WINTER 2006

The KIKIS JOURNAL

Provided by Kikis & Company P.C., Certified Public Accountants

Valued Clients and Friends,

As many of you know, 2006 has been a year of great loss and heartache for our family. On July 17, 2006, we lost our beautiful grandson Jake Mark Liddle, the second son of our wonderful daughter, Kathy and her husband Duke. Jake's eight months on earth, although brief, will bring us a lifetime of joy and memories. As Jake's big brother, Luke, would say, "For God so loved the world, He gave us Jake" (John 3:16 according to Luke).

To you, my valued clients and friends, I want to extend a warm and sincere thank you from the whole family. Your kind words, prayers and generosity have helped us wade through this unimaginable grieving process. We take great solace in the knowledge that our precious Jake is watching over us, smiling his sweet smile, and that one day we will all be together again.

It is in the most difficult of days that we realize the kindness of others. Our family, friends, and this community wrapped their collective arms around all of us and we will be forever grateful for that strength and support. Tragedy is just that, tragic, but if it is to happen, we hope that something positive can come of it. In the past months, we have begun to see just that.

My Liddle Buddy Jake is a book that has been written about our grandsons, Jake and his big brother, Luke, to explain the sudden death of a child to other young children. We have already received word that this book has helped others in similar situations and we are grateful for that. If you know of someone in need of this type of book, you can find it at *www.brittanysbooks.com*. We have also received word that Jake's accidental death has created a real awareness about keeping a close eye on children in car seats…if this awareness prevents even one child from being injured or losing his or her life, Jake's death will not have been in vain.

But most importantly, this life experience has taught us about the ***importance of family***. During this Holiday season and beyond, remember to take the time to spend quality moments with your loved ones and soak it all in. Our family and friends are the most precious gifts we have been given…enjoy and appreciate them every day.

All of us at Kikis & Company extend our thanks for your continued friendship and association. We wish you and your families a wonderful Holiday season and the happiest of New Years!

Tom

Important Tax Information

Earnings Ceiling for Social Security:

	2006	2007
Below age 65	$12,480	$12,960
Age 65 to full retirement age	$33,240	$34,440
At full retirement age	Unlimited	Unlimited

Payroll Taxes:

	2006	2007
FICA Wage limit	$94,200	$97,500
FICA tax rate	6.2%	6.2%
Medicare tax rate (all wages)	1.45%	1.45%
Federal unemployment tax rate	.8%	.8%

Miscellaneous:

Mileage rates:	2006	2007
Business -	$.445	$.485
Medical -	$.18	$.20
Relocation -	$.18	$.20
Charity work -	$.14	$.14
Minimum wage rate; as of 9/1/97	$5.15	$5.15

Section 179 expense deduction: (available to businesses with a net taxable income)	2006	2007
	$108,000	$112,000

Maximum deductible		
401(k) contribution	$15,000	$15,500
Simple IRA	$10,000	$10,500
Traditional IRA	$ 4,000	$ 4,000

(*Additional contributions available if 50 years old*)

Current IRS Interest rate 8%

Who Said It?

Basic tax, as everyone knows, is the only genuinely funny subject in law school.

Answer on page 8

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Referrals for Property Tax Renditions

As stated in last year's *Kikis Journal*, county personal property tax renditions, an annual reporting of business assets ignored formerly by many, are now a required filing. We also suggested in that same issue that many of you would be better served by using a property tax specialist to file the rendition.

After careful consideration and for a number of reasons, we have decided to no longer prepare these renditions at Kikis & Company P.C. Some of you may choose to file these forms yourself and we will be happy to answer questions. You may also consult the appraisal district's website (www.hcad.org) for information on filings and extensions which may be done online.

If you are required to file in a county other than Harris, www.hcad.org also provides links to most Texas appraisal districts. We also have the names of several firms which specialize in this service and will be happy to recommend someone to you if you do not wish to file the form yourself. For those of you with large amounts of assets and/or inventory, this is the most cost effective option.

If you do choose to file the rendition yourself, make sure it is sent by certified mail with return receipt requested. We had several instances this year of returns being lost in processing by the appraisal district. ■

Are you giving Uncle Sam an interest-free loan?

Lots of folks believe that receiving a refund check from the IRS is like getting "found" money. You file your return, and sure enough, a short time later, the check just appears in the mailbox. Perhaps you've even come to think of it as an annual bonus from the government.

