GST) Exemption

For 2006, the generation-skipping transfer (GST) lifetime exemption is \$2 million.

2007 Changes

Annual Exclusion for Gifts to Spouses Increased

The annual exclusion for gifts made to spouses who are not U.S. citizens has increased to \$125,000.

Maximum Estate and Gift Tax Rate Reduced

For estates of decedents dying, and gifts made, after 2006 and before 2010, the maximum rate for the estate tax and the gift tax is 45%.

6.

Excise Taxes

Credit for Kerosene Used in Noncommercial Aviation

New ultimate purchaser rule for claims for kerosene sold after September 20, 2005. If you are an ultimate purchaser of kerosene sold after September 30, 2005, you may claim a credit or payment for kerosene used for a nontaxable use in noncommercial aviation (such as use on a farm for farming purposes, in aircraft engaged in foreign trade, in certain helicopters and fixed-wing air ambulances, or in military aircraft). However, you instead may waive the right to claim this credit or payment to the ultimate vendor.

This rule does not apply to purchases for nonexempt, noncommercial aviation or for the exclusive use by a state, political subdivision of a state, or the District of Columbia. You are not eligible to make this claim for the period after September 30, 2005, and before December 20, 2006, if the

ultimate vendor did not include the tax in the price of the kerosene and has not collected the tax from you, has repaid the tax to you, or has your written consent waiving the right to make this claim.

Claims for purchases during tax years beginning in 2005. For purchases during your tax year beginning in 2005, amend your 2005 federal income tax return by attaching the 2005 Form 4136 to Form 1040X, Amended U.S. Individual Income Tax Return; Form 1120X, Amended U.S. Corporation Income Tax Return; or the applicable form used to amend your income tax return. Make your claim on line 14b of the 2005 Form 4136. Although line 14b is normally used by registered ultimate vendors, use this line as an ultimate purchaser; you do not need a registration number. Write "Ultimate purchaser" in the space on line 14b. Figure your credit using lines 4 and 5 of the worksheet in the instructions for line 14b. Generally, these claims must be filed within 3 years of the date you filed the original return or within 2 years after the date you paid the tax, whichever is later.

Claims for purchases during tax years beginning in 2006. For purchases made during your tax year beginning in 2006, use line 9 on the 2006 Form 4136 to make this claim. If you meet the claim requirements, you instead may use lines 5c and 5d on Schedule 1 (Form 8849), Nontaxable Use of Fuels.

Special rule for claims for kerosene used in aviation on a farm and sold after December 31, 2004, and before October 1, 2005. If you are an ultimate purchaser of kerosene sold after December 31, 2004, and before October 1, 2005, you may make a claim for nontaxable use of kerosene in aviation on a farm for farming purposes. This rule does not apply if the ultimate vendor did not include the tax in the price of the kerosene and has not collected the tax from you, has repaid the tax to you, or has your written consent to make this claim.

You can make this claim on Schedule 6 (Form 8849), Other Claims. The credit rate per gallon of kerosene is \$.219. Use credit reference number (CRN) 369. In the explanation section of the form, show the computation for the amount of the claim (for example, 250 gallons \times \$.219 = \$54.75). You must file this claim **no later than** March 19, 2007.

Changes Effective for the First Quarter of 2006

Air Transportation Taxes

For amounts paid during 2006, the tax on the use of international air travel facilities will be \$14.50 per person for flights that begin or end in the United States, or \$7.30 per person for domestic segments that begin or end in Alaska or Hawaii (applies only to departures). For amounts paid for each domestic segment of taxable transportation

of persons by air, the domestic segment tax is \$3.30 per segment for transportation that begins in 2006.

Arrow Shafts

The tax on arrow shafts has increased to \$.40 per arrow shaft.

Renewable Diesel

Renewable diesel will generally be treated the same as biodiesel for credit purposes. The renewable diesel mixture credit is \$1.00 per gallon of renewable diesel.

Diesel-Water Fuel Emulsion

A reduced rate of tax on a diesel-water fuel emulsion applies if certain conditions are met. IRS No. 104 has been added to Form 720. Claims can be made for nontaxable uses of a diesel-water fuel emulsion and for diesel fuel used to produce a diesel-water fuel emulsion.

Taxable Tires

Three new IRS numbers have been added to report taxable tires instead of IRS No. 66.

1. IRS No. 108, Taxable tires other than biasply or super single tires.
2. IRS No. 109, Taxable tires, biasply or super single tires (other than super single tires designed for steering).
3. IRS No. 113, Taxable tires, super single tires designed for steering.

Claims for Exempt Sales of Fuel by Registered Credit Card Issuers

Claims for gasoline, undyed diesel fuel, and undyed kerosene used exclusively by a state or local government or nonprofit educational organization can be made by the registered credit card issuer if the fuel was purchased with a credit card issued to the state or local government or nonprofit educational organization. Other conditions must be met.

