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CPAs SUPPORTING YOUR SUCCESS

UPDATE

Special Tax Edition

Volume 31 Number 1 February, 2006

2006 Standard Mileage Rates

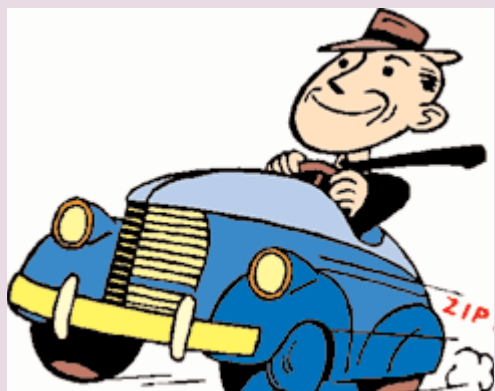
The IRS recently issued the 2006 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes. Beginning Jan. 1, 2006, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

- 44.5 cents per mile for business miles driven;
- 18 cents per mile driven for medical or moving purposes; and
- 14 cents per mile driven in service of charitable organizations, other than activities related to Hurricane Katrina relief.

Congress has also approved special rates in connection with miles driven in service of charities providing Hurricane Katrina relief.

For 2006, these Katrina-related charitable rates are 32 cents per mile for deduction purposes and 44.5 cents per mile for reimbursement purposes.

For detailed information on 2005 and 2006 mileage rates, please contact one of our tax specialists.



Sales Tax Issues - Exempt Manufacturers

Prior issues of UPDATE have included information on how to protect your business from potential sales and use tax audit assessments. It is important that each business has a working knowledge of the pertinent sales and use tax issues related to its specific trade or activity. The following reminders relate to businesses that are classified as exempt manufacturers.

1. Shipping charges are exempt if the property being shipped is exempt and are taxable if the property being shipped is taxable.
2. Computers used by a manufacturer exclusively and directly to control manufacturing machinery are exempt from sales and use tax.
3. Obtain an exemption certificate from each customer. If you don't have a certificate in your files, charge sales tax. Monitor one time cash sales and/or sales to non-manufacturing customers, which may be taxable.
4. Sales of excess manufacturing equipment to an employee, individual, or another business are subject to sales tax (unless an exemption certificate is received from the buyer).
5. The purchase of hand tools or materials by the employee through the employer are considered a sale subject to sales tax if the items were purchased by the employer as exempt manufacturing. The employer needs to pay sales tax on the original purchase, or charge sales tax on the sale to the employee.
6. Out-of-state purchases of non-manufacturing items may be subject to Wisconsin use tax. It is common for many businesses to purchase office, janitorial, and computer supplies through catalogs and/or the Internet from out-of-state suppliers that do not charge Wisconsin sales tax. In that case, the company needs to pay use tax on those purchases.
7. Avoid issuing a continuous, or blanket, exemption certificate to a vendor from whom you may purchase both taxable and tax-exempt items.
8. Capital asset purchases are exempt from sales tax if used exclusively in the manufacturing process. Remember that if the asset is of a dual-purpose nature, it will be subject to tax. Example: A forklift truck that is used to move material between manufacturing machines as well as load and unload items on the loading dock would be subject to sales tax. Determine the purpose at the time of purchase and notify the vendor as to whether the asset purchase is taxable or exempt.

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New AMT Assistant

The Internal Revenue Service is providing a new online tool on www.IRS.gov to help individual taxpayers determine whether they are potentially subject to the alternative minimum tax (AMT).

The AMT Assistant helps taxpayers determine whether or not they may be subject to the AMT by automating the AMT Worksheet of the 1040 Instructions, called the "Worksheet to See if You Should Fill in Form 6251 - Line 45." IRS estimates most taxpayers can make entries and get an answer in five to ten minutes using the new application.

Taxpayers who file paper returns will benefit the most from the AMT Assistant because e-file software generally computes AMT liability automatically. The AMT Assistant is another in a series of steps being taken by IRS to reduce taxpayer burden.

"The alternative minimum tax causes a lot of hair pulling for millions of taxpayers each year. This new tool will help people understand if they have to pay or not," said Mark W. Everson, IRS Commissioner.

The information provided is anonymous and will be used only for purposes of determining AMT liability. It will not be shared, stored or used in any other way, nor can it be used to identify the individual who enters it.

During the 2006 filing season, this new tool will be available on www.IRS.gov. To locate it, enter "AMT Assistant" in the Search box on the IRS Web site. Taxpayers must complete a draft 1040 through line 44 and have that form available to use the AMT Assistant. There is also an "Additional Resources" section with helpful information and links.

