



4th Quarter 2006

SPECIAL TAX ISSUE

30 Smart Ways to Save on Taxes Now and Next Year!

We're always looking for ways to help you save money. That's why we compiled 30 tax-saving tips just in time to help you reduce your 2006 tax burden and begin your 2007 planning. The following list includes ideas for individuals and small-business owners, so be sure to read the entire list (#27 is our favorite for self employed clients). If you have questions about how these tips may apply to your situation, please call us as soon as possible—especially if you're taking steps this year to minimize your 2006 tax burden.

#1

Earn tax credits for energy-saving home improvements. Under the Energy Tax Incentives Act of 2005, you may qualify for tax credits by making certain home improvements. Some improvements need to be completed this year, but many don't. Check out www.energystar.gov for all the details.

#2

Claim up to \$60 for the long-distance phone tax. In 2006, you can claim a refund on a "now-defunct" Federal long-distance phone tax you paid between Feb. 28, 2003 and Aug. 1, 2006. To save time, claim the IRS flat refund tied to the number of exemptions on your return: \$30 for one exemption, \$40 for two, \$50 for three and \$60 for four or more. Or, go through 41 months of old phone bills and claim the exact amount of tax you paid, if it garners a higher refund. Businesses claiming this refund must itemize from phone bills.

#3

Find out if you qualify for the hybrid automobile deduction. Depending on when you bought your hybrid car, you may be eligible for a hybrid vehicle tax credit as high as \$3,400 under the Energy Policy Act of 2005. There's a limit on the number of hybrid cars that qualify for this tax credit. Check with the IRS, your car company, or us.

#4

Take advantage of your employer's flexible spending account. Increase the amount you set aside for next year in your employer's health flexible spending account if you set aside too little for this year. You can get tax-free reimbursements for all kinds of medical expenses, including

Important Dates for Tax Year 2006

File 1099s by 1/31/2007. A 1099 form must be filed if:

- Your business paid \$600 or more to individual vendors for non-employee services
- Your business paid a landlord rent totaling \$600 or more
- You made payments to attorneys

Send W-2 Forms and Year-End Payroll Statements to Employees by 1/31/2007. Each of your employees (and the IRS) must receive a year-end statement of their total wages and deductions. This includes payments made for personal use of a business car, shareholders' health insurance premiums (if you're an S Corporation), etc. Your payroll service can prepare these statements for you. If you don't use a payroll service, we can help.

Report Sales and Use Tax. If your business purchased business items in tax-free New Hampshire or through a catalog, you're required to report these purchases on the Maine Sales & Use Tax Form. Call us for more details.

OPTIONAL: Pre-pay part of your tax prep fee for a 2006 deduction. Honeck•O'Toole will mail you a 75% pre-bill of your estimated 2006 tax preparation fee. If you pay this before December 31, 2006, you may be able to deduct it as a business expense or miscellaneous deduction on your 2006 tax return. ■

It's not too late for Honeck•O'Toole to help you with your 2006 year-end tax planning.

Call us immediately if you had major financial transactions, significant changes in your income, or just have questions about your situation.



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www.honeckotoole.com

◀ 30 SMART WAYS continued

over-the-counter medications. Also, new rules allow your plan to permit a grace period after year-end for using remaining amounts.

#5

Make the most of your 401(k) employer match!

Nothing will build your retirement fund faster than the employer-match contribution to your tax-free 401(k). Many companies offer 50 cents for every dollar you contribute, up to 6% of your salary. Where else can you get that kind of return on your investment? We encourage you to put at LEAST 6% of your salary in a 401(k) to get all the “free money” you can.

#6

Make a deductible IRA contribution, even if you don't work.

If your spouse is the breadwinner while you manage the home front, you can make a deductible IRA contribution. Even if your spouse is covered by an employer-provided retirement plan, you can still make a fully deductible IRA contribution as long as your joint Adjusted Gross Income doesn't exceed \$150,000.

#7

Take a medical expense deduction for certain home improvements.

A medical expense deduction may be claimed if you make a medically necessary home improvement, such as a lift or elevator for a handicapped person, or a therapy spa for an arthritis sufferer.

