

Tax Letter

June 2006, Vol 9 - Misc. Tax Changes For 2006

Dear clients and friends:

Every year, our government makes some changes on tax matters according to certain living standard and inflation rate. This year, they even pass a new law to make it more complicated. To help you, we summarize some of the key changes in the following paragraphs.

1, Mileage Deduction

Business mileage has been changed to 44.5¢ per mile (Reduced from 48.5¢ from Sep. 05 to Dec. 05). Also, the 44.5¢ per mile has 17¢ per mile depreciation allowance built-in. Medical Mileage is 18¢ per mile. Charitable Mileage is 14¢ per mile.

2, Retirement Plan Limitation

For 2006, the defined benefit plan (traditional pension) maximum annual benefit increased from \$170,000 in 2005 to \$175,000 in 2006. For defined contribution such as 401K, SEP IRA, the overall contribution is \$44,000, and the annual compensation limit for contribution purpose is \$220,000.

3, Other Inflation Adjusted Amount Affecting Individual and Small Business For 2006

(a) Standard deduction for individual tax payer is \$5,150, for married file jointly is \$10,300, and for head of house hold is \$7,550. The personal exemption for 2006 is \$3,300 per person. The additional standard deduction for senior (65 or older) and/or for blindness remain the same as 2005.

(b) The itemized deduction phase out will begin at \$75,250 AGI for married file separately and at \$150,500 AGI for single or married file jointly in 2006. AGI is the acronym for Adjusted Gross Income.

(c) Section 179 deduction limit increased from \$105,000 to \$108,000 for 2006. The total property acquisition allowance for Section 179 purpose will also be increased to \$430,000 for 2006 from \$420,000 for 2005. Section 179 deduction is a special write-off provision for asset depreciation.

4, Hybrid Auto Credit

In 2006, a Hybrid Auto Credit replaces the Hybrid Auto Deduction which ended in 2005. This is a tax credit, not a deduction, and can be as high as \$3,400 per qualified Hybrid Vehicle placed in service on or before December 31, 2009. There is a credit phase-out threshold. This threshold is measured by **Manufacturer, not by Model**. The full amount of credit will be available only up to the end of the following quarter in which the manufacturer records its 60,000th sales of all hybrid and “advanced lean-burn” vehicles in the U.S. For the number of qualified vehicles sold in U.S., it is required to count both Hybrid and “Advance Lean-Burn” vehicles. For example, if the 60,000th hybrid and/or “advanced lean-burn” vehicle was sold in the 2nd quarter 2006 (April to June), then, beginning October 1, 2006, the credit will be reduced to 50% for two calendar quarters. Beginning April 1, 2007, the credit will further be reduced to 25% of the full amount for 2 more calendar quarters. Thereafter, no credit will be allowed for that manufacturer.

5, Tax Increase Prevention and Reconciliation Act (TIPRA)

On May 11, 2006, Congress (both houses) passed a new 2006 tax law known as TIPRA. Among the provisions of TIPRA, the followings are the ones that affect nearly all of us:

- (a) AMT exemptions for 2006 are increased for married filing jointly to \$62,500 from \$58,000; and single or HOH from \$40,250 to \$42,500. However, these increases are made only for 2006. By 2007, they will be reduced back to \$45,000 and \$33,750 respectively.
- (b) Long Term capital gain and qualified dividend 15% maximum tax rate will be extended to end of 2010.
- (c) Section 179 special first year \$100,000 “write-off” will be extended to 2009. For 2006, this special “write-off” amount will be indexed for inflation to \$108,000. There will be a dollar-for-dollar reduction from the special \$108,000 write-off for asset acquisition above \$430,000 in 2006.
- (d) The age for KIDDIE TAX will be increased from under 14 to under 18. For 2006, if a child is under 18 by 12/31/2006, any unearned income above \$1,700 will be taxed a parents’ maximum tax rate.
- (e) Other changes, although not part of TIPRA, are expected to come in the near future. Among these changes are (i) extension of “sales & use” tax deduction, (ii) teacher’s classroom expenses deduction, and (iii) certain R&D provisions.

Any question, please give us a call at 415-381-0681, or visit our website at www.chochan.com.

Sincerely,

Cho F. Chan, CPA, Inc.

