

- ▶ Welcome to the inaugural issue of Craft, Noble and Company's e-news update. Our clients have told us they appreciate receiving tax updates, notification of filing deadlines and other informative business and tax news. So we've designed a more convenient and timelier way than our mailed out newsletter, Front of the File. If you would prefer to receive a print copy of each quarterly e-newsletter, please call our office to place that request.

Likewise, if you know a friend or colleague who might be interested in receiving this e-newsletter, just click the "Forward to a Friend" button. Privacy and confidentiality is a hallmark of our business, so you can be assured your name or address will not be shared with anyone.

SIMPLIFY YOUR RECORDKEEPING

Deciding which records to keep and for how long can be a confusing process. A well-organized system will help you retain important paperwork and minimize the clutter. Use legal requirements and your common sense as guidelines for how long to hold on to records.

TAX RECORDS

You should keep tax records for at least as long as it is possible for tax authorities to audit your return. Generally, the IRS has three years after the return is due or filed, whichever is later, to examine your return and assess additional tax. This is called the "statute of limitations." If you've made a major error on your return (defined as omitting more than 25% of your gross income), the IRS has six years to examine your return. There is no statute of limitation for fraudulent filing or for returns that are not filed at all.

To be on the safe side, keep your tax records for seven years after a tax return is filed.

The IRS does not require that you keep your records in any particular way. The only requirement is that your records allow you and the IRS to determine your correct tax liability. Keep checks, receipts, and other records that document the income and deductions you report on your tax return. Copies of tax returns themselves should be retained permanently.

INVESTMENTS

Investment records

Investment records generally should be kept until the investment is totally liquidated, plus a period of seven years. Keep any records for taxable accounts that show reinvested dividends. You can usually toss monthly or quarterly investment statements if you receive a comprehensive annual statement.

Investment real estate

Keep all documents relating to purchases of property, along with substantiation for improvements made to the property. Keep written appraisals and tax depreciation schedules.

Individual retirement accounts

Keep copies of Forms 5498, 8606, and 1099R until all money has been withdrawn from your IRAs. Good records are necessary so that you aren't taxed on nontaxable withdrawals.

PERSONAL RECORDS

Home Expenditures fall into two categories: “repairs” (such as routine yard maintenance and painting) and “improvements” (usually big-ticket items such as room additions).

Discard repair receipts once the warranty period expires, but keep receipts for improvements indefinitely. Improvements add to the tax basis of your property. Despite the \$250,000 capital gain exclusion amount (\$500,000 for joint filers), substantial increases in market value could make you liable for capital gains tax when you sell your home. Complete records of your home’s original cost plus improvements will help reduce any taxes due.

Insurance. Keep your current policies and 12 months’ worth of cancelled checks and statements. Ask your insurance agent about discarding expired policies. Your liability for prior years can vary.

Estate planning documents. In your home, keep a copy of your current will, any trusts, and any special directives. Give the originals to your attorney, and consult your attorney about destroying all out-of-date documents.

Keep it simple. In most cases, you don’t need an elaborate recordkeeping system to keep your affairs in order. File tax returns separately by year, and file investment records by broker. For expenses, even an accordion file tabbed by category works wonders.

Contact Craft, Noble & Company if you have any questions or need assistance in setting up a recordkeeping system that works for you.

YOUR TAX PREPARATION CHECKLIST

- Gather the needed tax documents for filing your 2006 tax return — the W-2s, 1099s, and other forms from your employer, broker, bank, etc. If you detect errors, notify the sender and ask for a corrected copy.
- There is still time to make 2006 IRA contributions. If your 2006 IRA wasn’t fully funded by December 31, 2006, and you make one prior to April 16, 2007, designate to the bank or trustee that these 2007 contributions are for 2006 (up to the maximum allowed). You can then deduct these amounts on your 2006 return for a quicker tax benefit.
- File business returns on time. The deadline for filing partnership returns is April 16, 2007. Calendar-year corporation tax returns are due by March 15, 2007.
- Charitable Contributions. Get the substantiation you’ll need for charitable contributions of \$250 or more that you made last year. A cancelled check isn’t enough; you need a written receipt from the charity for a tax deduction.

If you received something from the charity in return for your contribution, a written statement is required on gifts of more than \$75.

If you donated a vehicle, boat, or airplane to a charity, your deduction will be limited to what the charity sold your item for. The charity should give you Copy B or C of IRS Form 1098-C to substantiate your deduction.

- Check your children’s need to file a 2006 return. Generally, your child must file a 2006 tax return if he or she had wages of more than \$5,150, self-employment earnings over \$400, or investment income (such as interest, dividends, or capital gains) over \$850. If your child had both earned and investment income, other thresholds apply. Also, your child must file a return to receive a refund if one is due.

