



Welcome to Tax News

In addition to providing tax preparation and personal financial planning services to our clients we will be preparing a weekly newsletter of relevant information that will strive to help you achieve your financial goals and lower your taxes.

In each weeks newsletter you will find:

- ◇ A calendar of upcoming tax deadlines
- ◇ A web site of the week that is relevant to business or taxes
- ◇ A question of the week that will be appropriate to most taxpayers situations
- ◇ Tax tips that will help reduce your taxes
- ◇ Plus much more

Enjoy the read and profit from the experience of Tax News

In Today's Issue

Texas House Passes Proposed Tax Bill

Texans would be paying one of the highest sales taxes in the nation, if a massive tax overhaul approved by the Texas House last week, is approved by the Senate.

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Website Of The Week

accounting.smartpros.com
Smart Accounting Helps All

Strange But True

Blueberry Tax, Fur Coat Tax and Tattoo Tax

News From The IRS

IRS Clarifies AMT Deduction for Home Mortgage Interest

Texas House Passes Proposed Tax Bill

Texans would be paying one of the highest sales taxes in the nation, if a massive tax overhaul approved by the Texas House last week, is approved by the Senate.

The bill currently named House Bill 3, would close loopholes that have let some of the largest companies in Texas legally avoid paying billions of dollars in taxes for years.

The complicated tax overhaul is designed to reduce a reliance on local property taxes in financing the state's \$30-billion-a-year public education system.

Currently the state pays 38 percent of that cost but under the new plan, the state's percentage would rise to 60 percent.

None of the money raised by House Bill 3 is dedicated to additional education spending, however it is a way for the House to raise billions of dollars to given Texans a property tax cut.

To pay for reducing school property taxes on businesses and homeowners by a third, the bill has to raise \$5.4 billion in new revenue. Apart from the higher business taxes, the bill would increase the state sales tax rate to 7.25 percent from 6.25 and extend sales taxes for the first time to items such as bottled water, auto-repair services and car washes.

The tax on cigarettes would rise to \$1.42 from 41 cents. Also proposed is a 3 percent sales tax on snack food, which would include sodas, candy and chips.

Boat and vehicle purchases would also be taxes at a higher rate: 7.35 percent instead of 6.25.

Due to the fact that local government entities can add 2 cents to the state sales tax, Texans would be paying one of the highest sale tax rates in the nation.

The House Bill would require all businesses that have employees to pay either the current franchise tax or a payroll tax because businesses get property tax relief, many would come out ahead or break even, depending largely on how capital-intensive they are.

In a last minute change, the House voted to apply the sales tax for the first time to elective cosmetic surgery such as breast augmentation and face-lifts.

While the House has already approved the bill, it needs to be once again approved in the House before being passed onto the Senate, where changes are expected to be made to House Bill 3.

For any tax legislation to become law both chambers have to pass an identical version and the governor must approve it.



Dates For The Diary

March 31

- Electronic filing of Forms 1098, 1099, and W-2G due. This due date applies only if you file electronically.
- For Employers, electronic filing of Forms W-2, W-2G and 8027 due. This due date applies only if you file electronically.

Tax News

Congress Examines Cash Accounting Measures

Congress is currently considering new legislation that could streamline accounting procedures for tens of thousands of U.S. companies by liberalizing the rules for the use of the cash accounting method by small business taxpayers.

The main thrust of the legislation is to provide relief for small businesses from the "burdensome record-keeping requirements that they must deal with currently in paying their income taxes."

Some companies already enjoy such relief under rules set by Congress, allowing many small businesses with annual income under \$5 million to use cash accounting.

Cash accounting recognizes revenue and expenses when cash is received or disbursed, as opposed to earned or incurred.

