

## Changes In Tax Law for 2006 Returns

Taxpayers should be aware of important changes to the tax law before they complete their 2006 federal income tax forms. Here are some changes that may affect your return.

- New energy-saving tax credits. A ten percent credit can now be claimed for various energy-saving improvements made to the taxpayer's main residence. There is also a thirty percent credit for the cost of energy-saving property such as photovoltaic cells.
- Expanded tax savings for retirement plans. 401(k) and 403(b) plans can now create a qualified Roth contribution program.
- Retirement contributions from tax free combat pay. Military members serving in Iraq, Afghanistan and other combat zone localities can now count tax-free combat pay when figuring how much to contribute to a Roth or traditional IRA.
- Military reservists not subject to early distribution tax. Reservists called to active duty can now receive payments from retirement plans without being subject to the ten percent early-distribution tax.
- New rules on donations to charity. To be deductible, clothing and household items donated to charity after Aug. 17, 2006, must be in good used condition or better.
- Tax free transfers from IRA's to charity. An IRA holder, age 70 ½ or over, can directly transfer tax-free, up to \$100,000 per year to an eligible charity. This option is available in tax years 2006 and 2007.
- "Kiddie" Tax Age Change. Children under 18 with taxable investment income may need to pay at their parents' higher marginal rates. Before, so-called "kiddie" tax applied only to children under 14.

Also new this year, two changes may affect the amount of your refund or the way in which you choose to receive your refund.

- Telephone Excise Tax Refund. Individual taxpayers will be able to request a refund if they paid the federal excise tax on long-distance or bundled service.
- New Split Refund Option. Taxpayers now can split their refunds among up to three accounts held by up to three U.S. financial institutions, such as banks, mutual funds, brokerage firms or credit unions.

For more information, visit the IRS Web site at [IRS.gov](http://IRS.gov). Also, see Publication 553, Highlights of 2006 Tax Changes, and the instruction book for Form 1040