Hold on a minute. Let's look at this another way. If you're getting that nice annual bonus from the government, you overpaid your taxes and provided an interest-free loan to Uncle Sam. If, instead, you had invested that money it would have generated income throughout the year. Instead of thinking of a refund as a windfall, consider it a wake up call that you need to take some action.

Here's an example… let's assume that you've been receiving a $12,000 annual refund for the past 10 years. If you had invested that $1,000 a month in a fund earning 8% a year (compounded monthly), you would have about $183,000 after 10 years - $9,000 more than if you had invested your refund each year as a lump sum.

It is up to you to change your withholding allowances or estimated tax payments as your tax circumstances change. If you get married, have children or purchase a home, you may want to make an adjustment in your withholding to better reflect your particular situation.

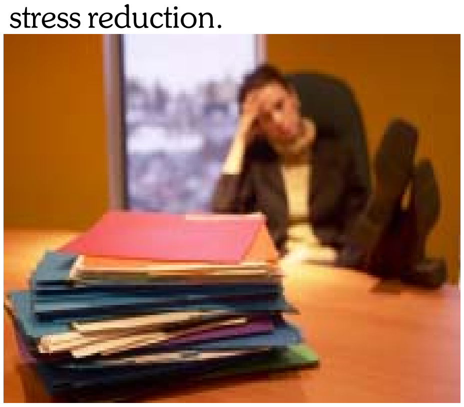
Ask your employer to change the amount withheld from your paycheck. If you pay quarterly estimated taxes, review your income and deductions annually to determine the appropriate amounts to pay. Make what you earn work for you. ■

Are you stressed at work?

Well, you're not the only one! According to a survey conducted in part by the APA (American Psychological Association) earlier this year, **more than half of working adults - and 47% of all Americans - say they are concerned with the amount of stress in their lives.*

That's a problem, especially when you consider the negative effects stress can create: compromised health, strain on personal and professional relationships, depression and much more.

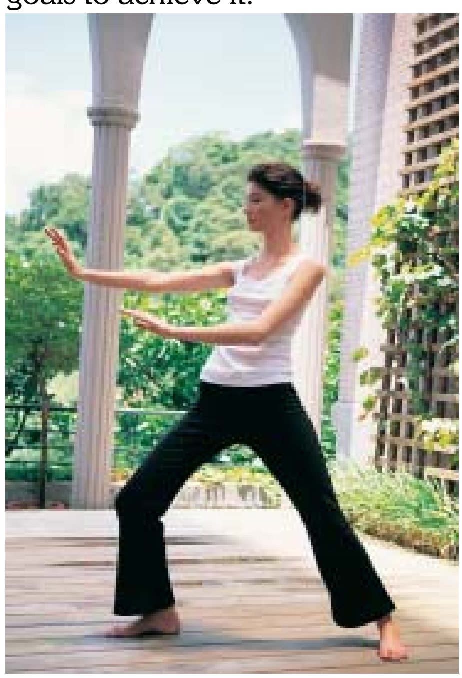
Feeling in control of one's life can dramatically decrease stress and its related illnesses. In the workplace, specifically, learning to improve the management of our workload and better balance work and home can result in significant stress reduction.



Take a look at the eight coping strategies outlined here (suggested by Dr. Eric Jackson in the *Priority Learning Link:* Priority Management International, Inc.) for tips on how to start making changes toward a happier life today!

Define the Problem
Write down the issues that cause you stress. Taking steps to reduce these issues will help you relax in your time off.

Set a Goal
Too often, folks fall into a career path without understanding why they chose it. Ask yourself, "What do I want to accomplish for the duration of my career?" and set goals to achieve it.



Stay Healthy
Exercise, sleep and a healthy diet should be priorities. You can't keep running without taking time to recharge your batteries.

Make Time for Your Family
It's not a sign of weakness if you don't pull an 80-hour week in the office.

Don't Bottle it Up
Talk to your spouse and discuss with a trusted friend or work mentor your workload. It can help you frame strategies to reduce the burden.

Look Ahead
Don't waste time dwelling on past miscues. Once you set goals, move forward on them.

Work with Your Weaknesses
By recognizing your weaknesses, you can work to improve your skills or delegate tasks to people who are strong where you are weak.