Tax Tidbits

- ◇ Do you sell Tupperware? Or Avon? As a home demonstrator for any product line, you are considered a participant in a trade or a business. Therefore, you must file schedule C to report income and expenses. You must pay self-employment tax if your net profit exceeds \$433 for the year.
- ◇ Using a trust for that benefit of your children or grandchildren for educational purposes can involve somewhat complex planning. You should consult a financial planner for the best avenues because there are a variety of trusts. A trust can be a useful planning tool, but it really depends on your circumstances.
- ◇ Do you have a big family and could do with some tax help? You're generally entitled to an exemption for each of your children. You may also be eligible for a child tax credit of up to \$1,000 per child. If you and your spouse work and pay for child care, you may be eligible for a child care credit. To find out more information, see your tax professional.

Website Of The Week

Smart Accounting Helps All

<http://accounting.smartpros.com>

SmartPros Accounting is a website designed to educate online and offline financial professionals in such areas as corporate accounting, financial management and taxation.

While the website has been designed for professionals, it also provides a large amount of information helpful to regular taxpayers as well.

By providing news articles and opinions on IRS decisions and tax related issues, SmartPros is giving many a chance to learn more of what is required when they file their returns.

Not only does this website provide news and opinions but it also provides information on courses and classes that you can participate in, if you wish to become a tax consultant or just want some more extensive knowledge.

SmartPros Accounting is our website of the week because not only does it cater for the numerous financial professionals out there it also provides information for the regular taxpayer as well.



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What's On Offer

At Taxlogic, the accountants are all professionals with over 25 years experience in the taxation industry with an extensive knowledge and focus on electronic filing.

By using the team at Taxlogic to prepare and file your tax returns, not only will you be given excellent service, but you will also be treated like a person not just a number.

From any computer, anywhere in the world, 24 hours a day, seven days a week Taxlogic can help you with your tax preparation.

As well as the ability to prepare personal tax returns the team at Taxlogic also are very knowledgeable with corporate/business returns for the current or previous years.

The team also provide services to help with company formations, annual minutes for corporations and payroll preparation.

Bookkeeping courses and weekly newsletters are provided by Taxlogic to help keep you informed on the latest and greatest of all things tax orientated.

Help can also be given when preparing your employee handbooks

For all things tax related, look no further than the team at Taxlogic.

Strange But True

This week we look at some more strange taxes such as a blueberry tax, fur clothing tax and a tattoo tax.

Blueberry Tax

Do you enjoy fresh blueberries? Well in Maine you could be paying a bit of a premium for this fruit. Anyone who grows, purchases, sells, handles or process the fruit in the state is subject to a penny-and-a-half-per-pound tax.

Fur Clothing Tax

Keeping warm in winter in Minnesota will cost you depending on what you choose to wear. Businesses in the state must pay a 6.5 percent tax on the total amount received for the sale, shipping and finance charges associated with the purchase of clothing in which fur accounts for three times more of the garment than the next most valuable material.

Most types of clothing in Minnesota are sales-tax free, so if you want to keep warm it may be best to switch to wearing leather, suede, or other animal skins where the hair, fleece or fur fiber has been completely removed.

Tattoo Tax

As of last July, anyone in Arkansas wanting to get an eagle etched on their abs or a nose ring notched in their nostril will have to pay an additional 6 percent, as the state included tattooing and body piercing in its list of services subject to sales taxes. Electrolysis treatments are also counted and therefore taxed as well.

News From The IRS

IRS Clarifies AMT Deduction for Home Mortgage Interest

Qualified housing interest, which generally is deductible for alternative minimum tax purposes, includes interest paid on a mortgage that has been refinanced more than once.

In Revenue Ruling 2005-11, the IRS stated that interest paid on a loan that is refinanced more than once will retain its status as qualified housing interest, to the extent that the amount of the loan is not increased.

This ruling may affect the amount some taxpayers report as a home mortgage interest adjustment on Form 6251, Alternative Minimum Tax-Individuals. The instructions for Form 6251 include a worksheet to help taxpayers determine the correct home mortgage interest adjustment.

As clarified by Revenue Ruling 2005-11, a taxpayer should include in the worksheet calculation as interest paid on a mortgage whose proceeds were used to refinance an eligible mortgage, qualified housing interest on a mortgage that previously was refinanced.

Revised instructions to Form 6251 to reflect this clarification will be posted on the IRS Web site, www.irs.gov.