#8

Defer your bonus until 2007. If you usually get an annual bonus check in December, ask your employer to provide it in 2007 so you can reduce your taxable income for 2006.

#9

Pay next year's property taxes this year. If your tax bracket will be higher this year than next, pay your 2007 property taxes this year to increase your allowable deductions for this year.

#10

Shift your income or assets to other family members and save on gift and estate taxes. Shelter your gifts via the annual gift tax exclusion before the end of the year. In 2006, you can give \$12,000 per gift to an unlimited number of individuals.

#11

Carefully consider the timing of changes in your marital status. If you're contemplating marriage or divorce, consider how marriage penalties could affect you. Marriage penalty relief has been extended for the 15% tax bracket and the standard deduction, but other marriage penalties remain.

#12

Keep an eye on tax liability thresholds. Many tax breaks are lost if you exceed a certain income level or Adjusted Gross Income (AGI.) Reducing your AGI to just below the maximums could make a big difference. Please give us a call for assistance!

#13

Get a tax-free gain from a home used as rental property. If you've been renting a property that you're going to sell, up to \$250,000 of gain from the sale could be tax-free if you owned and used the property as your principal residence for at least two of the five years preceding the sale. This is tricky, so please contact us to discuss your situation.

#14

Build college savings tax-free via a Section 529

Account. Maine's Finance Authority of Maine (FAME) offers the NextGen College Investing Plan. This Plan's earnings grow federal income-tax-deferred and are currently tax-free as long as the withdrawals are used for qualified higher-education expenses.

www.famemaine.com/nextgen.asp

#15

Consider NOT claiming a dependency deduction for a child in college.

If you pay college tuition for your child and your income is too high for you to claim education credits, you may not benefit from the dependency deduction. Instead, if your child has enough taxable income to make use of most or all of the credit, your child can claim it on his or her return, which may be a greater value.

#16

Choose an education credit or the higher education

deduction. If you paid college expenses in 2006, you may be able to choose between taking an education credit (Hope or Lifetime Learning) or the deduction for higher education expenses. The deduction is greater if your marginal tax bracket is higher, while the credit value is the same regardless of your bracket; and different income cut-off points apply to the credits and deduction.

#17

Claim a moving expense deduction due to your

spouse's job. Job-related moving expenses are deductions that can be claimed even by non-itemizers. Even if you don't personally qualify, you can claim the write-off if your spouse does and you file jointly.

#18

Minimize taxes on your capital gains; maximize tax

benefits from your losses. Timing is everything. If you have capital gains or losses from sales of stock or other capital assets, or if your stock or other capital assets are ripe for sale, we can help you coordinate the timing of your gains and losses for the greatest tax advantage.

#19

Bundle your miscellaneous expenses. You could possibly save taxes this year and next by applying a “bunching strategy” to miscellaneous itemized deductions. For example, consider extending professional journal subscriptions, paying union or professional dues and paying tuition for job-related courses, etc.

#20

Write off tutoring costs as a business-education expense. If you hire a consultant to teach you a skill that will

◀ 30 SMART WAYS continued

enhance your work, the cost is deductible as an education expense on Schedule A, Form 1040 as a miscellaneous itemized deduction, to the extent that your cumulative total exceeds 2% of your AGI.

#21

Take a deduction for heavy sport utility vehicles (SUVs) bought for business use. You may be in luck if you bought an SUV for business use, because a different set of tax rules apply to trucks or vans, including heavy SUVs.

#22

Give yourself a bigger expense-deduction this year. Consider using a credit card to prepay expenses that can generate business deductions for this year.

#23

Beef up your business equipment purchases before December 31. Consider making business equipment expenditures that qualify for the Section 179 deduction up to the 2006 \$108,000 expensing cap.

#24

Use employee pay to help you write off business equipment. If this is a startup year for you and there's no money coming in, there's no business equipment expensing for this year. However, your salary as an employee counts as taxable income for the expensing limit.

#25

Delay earned income by sending this year's bills next year. If your clients don't mind, send your December bills in January so you don't increase your 2006 taxable income any further.

#26

Employers: review health insurance and other benefits to take advantage of tax-favored plans (HSA, HRA, etc.). Besides the tax advantages, any

cash savings of switching to a more "consumer-driven" high-deductible plan could fund other employee benefits (retirement plan, HSA, etc.) that your employees would keep.