Be Thankful for What You Have
When you get stressed out, stop and ask yourself, "What am I thankful for?" That will put things in perspective. ■

**Phone survey conducted Jan. 12-24, 2006 by APA's Practice Directorate in partnership with the National Women's Health Resource Center and iVillage.com.*

The Far Reaching Pension Protection Act of 2006 is Signed into Law

On August 17, 2006, President Bush signed into law the Pension Protection Act of 2006. The 2006 Pension Act includes a broad array of provisions designed to protect employees' pensions.

Sunset Provisions Repealed

You may recall the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) which included a number of changes to benefit those saving for retirement. The most important changes included liberalized rules for annual IRA and retirement plan contribution limitations and tax-free rollovers. But there was a catch - the majority of the provisions were scheduled to "sunset" after 2010.

The 2006 Pension Act has wiped out the "sunset" clause and made the EGTRRA changes permanent. Some of the most notable provisions that are now permanent include, but are not limited to:

■ Larger maximum annual contributions for traditional and Roth IRAs (up to $4,000 for 2006 and 2007; up to $5,000 for 2008, then indexed for inflation after 2008; extra $1,000 catch-up contributions for 2006 and beyond - not indexed - for those age 50 or older)

■ Higher maximum dollar limits for contributions to defined contribution retirement arrangements, including SEPs, 401(k) plans, and 457 plans (up to $44,000 in total contributions to a participant's account for 2006 with inflation adjustments for later years)

■ Faster vesting schedules for employer matching contributions

■ Liberalized rules for tax-free rollovers between tax-favored retirement accounts and plans (under so-called retirement account portability rules)

■ Tax credit of up to $500 per year for three years for starting up a new retirement plan sponsored by a small employer

When we say a broad array of provisions fall under this law - we do mean broad. In fact, the 2006 Pension Act also includes several provisions designed to prevent abuse in the charitable sector and to provide additional tax incentives for Americans interested in giving.

For example, one provision allows qualified taxpayers - 70 ½ years of age or older - to exclude from their gross income certain distributions of up to $100,000 per year to a qualifying charity from a traditional IRA which would otherwise be included in income.

The charitable distribution must be made *directly* from the IRA to an eligible charity. However, unless Congress extends this provision, it will expire at the end of 2007 and any unused portion of 2006's $100,000 limitation does not carry over to 2007. So if you choose take advantage of this new rule, you should do so before year-end.

Qualifications for IRA Distributions Going to Charity

Distributions must:

■ Be made from an IRA (other than a simplified employee pension or a SIMPLE IRA)

■ Occur no earlier than when the taxpayer turns age 70 ½

■ Be made directly by the trustee to a Section 170(b)(1)(A) organization (i.e., a public charity or a private foundation) that is not a supporting organization or a donor advised fund

■ Meet the normal requirements for a deductible charitable contribution

■ Be a distribution that would otherwise be taxable.

For more information about additional 2006 Pension Act provisions not discussed here or for clarification on those outlined above, give us a call…we're more than happy to help! ■

IRS Removes Federal Excise Tax on Long-Distance Telephone Service

There's not a telephone customer around who hasn't looked at their bill and wondered why there are SO MANY TAXES added. Thanks to five federal appeals court rulings which held that the federal excise tax on telephone services no longer applies to long-distance telephone service, the IRS has stopped collecting that particular tax.

In May, the Treasury Department announced that starting August 1, 2006, the government would no longer collect the federal excise tax on long-distance telephone service for businesses and tax-exempt organizations. Want even better news? They're also providing refunds for taxes billed from February 28, 2003 through August 1, 2006. There are just a few steps you need to follow to take advantage of the refund.

Past Phone Bills Thrown Out? No Worries.

To make it easy on us - imagine that - the IRS created a simplified method to estimate your telephone excise tax refund amount. The formula was developed after receiving public input and discussing the issue with business organizations, the Small Business Administration and representatives from the tax-exempt community. Bottom line: You don't need dozens of past bills to calculate the refund…you just need two. Here's how it works:

- First you must have the correct form to request a refund. Businesses (including sole proprietors, corporations, and partnerships) and tax-exempt organizations must complete Form 8913, Credit for Federal Telephone Excise Tax Paid. To complete the form, businesses and tax-exempt organizations can determine the actual amount of refundable long-distance telephone excise taxes they paid for the 41 months from March 2003 through July 2006, **OR** they can use the simplified formula (explained below). Be sure to attach Form 8913 to your regular 2006 income tax returns. Tax-exempt organizations will attach it to Form 990-T.
- Businesses and tax-exempt organizations can figure their refund amounts by comparing two specific telephone bills from this year to determine the percentage of their telephone expenses attributable to the long-distance excise tax. The bills used should be those with the statement dates of ***April 2006*** and ***September 2006***. First figure out the telephone tax as a percentage of the April 2006 bill (which included the excise tax for both local and long-distance service) and the September 2006 bill (which only included the tax on local service). The difference between these two percentages should then be applied to the quarterly or annual telephone expenses to determine the amount of your refund.

