

Tax & Financial Guide

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

Important Tax Considerations

Tax-Free Home Sale Gains

People seem to misunderstand tax laws governing sales of a personal residence. The main criterion is that you lived in the home for two of the past five years. If so, you can claim a \$250,000 tax-free gain on the sale of your home (\$500,000 if you are married filing jointly). If you did not live in the home for two of the past five years, the taxable gain is prorated.

There are exceptions under which you must pay the taxes on the gain. The exceptions are: involuntary conversion of the home, damage from natural or man-made disasters or acts of terrorism, death, loss of employment entitling the individual to unemployment compensation, change in employment status resulting in the taxpayer's inability to pay housing costs and living expenses, divorce or legal separation, multiple births from a single pregnancy.

Changes That Affect Taxes

There are many events that can affect your tax situation. Make sure you contact our office so we can plan accordingly if you are: getting married or divorced, starting or selling a business, retiring, buying or selling a rental property, or taking a distribution from an IRA or pension.

Kiddie Tax Tips

As mentioned in our last issue, starting in 2006, children up to the age of 18 with over \$1700 in unearned income were taxed at their parent's tax rate. Called the kiddie tax, if this applies to your child(ren), they may be better off

if you shifted some or all of their investments to a tax-deferred or tax-free fund. Another option is to put money for your child's education into a Section 529 plan. It provides tax-free accumulation and tax-free distributions as long as the funds are used for qualified education expenses. Plan earnings are exempt from the kiddie tax.

Credits Still Available

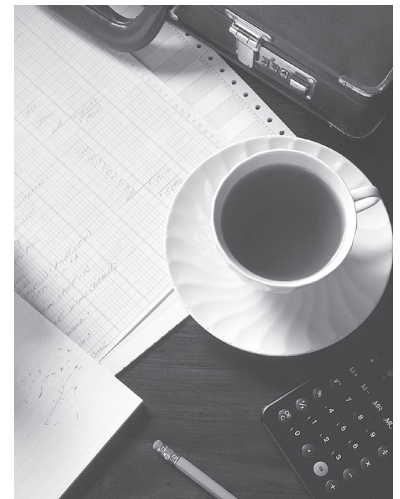
Taxpayers can still benefit from several credits (some also mentioned in our last issue): Vehicle tax credits for buying hybrid, advanced lean-burn technology, fuel-cell, and alternative-fuel vehicles; energy-efficiency credits for buying insulation, exterior windows and doors, certain furnaces and hot water boilers, certain air-circulating fans, central air conditioning, heat pumps, and certain water heaters. Homeowners can reduce their tax liability for purchases made in 2006 and 2007.

The new energy law offers owners of commercial buildings deductions for upgrading existing systems and constructing energy-efficient buildings. The deduction is generally limited to \$1.80 per square foot of the building.

Our questionnaire for 2006 taxes did not include all these items. Call us if you may be entitled to these credits or if you need additional information.

Extension Timing

If we prepared an extension for you on April 17, 2007, it is time to get all your 2006 information to our office. If you owe taxes you will be charged interest from April 17 until you pay the tax. The sooner



you file, the less interest you pay. If you have a refund coming, the faster you file the sooner you can be spending your money. In the meantime, you are giving the government an interest-free loan.

Contribution Deductions

Remember to get receipts for ALL your charitable contributions in 2007. You can't take deductions for donations unless you have receipts. Many churches have put envelopes in their pews to make it easier for you to get cash donation receipts. Churches that use these extra envelopes see no reduction in the amount of contributions received. If your church has not started this, tell them people seem willing to continue making the same donations because they know they will receive receipts.

Make sure you also get receipts for any non-cash contributions, e.g. goodwill, disabled vets, salvation army, etc. The items you give are

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Second quarter tax estimates are due June 15, 2007. If you want us to prepare them for you, we need your income, deductions and withholding amounts in our office by June 11, 2007.

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



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Internet Benefits

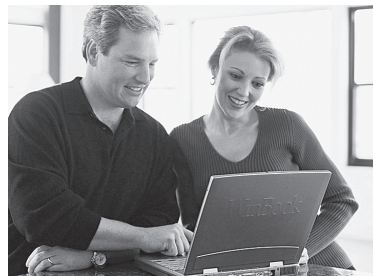
Savings. If you want to earn more on your savings, check out online savings accounts. Because these firms don't have the overhead banks have, they can afford to pay a higher rate of interest. Some online savings accounts can be found at HSBCDirect.com, EmigrantDirect.com, and IngDirect.com.

Textbooks. If you are purchasing books for your college or some high school classes, sign up to buy and sell your books at www.bigwords.com. Since you can't take a tax deduction for textbooks like you can for college tuition, make sure you pay the least for them. Students are saving a lot on their textbooks even after paying for shipping. You can also list your books for sale on the internet. It's easier to sell because you are advertising your books to a much larger, nationwide market.

Insurance. Is it time to renew your insurance? Go online and do a search of: compare insurance.

You will find many internet sites where you can compare auto, health, traveler's, etc. insurance. Even if you don't want to buy on the internet, this will tell you how much you should be paying for your insurance. If you prefer to deal with your independent insurance agents, you can tell them what rates you found online. They may be able to match your quotes or give you some advice. Make sure you are comparing the same coverage. Comparing apples and oranges is worthless.

Bonds. If you own savings bonds, make sure you know when they reach maturity. Some bonds stop earning interest when they reach



maturity. Go to www.treasurydirect.gov/BC/SBCPrice, enter the bond series, denomination, serial number, and date of issue, and the calculator will give you the bond's current value. You will then know if you should keep the bond until full maturity value or if it has already reached maturity.

Tax Considerations

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supposed to be in "at minimum, good condition." Make a list of what you give and put a value on the items you donate. It is much harder to remember what you gave months ago when you are accumulating your tax records.

If you give non-perishable foods to food pantries or your church or place of employment, keep your grocery store receipt and mark the items you donated. Many organizations – like the scouts during their recent food collection – give thank you notes for donations. Make sure you keep those receipts.

get your 2007 tax deduction. We appreciate all the support you provide.

We Can Help... If you know of anyone who has tax problems, needs prior year tax returns prepared, is starting a business, is looking for an accountant, needs payroll prepared, or needs help with QuickBooks, please let them know about Murphy Financial Services. We would love to help make their lives less stressful.

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.

Also Of Note

Center St. Office... There is still space for rent in our office suite at 7200 W. Center St. Rent includes one office with a desk, as well as use of DSL, fax machine, and copier. If you are tired of working from home and would like to move your one-person business to a separate location, this is ideal for you. Call us for more information.

Since clients had an overwhelming interest in using the office on Center St. for drop-off and pick-up

of tax records, we will keep it open for another year. We are only there during the tax season. If you need to see us outside of tax season, either come to the Bluemound office or make arrangements to meet at Center St.

Support Needed... Kamala and Sharon will be walking another 60 miles for Breast Cancer Research in San Diego in November. You can drop off or mail in donations in case you want to help. We will make sure you get receipts for all donations to



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