TAX UPDATE

06 MID-YEAR NEWSLETTER

Only thinking about your income taxes during tax season is a sure way to miss the many available tax minimization opportunities available to you. This Mid-year Tax Update newsletter provides recent tax information and some practical ideas to maximize tax savings in 2006. Please feel free to call to set up a tax plan or review your current situation.

Tax Planning with Tax Preferential Accounts

Whenever you can set aside some of your salary or wages on a pre-tax basis you are reducing your current taxable income. In some account types you pay no tax as long as the funds are used for approved expenses. In other tax deferred accounts, you may need to pay taxes when you withdraw the funds, but you will benefit from earnings on the investment in the meantime. Some of the most common tax preferential accounts are:

Retirement Savings Accounts - such as IRA's, SIMPLE IRA, 401(k) and 403(b) and 457 plans.

Section 125 Cafeteria Plans - also called flexible spending accounts, are employer-sponsored and enable employees to set aside pre-tax wages and salary to cover out-of-pocket medical expenses or expenses for dependent care (e.g. day care).

Health Savings Accounts – (HSA's) which allow pre-tax savings for health care expenses when covered by a high deductible health insurance policy.

Taking the contribution limits for 2006 and assuming a 25% federal tax bracket you can see the potential tax benefit in the following table.

Everyone's tax situation is unique. Your ability to contribute to these or other tax deferred saving programs depends on many things. If you would like discuss your particular situation feel free to call.

Tax Preferential Plans

Savings Plans[1]	*2006 Contribution Limits*	*Benefit at 25% Tax Rate*
IRA	$4,000	$1,000
SIMPLE	$10,000	$2,500
401(k), 403(b), 457, SARSEP	$15,000	$3,750
Flexible Health	Up to 100% of income	Up to 25% of income
Flexible Dependent Care	$5,000	$1,250
HSA/MSA Family[2]	$5,450	$1,362

1 Those aged 50 or over may contribute additional funds. 2 Benefits vary for single individuals and those over 50.

$2 Billion in Unclaimed Refunds

The IRS estimates that it held over $2 billion in refunds owed to people who had yet to file their 2002 tax returns. Since you only have three years from the original filing deadline to claim a refund, these unclaimed refunds were lost forever after April 17, 2006. Unfortunately, the IRS cannot grant a refund if a tax return is not filed. If you are aware of someone who has not yet filed a 2003 tax return, now is the time to bring their filing up to date.

Log Your Charitable and Medical Mileage

Do you use your auto for charitable purposes? If so, you can deduct 14 cents per mile in 2006 for all qualified charitable travel. In addition, you can deduct your out-of-pocket travel expenses such as parking and toll fees when you are serving a qualified organization. There is a higher mileage rate (32 cents per mile) if you work directly with the Hurricane Katrina relief efforts in 2006.

Do you use your personal vehicle for medical travel? Trips to and from your doctor and dentist visits can be deducted as a valid medical expense. For 2006, the medical travel deduction is 18 cents per mile. If you have to travel a great distance for medical treatment, the actual cost of the travel, including tolls, parking, airfare and lodging, can also be deductible.

***Tip:** It is important to set up a Mileage Log and keep it handy so you can track your deductible mileage throughout the year.*

Check Out the New Roth 401(k)'s

Starting in 2006, employers are able to offer employees a new retirement savings plan that combines the best elements of a Roth IRA and a 401(k) plan. This new plan is called a Roth 401(k).

Distinctions
In a traditional 401(k), workers set aside pre-tax income and then pay taxes on those contributions and the earnings when withdrawn at retirement. With a Roth 401(k), contributions are made after-tax, but the withdrawals and all earnings generated are tax-free. Similar to Roth IRA's, a Roth 401(k) account must be open for at least five years and you must be at least 59 1/2 years old to qualify for the tax-free withdrawals.

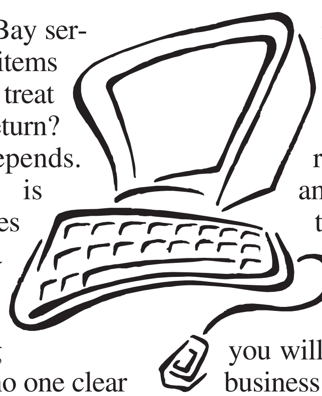
While Roth IRA contributions are limited to $4,000 ($5,000 if at least age 50), 2006 contribution limits to a Roth 401(k) are $15,000 ($20,000 if you are age 50 or over). You can also contribute to both a Roth IRA and a Roth 401(k) in a given year as long as your combined contributions don't exceed the limits.

Is a Roth 401(k) right for you?
The new Roth 401(k) plan can be particularly advantageous for younger workers at lower incomes. Not only is the after tax value of their income higher because they are in lower tax brackets, but the more time a younger worker has to invest before retirement the longer their tax-free earnings can grow. Plus, since income is contributed after tax, the withdrawal of original contributions is not taxed (it was already taxed at the time of contribution).

Older workers can benefit from contributions to a Roth 401(k) to provide tax-free income options in retirement. This is true because Roth accounts have more flexible withdrawal options than traditional retirement accounts so tax-free withdrawals can be managed to target or balance taxable income in a given retirement year.

If you think you could benefit from a Roth 401(k) retirement savings plan check with your employer to see if one is available to you.

Are Your EBay Profits Taxable?



Over 100 million users of EBay services regularly buy and sell items each year. But how do you treat the activity on your tax return? The answer is….it all depends. Sometimes the activity is deemed a hobby. Sometimes the activity is treated as a business. Sometimes the activity is a capital transaction with a corresponding gain or loss. There really is no one clear answer. And while EBay does not currently submit transaction details to the government, it could be required to do so in the future. What to do? If you have EBay selling activity, you will need to report your activity on your tax return. The tax code supplies indicators that will help judge how to report the activity. Chief among them is profit motive, time and effort spent on the activity and the seller's intent. If you meet the business activity criteria, you will be able to deduct relevant business expenses. Whereas hobby activity expenses are only deductible when miscellaneous expenses exceed 2% of your adjusted gross income. In all cases, make sure you keep good records for review and interpretation.

What Triggers an AMT Surprise?

The alternative minimum tax (AMT) uses different rules to calculate your tax than the standard method on Form 1040. What can trigger the AMT? The first threshold is income. If your income is above $112.5M single or $150M married filing joint you are in the AMT range. This income is translated into an "exemption amount". You pay the AMT when your taxable income plus any adjustments and preference items exceeds the exemption amount. The following items often trigger the AMT.

1. Personal exemptions and standard deductions.
2. State/local income, sales and property taxes.
3. Mortgage interest not used to buy, build, or improve a home
4. Misc. itemized deductions
5. Incentive stock options
6. Long term capital gains
7. Business tax deductions
8. Certain tax-exempt interest from private activity bonds
9. Business tax deductions

With an estimated 21 million taxpayers subject to the AMT in 2006, it may make sense to review your situation to avoid any AMT surprise.

IRS Hires Debt Collectors

In a controversial move, the IRS has authorized private collection agencies to collect delinquent taxes. This means private taxpayer information including Social Security Numbers and income levels are being transferred from the Government to private firms. The practice has drawn sharp criticism from the National Treasury Employee Union among others. The collection agencies will receive a percentage of what is collected. In addition to the privacy concern, others are concerned about the potential harassment of taxpayers - a typical practice of private collection agencies.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.