

Late tax legislation affects filing of 2006 tax returns

Madison, WI - You would think it is safe to assume that the tax forms you receive from the IRS are correct. Not this year.

Taxpayers filing a tax year 2006 paper Form 1040 need to be aware that the form does not reflect changes to the tax law that were enacted after the forms were printed, according to Wegner LLP, CPAs & Consultants.

Affected are taxpayers who will claim the state and local sales tax deduction, the deduction for higher education tuition and fees, and the educator expense deduction.

These items had been scheduled to expire and were extended in a last-minute Congressional action just before the end of the year. The 2006 forms issued by the IRS do not include these provisions, so the IRS has issued special instructions for dealing with these deductions.

“This late legislation may cause confusion for some taxpayers,” said Greg LaFreniere, CPA, CVA, Partner. “And the IRS will not be able to process tax returns claiming these deductions until beginning Feb. 3, 2007. We encourage taxpayers to visit their accountant or to file electronically to avoid errors on these deductions.”

The state and local general sales tax deduction is available to all taxpayers, although it is intended primarily to benefit taxpayers who live in states that do not have state and local income taxes. The IRS is releasing Publication 600 for 2006, which will include state and local sales tax tables, a worksheet and instructions for figuring the deduction. The deduction is itemized on Form 1040, Schedule A, line 5, State and Local Income Taxes. Taxpayers should enter “ST” on the dotted line to the left of line 5 to indicate you are claiming the general sales tax deduction.

The deduction for higher education tuition and fees is a bit more complicated. Taxpayers must file Form 1040 to take advantage of this deduction of up to \$4,000 for tuition and fees paid to a post-secondary institution. The deduction is claimed on 1040 line 35, Domestic production activities deduction. Taxpayers should enter “T” in the blank space to the left of the line entry if claiming the tuition and fees deduction. If claiming both the educational deduction and the domestic production activities deduction, enter “B” and attach a sheet showing the amounts claimed for each.

The educator expense deduction is also claimed on Form 1040, line 23, Archer MSA Deduction, and allows up to \$250 for out-of-pocket classroom expenses. Taxpayers should enter “E” on the dotted line to the left of that entry if claiming educator expenses or “B” if claiming both an Archer MSA deduction and the educator expense deduction. If entering “B,” a breakdown showing the amounts claimed for each deduction must be attached.