

Claiming State and Local Sales Tax, Higher Education, and Educator Expenses on 2006 Returns

You may be able to take advantage of certain tax breaks enacted in the final days of 2006. Claiming deductions for **state and local sales tax, higher education tuition and fees, and educator expenses** will require special handling if you file a paper income tax return for 2006.

IRS E-file and Free File tax software is being updated to include the provisions of the new tax law. E-file software automatically places your tax information in the correct locations on the return; so you will not have to worry about making any special notations on your e-filed return in order to claim these deductions.

But if you choose to file a paper income tax return you must use Form 1040 rather than Form 1040A. Because the tax forms were printed before the new law was signed, there will not be separate lines for these deductions and you will have to follow a few special instructions.

State and Local General Sales Tax Deduction:

The deduction for state and local general sales taxes can be claimed on Schedule A (Form 1040), line 5, "State and local income taxes." Enter "ST" on the dotted line to the left of line 5 to indicate you are claiming the general sales tax deduction instead of the deduction for state and local income tax.

Higher Education Tuition and Fees Deduction:

The deduction for tuition and fees can be claimed on Form 1040, line 35, "Domestic production activities deduction." Enter "T" in the space to the left of that line entry if claiming the tuition and fees deduction, or "B" if claiming both a deduction for domestic production activities and the deduction for tuition and fees. For those entering "B," taxpayers must attach a breakdown showing the amounts claimed for each deduction.

Educator Expense Adjustment to Income:

Teachers and other educators (including classroom aides, counselors, and principals) can deduct as much as \$250 that they spent to purchase classroom supplies last year. The deduction for educator expenses can be claimed on Form 1040, line 23, "Archer MSA Deduction." Enter "E" on the dotted line to the left of that line entry if claiming educator expenses, or "B" if claiming both an Archer MSA deduction and the deduction for educator expenses on Form 1040. If entering "B," taxpayers must attach a breakdown showing the amounts claimed for each deduction