



Ten Steps to Jumpstart your 2006 Tax Year



You can, and sometimes should, wait until the last minute to take advantage of some tax breaks, for example, boosting itemized deductions through year-end payments. However, some tax breaks must be set up early and their benefits are proportionate to the amount of time remaining.

Tax planning is complex. Fortunately, some planning can be reduced to fairly basic steps. Keep in mind that you should customize your tax strategy to maximize savings and avoid costly mistakes.

Here are 10 important considerations to start saving you money in 2006:

1. Tune up your recordkeeping.
2. Defer income from the start.
3. Take advantage of lower rates on dividends and capital gains.
4. Anticipate major life changes.
5. Learn from your mistakes.
6. Consider a Roth 401(k).
7. Plan for new energy credits.
8. Adjust for "qualifying child" status.
9. Review changes made by the 2005 hurricane disaster relief acts.
10. Keep your eye on Congress.

If you need assistance in taking any one of the 10 steps to maximize your 2006 tax savings, please do not hesitate to call our office at 781-356-2000.

Massachusetts Personal Exemptions Increased for 2006



Effective January 1, 2006, the new personal exemption amounts applicable to the Massachusetts personal income tax are as follows:

- \$3,850 (previously \$3,575) for a single person or a married person filing a separate return;
- \$5,950 (previously \$5,525) for a head of household filer;
- \$7,700 (previously \$7,150) for a married couple filing a joint return.

Updated personal income tax withholding tables are published in the updated Circular M and are available on the Massachusetts Department of Revenue website www.mass.gov/dor.

Applicable Federal Rates (AFR)

February 2006



	Short Term	Mid Term	Long Term
<i>Annual</i>	4.39%	4.40%	4.61%
<i>Semi annual</i>	4.34%	4.35%	4.56%
<i>Quarterly</i>	4.32%	4.33%	4.53%
<i>Monthly</i>	4.30%	4.31%	4.52%
Adjusted AFR for Original Issue Discount (Code Sec. 1288(b))	3.20%	3.53%	4.26%
Code Sec. 382 Adjusted Federal Long Term Rate			4.26%
<i>Long Term Tax exempt rate</i>			4.40%
Low income Housing Credit (Code Sec. 42(b)(2))			
<i>70% present value</i>			8.05%
<i>30% present value</i>			3.45%
Valuation Tables (Code Sec. 7520)			5.20%
Deemed Rate of Return for Transfers to Pooled Income Funds Code Sec. 642(c)(5)			3.80%

Sale of Residence



Taxpayers who sell their personal residence for a gain but who do not meet the two-year ownership and use test of Section 121 or use the gain exclusion more than once in a two-year period may still qualify for a reduced gain exclusion if the primary reason for the sale is:

- A change in place of employment
- Health, or
- Unforeseen circumstances

An unforeseen circumstance is the occurrence of an event that the taxpayer does not anticipate before purchasing and occupying the residence. In addition to the specific safe harbor events such as death or divorce that qualify, the IRS can rule on whether a specific fact situation that a taxpayer encounters qualifies as an unforeseen circumstance.

The IRS recently issued three letter rulings stating that the taxpayers who encountered the following situations and sold their homes qualified for the reduced gain exclusion because of unforeseen circumstances:

- After moving into their new home, the taxpayers became aware of various criminal activities in the neighborhood and their son was assaulted and threatened. (*Ltr. Rul. 200601009*)
- Taxpayer's new spouse and her children moved into his home. To attend the same school as before the move, the children had to provide their own transportation. The family eventually moved into a new home located in the children's school district. The first home was temporarily rented based on the taxpayer's belief they would return to it some day, but it was eventually sold when another child was born, making it too small for the larger family. (*Ltr. Rul. 200601022*)

- After retirement, taxpayers moved to a new home in a retirement community. Subsequently, their daughter lost her job and divorced. Because of the daughter's changed situation, she and her child would need to live with the taxpayer, but could not because of age restrictions imposed by the retirement community. Therefore, taxpayers sold their home and purchased a new home where their daughter and grandchild could live with them while the daughter searches for full-time employment. (*Ltr. Rul. 200601023*)

Note: For more information on excluding gain on the sale of a residence, including the reduced exclusion rules, please call our office at 781-356-2000.

Guidance Provided for Companies Doing Business in Connecticut



The Connecticut Department of Revenue Services has provided updated guidance regarding a number of Connecticut taxes applicable to companies doing business in the state. A brief description and discussion of the following taxes is included within the publication; corporation franchise tax, corporation business tax, business entity tax, personal income tax, withholding, property tax, sales and use tax, motor vehicle fuels tax, motor carrier road tax, motor vehicle registration fee, unemployment compensation tax, and petroleum products gross earnings tax.

Form REG-1, Business Taxes Registration Application, should be used to register a business for those taxes administered by the Department. This publication modified and superseded *Informational Publication 2003(34)*, Business Taxes, which may no longer be relied upon. Taxpayers with any questions may contact the Department's Taxpayer Services Division at (860) 297-5962 (from anywhere) or 800-382-9463 (in-state).

Preventing Identity Theft - Assessing Your Risk (Part 1 of 3)



Identity theft is now one of the nation's fastest-growing crimes and no one can be completely protected. However there are steps you can take to reduce your risks. KAF recently hosted an informative seminar on identity theft. This is the first of a three part series based on what we learned at the seminar. We, at KAF, hope this information will assess your risk and help to protect you.

To protect yourself, you first need to assess where you are at risk. You could be at risk and not even be aware of it. If you answer "YES" to any of the following questions you are at risk of having your identity stolen.

1. Do you throw bank statements, credit card offers, and receipts in the trash without shredding them? How about those daily credit card offers, many of us just rip them in half and throw them in the trash.
2. Do you send outgoing mail from home?
3. Do you provide your Social Security number without asking questions about how this information will be safeguarded?
4. Do you still have your Social Security number as your Massachusetts Drivers License number?
5. Do you carry your Social Security card in your wallet?
6. Are you required to use your Social Security number as an employee ID? How about as a student ID? Is your Social Security Number used as your member number on any of your benefit cards?
7. Do you have a "firewall" in place on your home and business computers?

If you are at risk, you need to start changing some behaviors so that you are not the next victim. One of the first things you should do is buy a shredder for your "junk" mail and other items that have your information ingrained in them. Anything that has a bar code on them has your information and can be used by others. Donna Sinor from Columbus Life, the guest speaker at our Identity Theft seminar, recommended buying a diamond cut or cross cut shredder instead of a straight cut shredder. She emphasized her point by mentioning that a group of 4th graders put together the pieces from a straight cut shredder in less than 20 minutes, and read the information on the paper to the class.

Were do thieves get your information from?

- Trash
- Loan & Credit applications
- Wallet and purse
- Files at hospital, bank, school and business
- Mail, email, telephone
- Hacking into a computer
- Public conversations
- Removing credit card statements form the house
- Changing address at post office and redirecting mail

Next month we will cover the 9 high risk areas of identity theft and give you some tips to protect yourself. The last part of this series will go over warning signs that you have become a victim and how to clear your name once your identity is stolen.

Want more information on identity theft? Please contact KAF at 781-356-2000. Or if you would like KAF to conduct a seminar for your associates or employees regarding identity theft please give us a call.

Stay Safe!

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