September 2006

Tax Update - 2006

Jim Gage & Co., C.P.A.'s L.L.P.

www..gagecpa.com Toll free (877)295-9426
Algona..(515)295-9426 and Bancroft..(515)885-2723

Jim Gage, CPA - jgagea@gagecpa.com
Julie Jensen, CPA - jjensen@gagecpa.com
Greg Penning, CPA - gpenning@gagecpa.com
Deb Doocy, EA- ddoocy@gagecpa.com

Financial Thoughts

- Monitor portfolios regularly and set goals
- Remain focused on your long-term goals
- Save 10% of your income
- For emergencies, set aside six months of income in a liquid savings account
- What is the right time to invest? Now is as good a time as any
- Tax considerations should not dominate your investment moves
- Understand how the new tax law changes might affect your planning

Inside this issue:

Pension Protection Act of 2006 - More than pension changes

Qualified Charitable Distributions - If you are over age 70 1/2 and own an IRA, you may contribute amounts up to $100,000 from your IRA to a charitable organization in 2006 and 2007. This distribution will not be taxable to you and will not be deductible if you itemize. This new change in the law allows you to use your required minimum distribution or greater amount for the contribution.

IRAs and Roth IRAs qualify and SIMPLE or SEP IRAs do not qualify, therefore, a rollover from a pension plan to IRA would be needed in order to qualify for the distribution. The transfer must be a direct transfer from the trustee to the charitable organization.

For those of you who do not itemize, this is a great tax benefit. Your benefit is the savings of federal and state taxes. For those of you who itemize there may still be a benefit.

IRA and ROTH IRA **contribution** limits will be increased to $5,000 after 2008. For 2006 and 2007 the limit remains at $4,000.

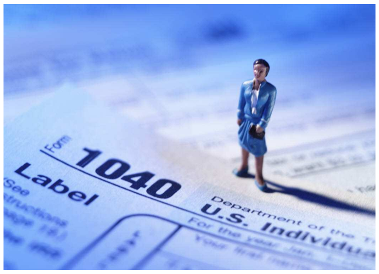
Catch-up contributions for those taxpayers over 50 have been extended. Please refer to our retirement account contribution limits table on page 3 (see * Age 50 catch-up).

The **savers credit** is now permanent. This is available to individuals who contribute to a pension plan, IRA, or Roth IRA and therefore are eligible for a credit of up to 50% with certain income limitations.

Charitable contributions documentation must be in the form of a bank record, cancelled checks, or written communication from the donee. This provision applies to any contribution of money regardless of amount.

Non-cash contributions documentation for an individual will be allowed if the clothing or household item is in used condition or better. If the amount is over $500 a qualified appraisal is needed.

Tax Increase Prevention and Reconciliation Act



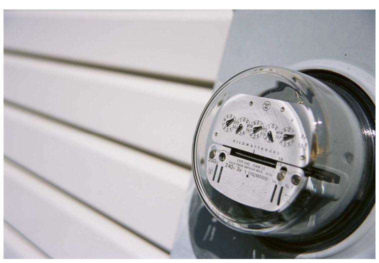
Section 179 - The $100,000 expense election and $400,000 phase-out ceiling (both adjusted for inflation) have been extended to tax years beginning before 2010. The 2006 limit is $108,000, which starts to phase out at $430,000.

Kiddie Tax age limit has been raised from under 14 to under 18 starting in the 2006 tax year. Therefore, if a child has not reached 18 before the close of the tax year they could be subject to kiddie tax rules. Children with over $1,700 of investment income (non-earned income) for 2006 will pay tax at their parent's rate.

Capital gains income and qualified dividend income rates of 5% and 15% max have been extended to include tax years through 2010.

AMT Relief - The exemption amount has increased slightly and is now at $62,550 for married and $42,500 for single. AMT affects mainly taxpayers who earn between $75,000 and $500,000 and who have large unreimbursed business expenses, live in a high tax state (such as Iowa), or have large number of personal exemptions.

Energy Credits

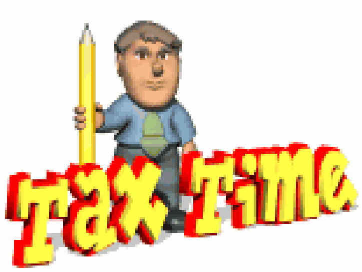


Credits of $250 to $3,400 are available for purchases of **fuel-efficient vehicles** including hybrids. (see www.gagecpa.com in our "information center" for more details)

Nonbusiness energy property credit - 10% of cost of qualified energy efficiency improvements in 2006 up to a $500 credit for all tax years ($200 for windows).

Credits of 30% are available for qualified investments in **solar units** for home furnaces or water heaters up to a maximum credit of $2,000.

Tax tidbits.. Other helpful pointers



* When investing in non-retirement mutual funds remember to track your reinvested dividends and capital gains as these "taxed" items will add to your basis therefore reducing your tax when the mutual fund is sold.

* Owners of worthless securities have a seven year statute of limitations to deduct these losses.

* The basis of stocks and other assets you inherit (not a gift) is the value at the date of the owners death.

