



NKY 2006 TAX GUIDE

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The Sunday
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INSIDE E-ZY DOES IT

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ON THE WATCH

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TIMELY CHANGES

ANDREW MODRALL, CPA FROM HARRELL & MODRALL, EXPLAINS THE LATEST CHANGES IN THE TAX LAWS IN KENTUCKY AND OHIO

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The Tax Man Cometh...



What's New for Taxes This Year

Recently, four prominent Northern Kentucky tax professionals gathered at The Sunday Challenger offices to discuss the issues facing NKY taxpayers.

CHALLENGER: It seems like the tax code changes every year. What are some of the biggest changes for this year?

MCNEILL: I don't think there's anything at the federal level that compares to the changes at the state level. I think if people haven't looked at their situation for this year, they should.

MALOF: For individuals, you have a little bit of a reprieve: rates have come down slightly in both Kentucky and Ohio. You won't go to Disney World on the savings, but every bit helps.

MALOF: There's a couple of things under what I call stealth taxes. Your social security limit has gone up from 2004 to 2006 by \$6,300. At 6.2 percent rate, the FICA tax on wages as an employee has gone up almost \$400. It's an overall liability increase of almost \$800 to the employee and employer.

The other stealth tax on the pure income tax side is the phase-out of the itemized deduction. It's been around for awhile, but above certain income limits you start losing deductions for home mortgage interest, real estate tax, state income taxes, charitable contributions.

MCNEILL: Also, the growth in people paying the

alternative minimum tax is pretty phenomenal.

CHALLENGER: What is the alternative minimum tax (AMT)?

MODRALL: The AMT is an alternative tax – a flat rate tax. It is calculated differently from regular tax. There are fewer deductions. For example, there is no deduction for state and local taxes paid, miscellaneous itemized deductions are not deductible, depreciation is capped a certain way. Its original intent was to make sure that very high-income individuals



Howard McEwen, CFA, moderated the roundtable discussion. As well as being a contributor to The Sunday Challenger, McEwen is the branch manager of The Makris Financial Group, Inc. of Cincinnati. He is also the author of The Pure Investor available at Amazon.com. He is a resident of Bellevue.

couldn't escape paying tax through loopholes, but it has broadened out to millions of other individuals. The AMT rate is 26 percent and you pay the higher of your regular tax or the AMT. A lot of people are surprised to find themselves paying this.

HORWITZ: What usually drives this is the state tax deduction, excess interest paid on your house, and miscellaneous itemized deductions and a lot of capital gains.

MALOF: It's odd who gets hit with AMT and who doesn't. You have to run it through the tax software programs and see what happens.

MCNEILL: You don't know when it's going to hit you and it could be thousands of dollars. You have to compute your taxes twice. There are really two tax systems – the regular one and the AMT.

MCNEILL: You can also lose your personal exemption.

MALOF: Traditional year-end tax planning doesn't always work with the AMT. By way of example, if there's estimated income tax payments you traditionally make at the state level before year-end to save on your federal taxes, you may not want to make those because the deduction may actually trigger the AMT for you.

HORWITZ: The tax rates are becoming very deceptive. The top rate is 35 percent, but when you start losing your deductions and exemptions, you can add another 4 percent onto that.

CHALLENGER: What do you think is the most overlooked deduction?

MCNEILL: The most overlooked tax deduction is poor recordkeeping. People don't keep adequate records. If they did, they would save more money.

MODRALL: A lot of my clients understand there is a hurdle of 7.5 percent of adjusted gross income in order to deduct medical expense. A lot of people think they just can't get there. But I think they'd be surprised. I have a two-page

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The Panel



Martin J. Horwitz is the founder and managing partner of The Horwitz Law firm in Crescent Springs. He represents individuals and closely held businesses in taxation, business planning, and transaction issues. He also represents taxpayers before the IRS and state and local taxing authorities.



Scott J. Malof, CPA/PFS of Mountjoy & Bressler of Covington, has been in practice for 20 years, specializing in tax, business consulting and financial planning for closely held businesses and their owners, as well as medium to high net income/net worth individuals. Malof is a Certified Financial Specialist as well.



Mackey McNeill, CPA is the owner of The Advisory Team, a Fort Wright accounting and financial planning firm. McNeill is also a Personal Financial Specialist as well as a Registered Investment Advisor. She is also the author of the book The Intersection of Joy and Money.



Andrew Modrall, CPA, of Harrell & Modrall, of Fort Thomas and Anderson Township, Ohio, has 28 years of experience as a CPA. He helps individuals and businesses with accounting, finance, and income tax issues with a special knowledge of the real estate, retail, and construction trades and the medical and legal professions.