- The refund is capped at 2% of the total telephone expenses for businesses and tax-exempt organizations with 250 or fewer employees - which covers more than 99% of all businesses. The refund is capped at 1% for those with more than 250 employees.

This tax change does not affect the federal excise tax on local phone service or the various state and local taxes and fees that telephone customers pay.

The IRS has already provided individual taxpayers with the option to use standard amounts based on the number of exemptions allowed to that taxpayer. Individual taxpayers can request a $30 refund with one exemption, $40 for two exemptions, $50 for three exemptions and $60 for four or more exemptions.

Details on the telephone tax refund will be included in the 2006 tax return materials and on www.IRS.gov, but if there is anything you would like us to clarify, don't hesitate to call. ■

It's Baaaaaaaaack: Year-end tax planning time sneaks up on us again

It's that time of year again…time to consider all the changing tax rules, along with any personal and/or financial changes that may affect your year-end tax planning. For 2006, there are new planning strategies resulting from two Tax Acts passed by Congress, as well as the phase-in of some provisions of prior year Tax Acts. Below are a few tax-saving ideas to get you started:

Don't Forget the Alternative Minimum Tax

The increasingly burdensome alternative minimum tax (AMT) can be triggered if you recognize large capital gains, deduct a large amount of miscellaneous itemized deductions or state and local taxes, claim a high number of personal exemptions, or exercise incentive stock options. This alternative tax system for computing personal taxes is becoming more of an issue for many taxpayers and planning for taxpayers in an AMT situation can be a lot different than traditional tax planning. So, don't forget to consider the AMT when assessing your 2006 tax liability.

Use Your Section 179 Deduction to the Fullest Extent Possible

For 2006, businesses can deduct up to $108,000 of equipment, furniture, and other tangible property, subject to a phase-out rule when qualified property purchases exceed $430,000. 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.

Clothing and Household Item Charitable Deductions

Donations of used clothing and household items including furniture and furnishings, electronics, appliances, linens, and similar items made after 8/17/2006 must be in "good" or better condition to be deductible. We suggest keeping a list and a photo (to help establish the item's condition) of the donated items. You can still deduct individual items that appraise for more than $500 even if they are not in "good condition." However, this will require you to get a qualified written appraisal, which must be attached to your tax return.

Hybrid Vehicle Credit or Alternative Fuel Motor Vehicle (AFMV) Credit

The IRS is constantly updating the list of qualifying vehicles and the amount of these credits. If you are considering purchasing a hybrid or AFMV, give us a call to determine the amount of credit (if any) you'll be entitled to if you purchase a specific vehicle. The hybrid credits can be up to $3,400 and the AFMV credits up to $4,000 per vehicle.

529 Plan Benefits Now Permanent

In addition to the provisions discussed in "The Far Reaching Pension Protection Act of 2006 is Signed into Law" article in this newsletter - the Pension Act of 2006 also made permanent the current ultra-favorable federal income tax treatment of Section 529 plans used to finance college education costs that were scheduled to sunset in 2010. This eliminates the concern that funds distributed after 2010, when many 529 plan beneficiaries will be in college, could be taxed. It's time to reconsider 529 plans.

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

Continued on page 7

accelerate deductions from future years into 2006. Cash-basis proprietors should consider delaying year-end billings or accelerating business expenditures. 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.

Adjust Your Federal Income Tax Withholding

If you are going to owe income taxes for 2006, consider increasing your Federal income taxes (FIT) withholding now through the end of 2006 so that your tax payments (estimated payments plus withholdings) equal at least 90% of your estimated 2006 liability or, if smaller, 100% of your 2005 liability (110% if your 2005 AGI exceeded $150,000). On 4/16/07 you will still have to pay balance due, but you will not owe any interest or penalties.