Changes Effective for the Second Quarter of 2006

Reinstatement of the Oil Spill Liability Tax

The oil spill liability taxes (IRS Nos. 18 and 21) have been reinstated beginning April 1, 2006.

Changes Effective for the Third Quarter of 2006

Communications Tax

After July 31, 2006, collectors stopped collecting and paying over the tax on nontaxable service. See Publication 510 for the definition of nontaxable service. Information on the credit and refund procedures for collectors is described in Publication 510. For more information, see Notice 2006-50 and Notice 2007-11. You find notice 2006-50 on page 1141 of Internal Revenue Bulletin 2006-25 at www.irs.gov/pub/irs-irbs/irb06-25.pdf, and Notice 2007-11 on page 405 of Internal Revenue Bulletin 2007-5 at www.irs.gov/pub/irs-irbs/irb07-05.pdf.

Changes Effective for the Fourth Quarter of 2006

Alternative Fuel

There is a tax on the sale for use or use of any liquid sold for use or used as a fuel in a motor vehicle or motorboat, other than gas oil, fuel oil, or any product taxable under Internal Revenue Code section 4081. You may be liable for tax on alternative fuel delivered into the fuel supply tank of a motor vehicle or motorboat, or on certain bulk sales.

Two new credits are available: the alternative fuel credit and alternative fuel mixture credit. For more information on these credits, see Publication 510.

Changes Effective for the First Quarter of 2007

Air Transportation Taxes

For amounts paid during 2007, the tax on use of international air travel facilities will be \$15.10 per person for flights that begin or end in the United States, or \$7.50 per person for domestic segments that begin or end in Alaska or Hawaii (applies only to departures). For amounts paid for each domestic segment of taxable transportation of persons by air, the domestic segment tax is \$3.40 per segment for transportation that begins in 2007.

Arrow Shafts

The tax on arrow shafts (IRS No. 106) is \$.42 per arrow shaft.

Diesel Fuel Used in Trains

The tax rate on dyed diesel fuel used in trains is \$.001. The claim rate for undyed diesel fuel used in trains is \$.243.

Inland Waterways Fuel Use Tax

The inland waterways fuel use tax is \$.201.

Taxable Vaccines

Meningococcal and human papillomavirus vaccines are taxable for sales or uses after January 31, 2007.

Qualified Blood Collector Organizations

Qualified blood collector organizations are exempt from many federal excise taxes (or a credit or payment relating to the tax is available). These taxes include the tax on fuels, tires, communication services, and for heavy vehicles. Each blood collector organization must be registered by the IRS as a condition for applying for exemption (or credit or payments). To apply for registration, see Form 637, Application for Registration (For Certain Excise Tax Activities).

Changes Effective for the Tax Period Beginning July 1, 2007

Heavy Highway Vehicle Use Tax (Form 2290)

Qualified blood collector organizations. After June 30, 2007, qualified blood collector organizations are exempt from the heavy highway vehicle use tax on qualified blood collector vehicles. A qualified blood collector vehicle is a vehicle that was used by a qualified blood collector organization at least 80% of the time during the prior tax period for the purpose of collection, storage, or transportation of blood.

For the tax period in which the vehicle is first placed into service, the qualified blood collector organization must certify that the organization reasonably expects the vehicle to be used at least 80% of the time during the tax period for the purpose of collection, storage, or transportation of blood. Qualified blood collector organizations are not required to file Form 2290 for qualified blood collector vehicles.

7.

Foreign Issues

2006 Changes

Foreign Earned Income Tax Worksheet

If you claim the foreign earned income exclusion or the foreign housing exclusion on Form 2555 or Form 2555-EZ, you must figure your tax using the *Foreign Earned Income Tax Worksheet* found in the Instructions for Form 1040.

Exception From the Filing Requirement for Nonresident Aliens

Generally, the requirement to file a return has been eliminated for nonresident aliens who earn wages effectively connected with a U.S. trade or business that are less than the amount of one personal exemption (\$3,300 for 2006). For more information, see Notice 2005-77, 2005-46 I.R.B. 951. You can find Notice 2005-77 on page 951 of Internal Revenue Bulletin 2005-46 at www.irs.gov/pub/irs-irbs/irb05-46.pdf.

Foreign Earned Income and Housing Exclusions

The following changes to the foreign earned income and housing exclusions went into effect for 2006. For more information, see Form 2555, Foreign Earned Income, and its instructions.

Exclusion amount. The maximum foreign earned income exclusion has increased to \$82,400.

Housing expenses—maximum amount. The amount of qualified housing expenses eligible for the housing exclusion and housing deduction is now limited. The amount of the limit depends on the location of your foreign tax home. A complete table of the adjusted limitations on housing expenses for 2006 starts on page 5 of the latest revision of the 2006 Instructions for Form 2555, Foreign Earned Income. To view these instructions, go to www.irs.gov/pub/irs-pdf/i2555.pdf.