- Make your 2007 IRA contributions as early in the year as possible to maximize tax-deferred growth.
- If you're among the many taxpayers who get a large tax refund this year, do yourself two favors: (1) invest the refund instead of spending it, and (2) adjust your withholding for 2007 so your money can be invested for you rather than the government.

MAJOR TAX DEADLINES

For January 2007

- January 16** Final 2006 individual estimated tax payment is due, unless 2006 tax return is filed and taxes are paid in full by January 31, 2007.
- January 31** Employers must provide 2006 W-2 statements to employees.
- January 31** Payors must provide 2006 Form 1099s to payees.
- January 31** Employers must generally file Form 941 for the fourth quarter of 2006 and pay any tax due.
- January 31** Employers must generally file 2006 federal unemployment tax returns and pay any tax due.

NOTE: Businesses are required to make federal tax deposits on dates determined by various factors that differ from business to business.

For more information on tax deadlines that apply to your business, contact Craft, Noble & Company.

TAKE ADVANTAGE OF BUSINESS TAX DEDUCTIONS

Think about elusive business tax deductions. Finding one of these deductions might give you real tax savings.

Where do you start? First, think about what you use in your daily work life. Are you taking full advantage of the home office deduction rules? If you use a portion of your home exclusively and regularly as your principal place of business, you might qualify. Similarly, the business use of your personal vehicle can be deducted. While keeping track of business miles can be tedious, it can be worth the effort come tax time.

Deductions you might not have thought of include the business use of a personal cell phone and the business portion of your monthly Internet access fee. Qualifying meals and entertainment expenses are also deductible, including the cost of entertaining at home — just as long as there is a legitimate business purpose.

Document your business expenses. Knowing how an expense is deducted is also important. Some expenditures are only partially deductible as itemized deductions, but may be fully deductible against self-employment income. Examples include legal bills, tax return preparation fees, and work-related publications. A word of caution: business expenses must be fully documented. Proper accounting records are essential to take advantage of these write-offs.

Self-employed taxpayers should also remember that 100% of health insurance premiums paid for themselves and their families can generally be deducted from their business income.

Call Craft, Noble & Company for a year-end review to help you find those tax deductions you might otherwise miss.

MILEAGE RATES INCREASE

The IRS has issued the 2007 standard mileage rate that businesses can use to calculate the deductible costs of driving an automobile for business.

Beginning January 1, 2007, the standard mileage rate for business driving will be 48.5 cents a mile. This represents an increase in the mileage rate from the 44.5 cents a mile allowed in 2006. The rate increase is due to higher vehicle and fuel prices for the year ending October 2006.

If you have questions about deducting vehicle expenses in your business, give Craft, Noble & Company a call.

PHONE SAVVY IN '07

After losing several court challenges to charging an excise tax on long-distance telephone service, the IRS is no longer assessing the tax. In May of 2006, the IRS announced that it would refund the tax paid by individuals, businesses, and tax-exempt organizations during the 41 months from March 2003 through July 2006.

Individuals can claim their refunds by calculating the actual tax they paid, or they can take a standard refund amount based on the number of personal exemptions they claim on their 2006 tax returns.

The IRS has also provided businesses and tax-exempt organizations with a formula to estimate the amount of refund to which they're entitled. The formula can be used by those who don't want the bother of going through 41 months of phone bills to calculate the exact taxes paid.

To claim their refunds, businesses (including sole proprietors, corporations, and partnerships) and tax-exempts are to complete Form 8913 (Credit for Federal Telephone Excise Tax Paid) and attach the form to their regular 2006 income tax return or, in the case of tax-exempt organizations, to Form 990-T. The form allows taxpayers to either claim the actual amount of refundable long-distance telephone excise taxes paid during the 41-month period or to use the IRS simplified formula to figure the refund.

IS YOUR BUSINESS PAYING PHONY INVOICES?

Businesses are cheated out of millions of dollars every year with invoices for goods or services that were never delivered. Phony invoices once paid often will be followed by additional billings for publications, services, or supplies not delivered. Such schemes are successful because many businesses have slipshod procedures for approving and paying bills.

Here are some techniques that should reduce the chances that your company will fall prey to a billing scam.

- Inform your staff that they are never to give equipment model or serial numbers to callers. If the vendor is legitimate, he will already have the necessary numbers.
- Payments should be made only when supporting documents, such as invoices, receiving reports, purchase orders, and packing slips, have been reviewed and approved.
- Always pay on the original invoice only; do not pay on copies or duplicates. Payments should not be made on monthly statements that can include prior-paid items. Also, monthly statements seldom have the detail necessary to determine legitimate charges.
- Mark on the face of the invoice the date of payment and the check number.

You might want to review your company's purchasing and paying policies to make your company less of a target.