SEPTEMBER 2006

MURPHY FINANCIAL SERVICES, INC.

Tax & Financial Guide

Business and Personal ACCOUNTING, TAX, SOFTWARE & FINANCIAL PLANNING SERVICES

New Tax Cut Law Enacted

Well, another tax law was passed. It seems like Congress spends as much time coming up with names and initials for the laws as they do developing the actual content. The latest law is a $70 billion tax cut package called the Tax Increase Prevention Reconciliation Act.

TIPRA increases the Alternative Minimum Tax exemption, which will make fewer taxpayers subject to AMT. It still is not enough but it is supposed to protect an additional 15 million taxpayers, many of them middle-class, from the burden of AMT.

TIPRA extends the tax treatment for capital gains and dividends through December 31, 2010. It also extends tax provisions that were scheduled to expire soon. Since this bill was a compromise, there will probably be a "trailer" bill added to TIPRA.

Lender Pays Property Taxes Late

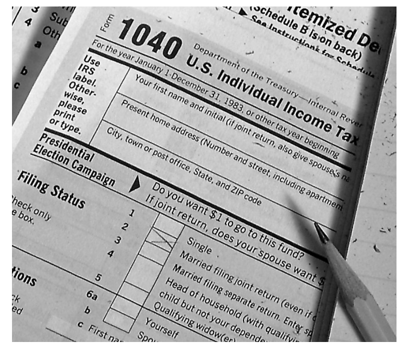
Some 2,600 Milwaukee area residents who hold home mortgages with Wells Fargo Home Mortgage Company were not happy when they discovered that their 2005 real estate taxes were not paid by December 31, 2005. The taxpayers could not take a deduction for their property taxes.

The IRS, asked to allow the property owners to take a deduction for the taxes even though they were paid after year end, has no legal authority to give taxpayers any compensation for the Wells Fargo error. Wells Fargo has agreed to do right by their customers.

If you have a Wells Fargo Home Mortgage and your taxes were paid after December 31, 2005, please contact our office.

Office Closed

Murphy Financial Services will be closed Friday, September 8, 2006. We will be in Chicago doing the Breast Cancer 3-day walk. We still need your donations and have until the end of September to raise the funds needed to reach our goal. We will accept cash, checks, or you can make online donations. Call us for additional information.



Tax Laws About to Change

Congress is currently considering several tax law changes that are likely to pass.

- The auto standard mileage rate will be raised midyear as it was last year after Hurricane Katrina. The increase is expected because the spike in gasoline prices has lasted longer than the IRS anticipated.
- Unlicensed tax preparers will have to pass a test and renew their eligibility every three years. CPAs, lawyers, and Enrolled Agents will not be subject to this new law because there are already rules governing them. This law would keep taxpayers from being mislead by incompetent tax preparers.
- The Internal Revenue Service is examining fringe benefits.
- The social security wage base will be lower than expected. It is projected to be $98,100.
- A bill that Congress ok'd includes a limit on state taxes due on deferred pay collected by retired partners who are nonresidents.
- Damages received for physical injury or sickness aren't subject to tax unless the award covers medical expenses that were previously deducted. Punitive damages are taxable.

Third quarter tax estimates are due September 15, 2006. If you want us to prepare them for you, we need your income, deductions and withholding amounts in our office by September 11, 2006.

Please call our office to discuss any of the items in this newsletter that may pertain to you.

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Murphy Financial Services, Inc.
web site is at www.murphyEA.com
If you misplace your newsletters, or your information sheets that I have given you (i.e. contributions, enrolled agents, etc.), you will be able to find them on the web site.

Please note that our e-mail address is: info@murphyea.com.

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information only to IRS or state authorities and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.

IRS Adds Draconian Requirements to Offer in Compromise

The Internal Revenue Service has substantially changed its requirements for Offer in Compromise proposals by taxpayers to reduce taxes owed.

Originally, Offer in Compromise rules required applicants to fill out multiple forms and submit a host of financial records including income, expense, banking, loans, etc. for the prior three months. Taxpayers who thought the burdensome expenditure of time and expense worthwhile, sent the IRS a huge packet of paperwork hoping for a reduction in taxes due.

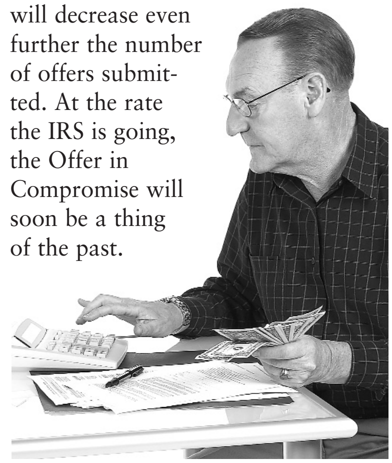
Then the IRS added a $150 filing fee without which they would not even look at your volumes of paperwork

Now, the IRS has decreed that a taxpayer submitting an Offer in Compromise must provide their packet of paperwork, their $150 filing fee, and a non-refundable down payment of 20% of the taxes due if they will be paid in five or fewer installments. If the taxpayers plan to make more than five installments, they must include the first payment, also non-refundable, with the offer.

If the offer is not accepted, the payment will be credited to the outstanding tax balance.

In the past, taxpayers would make arrangements to borrow the money if the offer was accepted. Now, they will need to be able to borrow the tax liability without knowing whether or not the amount due will be reduced. That can make it much more difficult to secure financing. Most people would have borrowed the money in the first place, if possible, to prevent tax liabilities from doubling or tripling due to interest and penalties.

In 2002, there were 124,000 offers submitted and 29,000 accepted. In 2005, 74,000 offers were submitted with 19,000 accepted. The onerous new terms will decrease even further the number of offers submitted. At the rate the IRS is going, the Offer in Compromise will soon be a thing of the past.



Tax Notes

Still Time To Save. We are still waiting for many clients to get their 2005 tax information to our office. We have already passed the August 7, 2006 deadline (to only pay an extra 25%). The September 7 deadline, for which you will pay an extra 50%, is fast approaching. Make sure you get your tax information to our office immediately.

Convenience. Effective for 2006 tax returns, you will be able to split direct deposit returns into three different accounts, including IRAs. When asked why they were willing to do this, the IRS replied, "because taxpayers asked." Isn't it nice they are so accommodating?

IRS Finally Gives In. After losing 5 federal appeals, the IRS has thrown in the towel and will cease collecting federal excise tax on long distance telephone service. In 1898, a 3% tax was established as a luxury tax on wealthy Americans. You will be able to get a refund of the 3% tax you paid on long distance calls since Feb. 28, 2003.

The IRS is going to create a "simplified method" for taxpayers to claim their refunds. Based on the IRS' history, I can't wait to see how "simple" this claim will be.

Oops. The IRS denied between 45,000 and 60,000 requests for filing extensions. Staffers stamped the wrong date on extensions mailed in. Electronically filed extensions are safe from these mistakes.

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