Housing expenses—base amount. The base housing amount (Form 2555, line 32) has increased to \$36.12 per day, or \$13,184 for an entire calendar year.

Determination of tax on income not excluded. If you claim the foreign earned income exclusion, the housing exclusion, or both, you must determine the tax on your nonexcluded income using the tax rates that would have applied had you not claimed the exclusions. See the instructions for Form 1040 and complete the *Foreign Earned*

Income Tax Worksheet to determine the amount of tax to enter on Form 1040, line 44. If you must attach Form 6251 to your return, use the *Foreign Earned Income Tax Worksheet* provided in the instructions for Form 6251.

Source of Compensation for Labor or Personal Services

If you are an employee and perform services partly inside and partly outside the United States, new rules apply in determining the source of your compensation for labor or personal services. Under the new rules, compensation (other than fringe benefits) is sourced on a time basis. Fringe benefits (such as housing and education) are sourced on a geographical basis. Or you may be able to use an alternative basis to determine the source. For more information, see the following publications.

- Publication 514, Foreign Tax Credit for Individuals.
- Publication 519, U.S. Tax Guide for Aliens.
- Publication 570, Tax Guide for Individuals With Income From U.S. Possessions.

2007 Changes

Foreign Earned Income and Housing Exclusions

Exclusion amount. The maximum foreign earned income exclusion has increased to \$85,700.

Housing expenses—base amount. The base housing amount has increased to \$37.57 per day, or \$13,712 for an entire calendar year.

Foreign Tax Credit

Income categories eliminated. For tax years beginning after 2006, the following categories of income will be eliminated for purposes of computing the foreign tax credit limit. Income that previously fell in these categories will fall in either the passive income category or the general limitation income category.

- High withholding tax interest.
- Financial services income.
- Shipping income.
- Dividends from a domestic international sales corporation (DISC) or former DISC.
- Certain distributions from a foreign sales corporation (FSC) or former FSC.

High withholding tax interest and shipping income will fall in the passive income category or general limitation

income category, depending on the circumstances. Financial services income will fall in the general limitation income category if you are predominantly engaged in the active conduct of a banking, insurance, financing or similar business. Dividends from a DISC or former DISC and certain distributions from a FSC or former FSC will fall in the passive income category. See Publication 514 for more information on the foreign tax credit for individuals.

Recharacterization of overall domestic loss. If you have an overall domestic loss for any tax year beginning after 2006, you must recharacterize a portion of your U.S. source taxable income in succeeding years as foreign source taxable income for purposes of the foreign tax credit.

In a tax year you choose to claim the foreign tax credit, the overall domestic loss is the domestic loss for that tax year to the extent it offsets foreign source taxable income for that tax year or for any preceding tax year (in which you chose to claim the foreign tax credit) because of a carryback. If you do not choose to claim the foreign tax credit for a tax year, the overall domestic loss is the domestic loss for that tax year to the extent it offsets foreign source taxable income for any preceding tax year (in which you chose to claim the foreign tax credit) because of a carryback.

For more information, see Internal Revenue Code section 904(g).

8.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

You can contact the Taxpayer Advocate Service by calling toll-free 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if you are eligible for assistance. You can also call or write to your local taxpayer advocate, whose phone number and address are listed in your local telephone directory and in Publication 1546, The Taxpayer Advocate Service of the IRS - How To Get Help With Unresolved Tax Problems. You can file Form 911, Application for Taxpayer Assistance Order, or ask an IRS employee to complete it on your behalf. For more information, go to www.irs.gov/advocate.

Low income tax clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide tax education and outreach for taxpayers with limited English proficiency or who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area. It is available at www.irs.gov or at your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov to take the following actions.

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2006 refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our withholding calculator.
- Sign up to receive local and national tax news by email.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2006 refund, call 1-800-829-4477 and press 1 for automated refund information or call

1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2006 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- **Products.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- **Services.** You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 business days after your request is received.

National Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903



CD for tax products. You can order Publication 1796, IRS Federal Tax Products CD, and obtain:

- A CD that is released twice so you have the latest products. The first release ships in January and the final release ships in March.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Bonus: Historical Tax Products DVD - Ships with the final release.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$35 (no handling fee) or call 1-877-CDFORMS (1-877-233-6767) toll free to buy the CD for \$35 (plus a \$5 handling fee). Price is subject to change.



CD for small businesses. Publication 3207, The Small Business Resource Guide, CD for 2006, has a new look and enhanced navigation features. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2006.
- Tax Map: an electronic research tool and finding aid.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.
- A site map of the CD to help you navigate the pages of the CD with ease.
- An interactive "Teens in Biz" module that gives practical tips for teens about starting their own business, creating a business plan, and filing taxes.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting www.irs.gov/smallbiz.



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