2007 Tax Season News

2006-2007

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Inside this issue:

Homeowners Credits	1
2006 Standard Deduction & Rates	1
Home Office Deduction Reminders	2
Standard Mileage Rates	2
Changes to Charitable Contributions	3
Telephone Excise Tax Refund	3
Win $100	4
Take $10 Off Your Next Fee	4

New Tax Credits Available to Homeowners as the Result of the Energy Tax Act of 2005

New tax credits for energy efficient improvements include a credit for buying an assortment of energy saving improvements and installing them in your principal residence. The credit depends on the type of improvement plus there is an overall life-time dollar limit for all improvements.

The credit per improvement is:

1. 10% of the cost of energy efficient building envelope components. These consist of: insulation materials or systems that reduce heat loss/gain; exterior windows (including skylights); exterior doors; and certain metal roofs with special coatings designed to reduce heat gain. You must be the first user of the equipment, which must be expected to last for at least five years.

2. Up to $300 tax credit for the cost of energy-efficient building property (electric heat pump water heater, electric heat pump; geothermal heat pump, central air conditioner and natural gas, propane, or oil water heater meeting specific energy efficiency standards).

3. Up to $150 credit for a natural gas, propane, or oil furnace or hot water boiler.

4. Up to $50 credit for an advanced main air circulating fan.

Your overall lifetime tax credit for all of the above improvements is $500, and only $200 of this credit amount may be for buying and installing energy-saving windows. The tax credits for energy efficient improvement will only be available for equipment placed in service in 2006 and 2007.

Look for an energy credit certificate on the qualifying purchase and put it with your tax paperwork to bring to your tax appointment.

2006 Standard Deduction, Exemptions and Tax Rates

The standard deduction for taxpayers who do not itemize deductions on Schedule A of Form 1040 is, in most cases, higher for 2006 than it was for 2005. 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 taxpayer.

The basic standard deduction amounts for 2006 are:

Head of household - $7,500

Married taxpayers filing jointly and qualifying widow(er)s—$10,300

Married taxpayers filing separately — $5,150

Single — $5,150

The personal exemption for 2006 is $3,300.

Individual income tax rates for 2006 range from 10% to 35%. The capital gains tax rates of 5% and 15% will remain in effect through 2010.

Home Office Deduction Reminders

Reprinted from IRS FS-2006-25, September 2006

Home Office Deduction: Basic Requirements

Generally, expenses related to the rent, purchase, maintenance and repair of a personal residence may not be deducted as a business expense. However, taxpayers who use a portion of their home for business purposes may be able to take a home office deduction if they meet certain requirements. Expenses that may be deducted include the business portion of real estate taxes, mortgage interest, rent, utilities, insurance, painting, repairs and depreciation. Note: The amount of depreciation deducted, or that could have been deducted, decreases the basis of your property.

In order to claim a deduction for that part of a home used for business, taxpayers must use that part of the home:

- Exclusively and regularly as their principal place of business, as a place to meet or deal with patients, clients or customers in the normal course of their business, or in connection with their trade or business where there is a separate structure not attached to the home; or

- On a regular basis for certain storage use such as inventory or product samples, as rental property, or as a home daycare facility.

In addition, taxpayers working as employees can claim this deduction only if the regular and exclusive business use of the home is for the convenience of their employer and the portion of the home is not rented by the employer.

"Exclusive use" means a specific area of the home is used only for trade or business. "Regular use" means the area is used regularly for trade or business. Incidental or occasional business use is not regular use.

Non-business profit-seeking endeavors such as investment activities do not qualify for a home office deduction, nor do not-for-profit activities such as hobbies.

Example: An attorney uses the den in his home to write legal briefs or prepare clients' tax returns. The family also uses the den for recreation. The den is not used exclusively in the attorney's profession, so a business deduction cannot be claimed for its use.

These requirements are discussed in greater detail in Publication 587, Business Use of Your Home.

Computing the Amount of Home Office Deduction

Generally, the amount of the deduction depends on the percentage of the home that is used for business. The deduction will be limited if gross income from the business is less than the total business expenses.

A taxpayer can use any reasonable method to compute business percentage, but the most common methods are to:

- Divide the area of the home used for business by the total area of the home, or

- Divide the number of rooms used for business by the total number of rooms in the home if all rooms in the home are about the same size.

Taxpayers may not deduct expenses for any portion of the year during which there was no business use of the home. If the gross income from business use of the home is less than the total business expenses, the deduction for certain expenses is limited. Publication 587 includes examples, worksheets and additional information on computing the allowable deduction.

Personal Expenses Are Not Business Expenses

It is important for taxpayers to realize that business expenses may be deducted only if they are ordinary and necessary for the particular type of business. Personal, family and living expenses are not deductible under any circumstances. A common error is to deduct expenses for a portion of the home that is not used regularly and exclusively for business.

Example: The basic local telephone service charge, including taxes, for the first telephone line into a home is a nondeductible personal expense. However, charges for business long-distance phone calls on that line, as well as the cost of a second line into a home used exclusively for business, are deductible business expenses.

The IRS encourages taxpayers to familiarize themselves with the requirements before taking a home office deduction and to keep complete and accurate records to substantiate deductions. According to IRS research, understated business income, including underreported receipts and overstated expenses, is an area where compliance is a concern. In addition to increasing outreach and education in these areas, the IRS will also be focusing enforcement efforts, including examinations, on these issues.