Business taxpayers should consider making expenditures by December 31, 2006 that qualify for the $108,000 business property expensing deduction.

These are just a sampling of the ideas to consider as your 2006 taxes are prepared. Of course, each individual or business' tax situation is unique, and there may be many other options that apply to you. It's always wise to take the time to review your 2006 situation and consider all planning strategies that will save you money. Kikis & Company P.C. is here to help, so feel free to contact us for any professional advice. ■

Congress Signs 2006 Tax Relief and Health Care Act into Law Right Before Holiday Break

In the 11th hour, just before closing up shop for the Holidays, Congress passed into law the wide-ranging 2006 Tax Relief and Health Care Act. The law preserves a variety of popular tax breaks for families and businesses, extends energy provisions encouraging alternative and renewable energy sources, and includes trade, oil drilling, and Medicare provisions.

The law also extends through 2007, and in certain circumstances modifies, provisions which under prior law either expired at the end of 2005 or would have expired at the end of 2006. Key examples of this include:

■ ***Tuition Deduction:*** This tax deduction - which allows taxpayers to deduct up to $4,000 (depending on their income) of higher education expenses in lieu of claiming the Hope or Lifetime tax credits - is extended through 2007. The deduction can be claimed by all individual taxpayers regardless of whether they itemize their deductions.

■ ***State and Local General Sales Tax:*** This tax break - allowing individual taxpayers to elect to take an itemized deduction for state and local general sales taxes in lieu of the itemized deduction permitted for state and local income taxes – is extended through 2007. Taxpayers have two options for determining deductible sales tax: (1) actual sales tax paid if receipts are maintained for IRS verification, or (2) approximate sales tax paid as estimated in tables provided by the Secretary of the Treasury plus sales tax on certain additional items (such as boat or car) that may be added to the table amount.

■ ***Deduction for Certain Expenses of Elementary and Secondary School Teachers:*** This tax break – permitting elementary and secondary school teachers and certain other school professionals to deduct up to $250 of out-of-pocket costs incurred to purchase books, supplies and other classroom equipment – is also extended through 2007. The deduction is available to all individual taxpayers regardless of whether they itemize their deductions.

The 2006 Tax Relief and Health Care Act also contains a package of other tax provisions designed to provide additional tax relief and certainty to taxpayers. One brand new deduction that falls under this category is:

■ ***Premiums for Mortgage Insurance:*** This itemized deduction can be claimed for the cost of premiums for mortgage insurance on a qualified personal residence. The deduction applies for 2007 only and is phased out ratably by 10% for each $1,000 by which the taxpayer's adjusted gross income exceeds $100,000.

Please note, these are just a few of the many provisions included in the 2006 Tax Relief and Health Care Act and other provisions not listed here may affect your tax planning. If you would like more details on any aspect of this legislation, give us a call.

The Twelve Gifts of Christmas got even "Pricier" this year...

If you thought it would be clever to buy your love the items described in "The Twelve Days of Christmas" this year, you'd have to open the old wallet a little wider. According to PNC Wealth Management, the company that produces the Christmas Price Index each year, booming commercial construction is spiking demand for ornamental trees, leading to a 44 percent increase in the price of a pear tree ($129.99). This increase helped bump up the price for buying all the gifts by 3.1 percent.

Rising labor costs are behind the increase in the cost of hiring skilled labor, including the nine ladies dancing ($4,759.19), 10 lords-a-leaping ($4,160.25), 11 pipers piping ($2,124) and the 12 drummers drumming ($2,301). In fact, the dancing ladies are the most expensive item on the list this year.

The only labor group to not increase this year is the 8 maids-a-milking....who earned minimum wage....amounting to only $41.20.

The 5 gold rings came in at $325 - the same as last year. With a slowing residential real estate market, the experts suggested, folks felt less secure and were less likely to purchase luxury items, like gold. The price of gold per ounce is higher than last year, however, thanks to investors buying gold as an inflation hedge. The pressure was on the jewelers, who couldn't pass along higher costs to consumers.

Birds, which make up six of the gifts, were relatively stable in price, and the fuel costs to ship them leveled off, as well. (Partridge - $15; Turtle doves - $40; French hens - $45; Calling birds - $479.96; Six geese a-laying - $300; and Seven swans - $4,200)

The total price for all the gifts this year was $18,920.59.

Did you know that you can contact us electronically?

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We're always glad to hear from you!

Who said it?

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