

# TAX TIDBITS

BY BONONI & BONONI, P.C.



*Michele Bononi, Esq., and Eric Bononi, Esq., CPA*

It's that time of year again.... With April fast approaching, here is a quick rundown of some of the tax principles that may affect your 2006 tax return.

## IRA & Retirement Savings Rules

**Traditional IRAs:** An individual who is not an active participant in an employer-sponsored pension plan may make deductible contributions to an IRA. The deductible contribution limit for 2006 is \$4,000.

An individual who is an active participant in a plan may also make deductible contributions to an IRA, but the amount of the deduction is limited depending on adjusted gross income (AGI).

For 2006, a \$1,000 "catch-up" contribution deduction is allowed for taxpayers age 50 or older by the close of the taxable year who meet the other qualifications for IRA deductions. Thus, the total deductible limit for these individuals may be as high as \$5,000.

**Roth IRAs:** The Roth IRA permits nondeductible contributions of up to \$4,000 a year. Earnings grow tax-free, and distributions are tax-free provided (a) no distributions are made until more than five years after the first contribution and (b) the individual has reached age 59-1/2.

**Pension Act Relief:** Effective for distributions made after 2006, nonspouse beneficiaries may roll over to an IRA (or other plan structured for that purpose) amounts inherited as a designated beneficiary. The inherited amounts are subject to the annual minimum distribution

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*The firm is located at 20 North Pennsylvania Ave., Suite 201, Greensburg, PA 15601. Phone: 724-832-2499; Fax: 724-836-0370; E-Mail: [Eric@bononiandbononi.com](mailto:Eric@bononiandbononi.com) or [Michele@bononiandbononi.com](mailto:Michele@bononiandbononi.com).*

rules requiring distributions over the person's life expectancy (recalculated annually).

Also, individuals may exclude from gross income qualified charitable distributions of up to \$100,000, from a traditional IRA or a Roth IRA, that are made to a tax-exempt organization to which deductible contributions can be made.

## Business Deductions

**Self-Employed Health Insurance Premiums:** Self-employed individuals are allowed to claim 100% of the amount paid during the taxable year for health insurance for themselves, their spouses, and their dependents as an above-the-line deduction, without regard to the 7.5% of adjusted gross income (AGI) floor.

**Equipment Purchases:** A business owner who purchases equipment may make a "Section 179 Election," which allows the owner to expense (i.e., currently deduct) otherwise depreciable business property.

## Education & Child Tax Benefits

**Child Tax Credit:** A tax credit of \$1,000 per qualifying child under the age of 17 is available on the 2006 return.

**Credit for Adoption Expenses:** For 2006, the adoption credit limitation is \$10,960 of aggregate expenditures for each child. However, the credit for an adoption of a child with special needs is deemed to be \$10,960 regardless of the amount of expenses.

**HOPE Credit & Lifetime Learning Credit:** The maximum HOPE credit is \$1,650 (100% on the first \$1,100, plus 50% of the next \$1,100) for qualified tuition and fees paid on behalf of a student who is enrolled on at least a half-time basis. For purposes of this credit, the student may be the taxpayer, the taxpayer's spouse, or a dependent.

The Lifetime Learning credit maximum for 2006 is \$2,000 (20% of qualified tuition and fees up to \$10,000).

**Student Loan Interest:** A student may be eligible for an above-the-line deduction for student loan interest paid on any "qualified education loan." The maximum deduction is \$2,500.

*If you have any questions, please do not hesitate to call. We would be happy to meet with you at your convenience to discuss the tax principles outlined above as well as any other personal or corporate tax issues.*

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