Standard Mileage Rates

For 2006, the allowable deductions for the standard mileage rate for the period is as follows:

- Business miles. The standard mileage rate for the cost of operating your car increases to 44.5 cents a mile for all business miles driven.

- Charitable services. The standard mileage rate allowed for use of your car when you use your car to provide charitable services to a charitable organization is 14 cents a mile.

- Medical reasons. The standard mileage rate allowed for use of your car for medical reasons is 18 cents a mile.

- Moving. The standard mileage rate for determining moving expenses is 18 cents a mile.

Changes to Charitable Contributions

The Pension Protection Act also made some changes to charitable giving, with some specific changes directed at closing loopholes perceived to exist. Those taxpayers age 70 ½ and older who are taking required minimum distributions from IRAs can opt to do so on a tax-free basis by rolling over the funds to charity. While no charitable contribution deduction will be allowed for the rollover, by avoiding the taxable impact of the distribution, the taxpayer's adjusted gross income will be reduced, thereby avoiding over twelve potentially negative results to the tax calculation on the tax return.

The ability to claim an itemized deduction for donations of items that are "not in good condition" has been restricted. For donations after August 17, 2006, no deduction can be claimed unless an item is in at least "good" used condition. Currently, cash donations of $250 or more must be substantiated with a written acknowledgment from the charity. Beginning in 2007, cash donations of any amount will need to be substantiated with either a canceled check, bank statement or a receipt from the charity.

Donated items valued at more than $500 in less than good-used condition must have a qualified appraisal to be deductible. A statement signed by a qualified appraiser must be attached to all returns with a charitable contribution of a piece of property valued at more than $5000.

A qualified appraiser is an appraiser who has 1) Earned an appraisal designation from a recognized professional organization or has otherwise met minimum education and experience requirements under IRS regs. 2) Regularly performs appraisals for compensation. 3) Meets any other such requirements as may be prescribed by IRS. 4) Demonstrates verifiable education and experience in valuing the type of property subject to the appraisal. 5) Hasn't been prohibited from practicing before the IRS at any time during the three-year period ending on the date of the appraisal. 6) If appraising buildings, must be State licensed or certified.

2006 Telephone Excise Tax Refund

The Internal Revenue Service has announced the standard amounts that most long-distance customers can use to calculate their telephone tax refund. These amounts, which range from $30 to $60, will enable taxpayers to request the telephone tax credit without having to review old phone bills.

In general, taxpayers who paid the long-distance telephone tax will get the credit on their 2006 federal income tax return. This includes individuals, businesses and nonprofit organizations.

For individual taxpayers the standard amounts are based on the total number of exemptions claimed on the 2006 federal income tax return. The standard amounts are:

1. $30 for a person filing a return with one exemption,
2. $40 for two exemptions,
3. $50 for three exemptions and
4. $60 for four or more exemptions.

In order to receive the standard amount, eligible taxpayers only need to fill out one additional line on their regular 2006 return. The IRS is creating a special Form 1040EZ-T for those individuals who are not required to file a regular return. In addition the IRS has issued Form 8913 Telephone Excise Tax Credit.

The standard amounts are based on actual telephone usage data, and the standard amount applicable to a family or other household reflects the long-distance phone tax paid by similarly sized families or households. Those who paid the long-distance tax or service billed after February 28, 2003 and before August 1, 2006 are eligible for a refund.

We'll automatically apply for this credit for all our income tax clients when we prepare the 2006 tax returns.

Barker Business Services

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Barker Business Services Inc. is owned and managed by Bruce A. Barker Sr. and Bruce A. Barker Jr.

Bruce Sr. graduated with a BS degree majoring in accounting from the University of Maine in 1962 and the University of Wisconsin Graduate School of Banking in 1976. Bruce was employed by the State of Maine for 14 years as a bank examiner and has also been the office manager for two General Motors dealerships prior to starting his own business in 1989. Initially the Business was known as Triple Check (a franchise) Tax and Business Services, but went fully independent as Barker Business Services in 2001. In 1998 Bruce passed the E.A. exam and is enrolled to practice before the IRS. With over 25 years accounting, banking, and tax preparation experience Bruce has been serving clients in the Greater Lincoln Maine area since 1976.

Bruce Jr. joined him in the fall of 2001 following a 20 year Air Force career. While assigned to K.I. Sawyer A.F.B., Michigan and Dyess A.F.B., Texas Bruce prepared income taxes for military members and retirees as an IRS VITA volunteer. He graduated with an associate's degree from the Community College of the Air Force in 2001. In December of 2002 Bruce passed the NASD investment products series 6 exam and offers mutual funds, IRAs and other financial services through Genworth Financial Securities Corp. as a Registered Representative.

Whether its tax time or tax planning, payroll or accounting services, or help with retirement or investment and savings plans call Barker Business Services today.

WIN

All *completed 2006 Income Tax return clients will be entered in our drawing for $100. Winner to be drawn at 5 pm on April 17, 2007.

Last Year's winner was Juanita Hunter of

Mattawamkeag.

Take $10 off your next fee for each **new tax client you refer.

* To be eligible for the $100 drawing the tax return must be completed by Barker Business Services and picked up by 4:30 pm April 17, 2007.

** New tax client must have their tax return completed by Barker Business Services. The return may be an extended return.

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