2005 Adjusted Gross Income Phaseout Ranges

Description	Joint Return	Single/Head of Household (HOH)	Married Filing Separately
Adoption Credit/Exclusion	\$159,450-\$199,450	\$159,450-\$199,450	No credit
AMT exemption	\$150,000-\$382,000	\$112,500-\$273,500	\$75,000-\$191,000
Coverdell Education Savings Accounts	\$190,000-\$220,000	\$95,000-\$110,000	\$95,000-\$110,000
Dependent Care Credit	\$15,000-\$43,000	\$15,000-\$43,000	No credit
Education loan interest deductions	\$105,000-\$135,000	\$50,000-\$65,000	No deduction
Elderly/Disabled Credit	\$10,000-\$25,000	\$7,500-17,500	\$5,000-\$12,500
Hope Scholarship Credit	\$87,000-\$107,000	\$43,000-\$53,000	No credit
IRA deduction with pension coverage	\$70,000-\$80,000	\$50,000-\$60,000	\$0-\$10,000
IRA deduction with spouse having pension coverage	\$150,000-\$160,000	Not applicable	Not applicable
Itemized deduction reduction	starts at \$145,950	starts at \$145,950	starts at \$72,975
Lifetime Learning Credit	\$87,000-\$107,000	\$43,000-\$53,000	No credit
Personal exemptions	\$218,950-\$341,450	\$145,950-\$268,450 (single) \$182,450-\$304,950 (HOH)	\$109,475-\$170,725
Rollover to Roth IRA	\$100,000	\$100,000	Rollover not allowed
Roth IRA	\$150,000-\$160,000	\$95,000-\$110,000	\$0-\$10,000
Tuition deduction			
\$4,000 deduction	\$130,000	\$65,000	No deduction
\$2,000 deduction	\$160,000	\$80,000	No deduction

IRS Warns About E-Mail Refund Scam



The IRS is advising taxpayers to beware of e-mails that purport to be notice of a tax refund. Identity thieves are sending the e-mails, which appear to come from the IRS at "tax-refunds@irs.gov." Taxpayers are told that they can claim their tax refunds by linking to an attached page and filling out a form that asks for personal information including Social Security and credit card numbers.

The IRS does *not* send out such e-mails or require special forms to obtain a refund. Taxpayers are warned not to open any attachments to such an e-mail, which could contain viruses. If a refund is expected, the taxpayer should call the IRS at 1-800-829-1040 to inquire about its status.



Tax Credits For Contractors

There are several new tax law changes that will affect builders and their subcontractors in the next few years. Below is a brief summary of one of the most significant:

New Tax Credit in the Energy Tax Incentives Act of 2005 for Contractors for Building Energy Efficient Homes.

Credit Requirements

For a structure to qualify for the credit:

1. it must be located in the U.S.;
2. its construction (which includes substantial reconstruction and rehabilitation) must be substantially completed after August 8, 2005 and it must be acquired in 2006 or 2007;
3. it must meet specific energy saving requirements explained below;
3. it must be built by the "eligible contractor" (the person who constructed the home, or the manufacturer, if the structure is a manufactured home); and
4. it must be acquired by a person from the eligible contractor for use as a residence during the tax.

When \$2,000 credit applies

A home qualifies for the \$2,000 credit if:

... it is certified in accordance with guidance to be issued by IRS to have a projected level of annual heating and cooling energy consumption that meets the standards for a 50% reduction in usage, compared to a comparable dwelling built in accordance with the standards of chapter 4 of the 2003 International Energy Conservation Code as in effect (including supplements) on August 8, 2005 and the Federal minimum efficiency standards specified in Code Sec. 47L(c)(1)(A)(ii); and

...its building envelope component improvements account for at least one-fifth of the 50% reduction. A manufactured home qualifies for the \$2,000 credit if it meets the above requirements, and it conforms to Federal Manufactured Home Construction and Safety Standards (section 3280 of title 24, code of Federal Regulations).

When \$1,000 credit applies

A manufactured home qualifies for a \$1,000 credit if it conforms to Federal Manufactured Home Construction and Safety Standards and meets either of the following two conditions:

1. It is certified in accordance with guidance to be issued by IRS to have projected levels of annual heating and cooling energy consumption that meets the standards for a 30% reduction in usage, compared to a comparable dwelling built in accordance with the standards of Chapter 4 of 2003 International Energy Conservation Code as in effect (including supplements) on August 8, 2005, and the Federal minimum efficiency standards specified in Code Sec. 45L(c)(1)(A)(ii); and its building envelope component improvements account for at least one-third of the 30% reduction; and
2. It meets the requirements established by the Administrator of the Environmental Protection Agency under the Energy Star Labeled Homes program.

What is the "building envelope"?

This includes insulation materials or systems specifically and primarily designed to reduce heat loss or gain, exterior windows (including skylights), doors, and any duct sealing and infiltration reduction measures.