* The child tax credit is $1,000 for children **under** age 17.

* The Hope Educational Credit is 100% of the first $1,100 and 1/2 the next $1,100 for tuition only. The maximum credit is now $1,650.

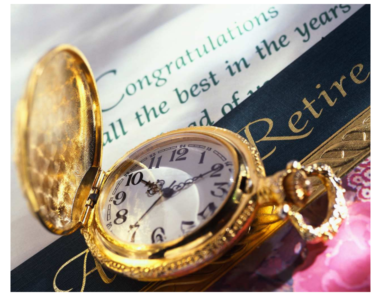
* The Lifetime Learning Credit is 20% of $10,000 in tuition for a maximum credit of $2,000 for all post-secondary education, graduate school, and courses (to gain or improve job skills).

* Remember - you can withdraw IRA money **penalty-free** from traditional IRA accounts to cover college expenses including room and board. However, you do pay taxes on distributions and it would increase income therefore hurting your eligibility for financial aid.

IRAs Versus Roth IRAs

Where should you put your retirement money is a question often asked. Many people struggle between the concept of a Traditional IRA, which is deductible currently and taxed upon distribution, and a Roth IRA, which is not deductible, however, tax free upon distribution. Several factors go into the mix to make this determination such as current tax bracket versus your future tax bracket. Will a current deduction be greater than the future tax-free Roth accumulation? Are you covered by a pension plan with your employer? If you are covered by an employer then your deductible IRA and Roth IRA could be limited based upon your income. Roth IRAs can be useful against future tax increases or if you are planning to be in a higher tax bracket when you retire. Traditional IRAs are more useful if your retirement tax bracket will be less than your current tax bracket.

Traditional IRAs require minimum distributions at age 70 1/2 while Roth IRAs do not have required minimum distributions. (See phase-outs at the bottom of the page)



Dollar-Cost Averaging *

When looking at long-term success in investments think about the *time* your in the market rather than *timing* in the market. With systematic investing of a consistent amount, the average cost of the shares purchased will tend to even out the highs and lows of the market. Remember, higher share prices are great for profits, however, in the long-term low prices now equals more shares purchased. Commitment to an investment schedule takes the guesswork out of investing and predicting the market is difficult even for professionals so consider this as good a time as any to start your investment.

"Commitment to an investment schedule takes the guesswork out of investing"

*Dollar-cost averaging does not assure a profit and does not protect against loss in declining markets. Such a plan involves continuous investment in securities regardless of the fluctuation of price levels of such securities. An investor should consider his or her financial ability to continue his or her purchases through periods of low price levels.

Retirement Account Contribution Limits

* Age 50 catch-up	2006		2007	
IRA	$4,000	$5,000*	$4,000	$5,000*
SIMPLE IRA	$10,000	$12,500*	Indexed to inflation	
401k / Solo 401k	$15,000	$20,000*	Indexed to inflation	

Phaseout with pension plan active participation	IRA	Roth IRA
Individual	$50,000 to $60,000	$95,000 to $110,000
Couple	$75,000 to $85,000	$150,000 to $160,000

IRS Exam Update

Documentation

- Mileage is best verified with a mileage log. IRS does allow a reconstruction of miles driven for business based upon a territory or other evidence.
- Partners who deduct partnership related expenses on their individual returns are allowed these expenses if the written partnership agreement requires these expenses to be paid by the partner without reimbursement.

- IRS is increasing sole-proprietorship audits due to unreported income issues.

Forms of Ownership

1. Joint tenancy - Upon owners death the survivor or survivors take ownership as each party has an undivided interest in the property.
2. Tenancy in Common - Upon owners death his/her interest in the property goes to their estate as each person owns a specific portion of the property.
3. Tenancy by the entirety - Applicable only to married couples, each spouse has undivided interest in the property. At the death of the one spouse, the decedent's right and title does not succeed and half the property goes to the estate. Upon sale, gain or loss would be split between the spouses.
4. Transfer-on-death (TOD) or payable-on-death (POD) - Assets in the account are passed directly to your named beneficiary without going through probate. This method is very simple to set up and very useful especially in smaller estates.

Tax Rate Schedule – 2006

	Single	Married Joint	Head of Household
10%	$0 to 7,550	$0 to 15,100	$0 to 10,750
15%	$7,551 to 30,650	$15,101 to 61,300	$10,751 to 41,050
25%	$30,651 to 74,200	$61,301 to 123,700	$41,051 to 106,000
28%	$74,201 to 154,800	$123,701 to 188,450	$106,001 to 171,650
33%	$154,801 to 336,550	$188,451 to 336,550	$171,651 to 336,550
35%	Over $336,550	Over $336,550	Over $336,550

Key Estate/Gift Figures

- Automatic exemption from estate tax is $2 million.
- Annual gift tax exclusion per person in 2006 is $12,000.

2006 Amounts

Standard Deductions	
Single	$5,150
Married Joint	$10,300
Head of Household	$7,550
Over 65 Single	+ 1,250
Over 65 Married	+ 1,000
Other	
Personal Exemption	$3,300
Mileage for 2006	
Business	.445
Medical and Moving	.180
Charity	.140