#27

Establish a small business "Uni-K" retirement account to build tax-deductible savings. The Individual 401(k), also known as the "Uni-K," maximizes contributions with minimal expense. In 2006, up to \$42,000 in fully tax-deductible total contributions are allowed. This low-cost fund (administration fees as low as \$100 per year) offers 100% immediate vesting, and you can roll other retirement accounts into your Individual-K.

#28

Turn a nondeductible Roth IRA contribution into a deductible IRA contribution. If you made a Roth IRA contribution this year, it may help you when you take tax-free payouts at retirement, but the contribution isn't tax-deductible. If you need the deduction that a contribution to a regular IRA yields now, in certain situations you can change your mind and turn the Roth IRA contribution into a traditional IRA contribution.

#29

Consider incorporating your business. Self-employment taxes can be daunting, especially if you're a sole proprietor. If you incorporate and elect Subchapter S, you can enjoy the benefits of limited personal liability, but also potentially pay less in taxes, namely the self-employment/FICA tax.

#30

Give to charitable organizations. You'll save on taxes when you donate unused goods, equipment or supplies to charity and deduct them at tax time. Be sure to keep receipts. ■



HONECK • O'TOOLE

...where people count

QUICKBOOKS TIP

Invest Now for a 2006 Deduction— Enjoy Efficiencies in 2007 and Beyond

Jane Honeck and John Baldwin are Certified QuickBooks® Consultants because we believe that QuickBooks is a great program for managing small business finances. Our staff has years of experience in helping clients get the most out of QuickBooks, and we encourage you to consider using this valuable software.

QuickBooks 2007 is now available and includes a number of time-saving tools, including:

- Easier shipping tools to process FedEx and UPS shipments and create shipping documents
- Professional-looking invoices, estimates, and forms with improved customization tools
- Improved data back-up to easily protect your business from data loss

Jane Honeck is also a QuickBooks Affiliate, which means you get discount pricing when you order QuickBooks products through us. Call us before December 20 so we can place your order before year-end. Details: www.honeckotoole.com/services/quickbook.asp

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CLIENTS IN THE NEWS

Portland Spice & Trading Company

Michael Heathers is passionate about food. That's why he calls his new shop at 34 Vannah Avenue (recently relocated from the Portland Public Market), "a Mecca for people who love to cook," with products and services catering to Portland, Maine's growing diverse community.



The location isn't the only thing that's new. The *Portland Press Herald* just awarded 4-1/2 stars to the new menu of gourmet sandwiches, and customers are raving about them as well. Mike has created a new bistro dining area with a full deli, and has added espresso and Italian desserts to the shop's extensive

offering of super fresh, top-quality herbs and spices, exotic teas and infusions, baking supplies, Indian Products, Latino/Spanish specialties, Asian Specialties, Middle Eastern and Italian specialties—all at reasonable prices. Browse their online inventory to view enticing original recipes, such as Bill's Outrageously Sinful Caramel Sauce, Jack's Pasta E Fagioli, Larry's & Kassy's Drop Sugar & Sugar and Spice Cookies, Mike's Fabulous Chicken Salad, Odessa's Nile Chicken, and Paco's Pasta with Green Clam Sauce. This is a great place for your holiday shopping or party menu planning. Visit www.portlandspice.com to see what we mean.

A Tribute to the Portland YWCA

On October 31, The YWCA of Greater Portland closed its doors for good after 137 years of service. It was one of the oldest YWCA

organizations in the country, but it could not sustain itself any further. Several staff members of Honeck•

eliminating racism
empowering women

ywca Greater Portland, ME

O'Toole supported the YWCA for many years. Jane Honeck was on its board for ten years in the 80s and 90s. Jane said, "It's a shame that we're losing this vital community resource for women and families. It will be tough to replace the depth and breadth of services the YWCA provided." We wish to thank everyone associated with the YWCA for all their years of dedicated service to Greater Portland.



Happy Holidays

Everyone here at Honeck•O'Toole wishes you and yours a joyous holiday season and a very prosperous new year!

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INSIDE

**30 WAYS TO
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TAXES**