

It has been a busy year for us at Epstein Group. We finally put the long-awaited "Fictional Accountant's Hall of Fame" on our website, we received an award, and we were featured in an article by City of Portland - Office of Sustainable Development. We've joined the Sustainable Business Network of Portland and we've also managed to prepare hundreds of tax returns.

This is the time of year when we talk about things to do to help you prepare for April 15th. Let's look at some of the things you can do now to help you to be better prepared for next April.

The first and most important tool is knowledge. If you have an idea of what changes may be ahead in your financial situation, think about how those changes will affect you and what you may be able to do to improve your tax outcome. Many of our clients have us prepare tax projections for them, which enables us to predict the amount of taxes that will be due next spring and to make suggestions to improve their situation. This isn't for everyone: there is a cost to preparing a projection, and not all tax changes necessitate one. If you're not sure whether you need a projection, give us a call and we'll figure it out together.

Here are some tips for individuals and small businesses with help from our friends at PPC Tax Research.

For 2006, most businesses can deduct up to \$108,000 of equipment. This is a powerful benefit for business owners, and it can be claimed for property placed in service anytime during the tax year, including the last day. So, if you're planning to purchase business assets in the near future, you might want to get it done before the end of the year.

Defer Income and Accelerate Deductions. This tried-and-true year-end strategy for reducing current year taxable income never gets old. In most cases, it's wise to postpone income into 2007 or accelerate deductions from future years into 2006. Cash-basis proprietors should consider delaying year-end billings or accelerating business expenditures. Year-end bonuses should be deferred if practical.

If you itemize your deductions, consider paying charitable donations, state and local taxes, and medical expenses in 2006 rather than 2007, to the extent possible. However, if you are subject to the dreaded alternative minimum tax (AMT), prepaying state taxes and property tax won't help you in 2006.

Since we're discussing AMT, there are rumors that Congress will finally kill off this beast. The trade-off is rumored to be tax breaks for S Corporations. Is it worth losing the break on Social Security taxes that S Corporations can bring in exchange for losing AMT? Some people think so. We'll be keeping an eye on this debate and will let you know when Congress acts on this.

Use your capital losses. If you have losses in your portfolio, you can deduct \$3,000 against ordinary income. If you have capital gains, you can offset all of the gains plus \$3,000 with losses.

Investigate Health Savings Accounts (HSAs). These are great for people who find that they have some medical expenses but never meet their deductible or have enough medical expenses to be able to deduct them. Restrictions apply; your insurance plan and deductible must be compatible with the HSA regulations in order to be eligible.

New Stuff

Congress has added a few things to the tax code in 2006:

- Contributions to charity directly from IRAs if your over 70 1/2
- Residential energy credits for furnaces, windows, insulation
- Hybrid car tax credits (beware of reduced credits for Toyota/Lexus)
- Increases in phase-outs for IRA contributions (that translates to: more people will be allowed to put money in IRAs this year)

There are some significant tax increases too. Here are a few of them:

- Children under 18 will be taxed at their parent's tax rate (the maximum age was 14 a few months ago) retroactive to January 2006.
- Deductions for donated clothing and household goods must be in "good used" condition or better. It will be interesting to see how they'll enforce this.

The best tax planning idea is to manage your income. Through many of the items discussed here, you can significantly reduce your Adjusted Gross Income (AGI). By reducing AGI, you may be able to increase your child tax credit, get full deductions for itemized deductions and exemptions, reduce or eliminate AMT, deduct education and student loans... the list goes on forever. Know what your phase out ranges are (on our website) and ask questions. A tax projection may be right for you.

Finally, many of you ask about automobile deductions. IRS has recently put a pretty good summary on their web site. We put a link to that summary on the email containing the link to this newsletter.

Happy planning