Other rules

The new credit is part of the general business credit. No credits attributable to energy efficient homes can be carried back to any tax year ending on or before the effective date of the credit. There's a basis reduction in the property for the amount of credit claimed.

For more information, contact Paul Senger at 262.797.9050.

Energy Tax Incentives for Your Existing Home

Energy-conscious homeowners may want to take a look at a major new tax incentive from Uncle Sam. Under the Energy Tax Incentives Act of 2005, a taxpayer who makes qualifying energy saving improvements to his or her existing home will be able to claim a tax credit for part of the cost of improvements. Tax credits are more valuable to a taxpayer than deductions because they are subtracted dollar-for-dollar off the bottom line of your federal tax bill. Here is a brief overview of the new credit.

Starting in 2006, a taxpayer can claim a lifetime credit of up to \$500 for making qualifying energy saving improvements to his existing home. Only \$200 of this credit may be for qualifying window expenditures. Subject to the \$500/\$200 lifetime caps, the credit equals the sum of the amounts in two categories:

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Please contact Jessie Voss at 262.797.9050 for additional information or to obtain a copy of past articles.



2005/2006 Federal Tax Facts

	2005	2006
FICA/Self Employment		
Maximum (OASDI) earnings limit	\$90,000	\$94,200
Tax rate	7.65%	7.65%
Maximum IRA & Roth IRA Contribution	\$4,000	\$4,000
Catch-up Contribution (age 50 or over)	\$500	\$1,000
Maximum Deductible:		
401(k) Employee Contribution	\$14,000	\$15,000
Catch-up Contribution (age 50 or over)	\$4,000	\$5,000
Standard Deductions:		
Joint or qualifying widow(er)	\$10,000	\$10,300
Single	\$5,000	\$5,150
Head of household	\$7,300	\$7,550
Married, filing separately	\$5,000	\$5,150
Personal Exemption Amount	\$3,200	\$3,300
Estate Tax Credit Equivalent	\$1,500,000	\$2,000,000
Gift Tax Credit Equivalent	\$1,000,000	\$1,000,000
Annual Gift Tax Exemption	\$11,000	\$12,000
Section 179 Depreciation Deduction	\$105,000	\$108,000
Standard Mileage Rate	40.5¢/	44.5¢
Sept-Dec	48.5¢	

Automatic Six-Month Filing Extension

The IRS has released Form 4868 for 2005. Individual taxpayers will now file this form and receive an automatic six month extension rather than the previous four months. There is no need to justify the request for the additional two months that previously was received by filing Form 2688.

You can find a link to the draft Form 4868 and other draft forms at the "Tax Professionals" page of the IRS website at www.irs.gov.

Energy Tax Incentives for Your Existing Home ...continued from page 3

1. "Envelope" Improvements. This encompasses building components such as insulation, new windows (including skylights) and doors, and certain roofing material. The credit may be claimed for 10% of the cost of such improvements. The component must be installed in or on a dwelling unit (including a manufactured home) located in the U.S. Also, the dwelling unit must be used by the taxpayer as his or her principal residence, so improvements to a second home or to a rental property do not qualify. Finally, the energy-conserving components will need to be "reasonably expected" to remain in use for at least five years and the taxpayer must be the original user of the components.

2. Purchases of certain property. The credit for certain kinds of energy-saving property is simply a set amount. For example, for an advanced main air circulating fan, up to \$50 of the cost is credit-eligible. For a natural gas, propane, or oil furnace or hot water boiler, up to \$150 of the cost is credit-eligible. Eligible expenses include labor costs for on-site preparation, assembly, and original installation of the property. Finally, the energy-saving property must be installed on or in connection with a dwelling unit located in the U.S. that is owned and used by the taxpayer as his or her principal residence, and the energy-saving property must be originally placed in service by the taxpayer.

This credit is in effect in 2006, and is scheduled to disappear after 2007.

Sales Tax Issues - Exempt Manufacturers ...continued from page 1

9. Quality control costs are not considered by the State of Wisconsin to be directly related to manufacturing. Those expenses are, therefore, taxable for sales and use tax purposes.

10. Computer-aided design (CAD) and computer-aided manufacturing (CAM) equipment and software expenses can often be intermingled so manufacturers need to be careful when determining which of those expenses are taxable or exempt for sales and use tax purposes. CAD expenses are not considered to be exempt, while CAM expenses are exempt.

If you encounter situations in which you are uncertain as to whether a transaction is taxable or tax-exempt, contact us.



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The goal of UPDATE is to provide our clients with timely financial and tax information. Since space limitations require generalizations, Winter, Kloman, Moter, & Repp S.C. encourages you to obtain specific personal advice before implementing any ideas presented in this publication.

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