



Tax Tips You Can Use January 2007

Tax law changes for 2006 tax year

By Kathleen Crawford, EA

Congress gave us all a Christmas present this year, reinstating many deductions and credits that had expired at the end of 2005. Unfortunately, the timing will cause many problems for taxpayers. This article is written primarily for individuals who figure their own taxes or use consumer tax software. The IRS, professional tax preparers and professional tax software makers are scrambling to figure out how to incorporate the changes. People who may have already bought consumer software will be left without a clue.

Just before Christmas, as a last act of the term, Congress passed HR6111 to reinstate deductions and credits for two years (2006 and 2007), which had expired at the end of 2005. This bill had been languishing for most of the year. With the tax filing season starting in mid January, the IRS had been required to finalize the forms early in November. With no action on the bill in Congress, the IRS removed lines and entry areas for the expired deductions and credits.

Now that the deductions are reinstated, there is no place on the forms to put them. The IRS is giving guidance to tax software makers and to tax professionals on how to add the information to give people the reinstated deductions. Taxpayers who use professional tax preparers can depend on the tax preparer to figure out to cope with the changes. Taxpayers who figure their own taxes need to consult the IRS website (www.irs.gov) or the website for their consumer software to get the latest updates. Taxpayers should check the box of any consumer software they plan to purchase to ensure that the provisions of HR6111 "The Tax Relief and Health Care Act of 2006" are included.

The big three provisions for individuals are the deduction for college tuition and fees of up to \$4000, the deduction of up to \$250 of teacher's classroom expenses, and the option of deducting sales tax. There are other provisions related to Medical Savings Accounts and Health Savings Accounts that can be important to some individuals. Most of the other provisions affect businesses. For individuals who can use these deductions in 2006, it will be important to ensure they make it onto the tax return.

In the last few years it has become more common to have tax laws passed in December or January. In Oregon we have had tax laws take effect as late as March. This makes it difficult for the taxing agencies to plan ahead and for professionals and consumers to get good, timely information. The late changes increase costs for the government as well as the individual.

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.

