Cynthia Dawkins: And now, Grace Protos from Region II will introduce our first speaker.

Grace?

Grace Protos: Hi. Good afternoon. It’s my pleasure to introduce Ronald Hegt. Mr. Hegt is a Partner of Hays and Company LLP, a New York City-based firm of Certified Public Accountants that is part of the Moore Stephens International network.

He specializes in tax planning and compliance and is an expert in domestic, state and local, expatriate, and gift/estate taxes.

Mr. Hegt has been active with the American Institute of Certified Public Accountants, also known as AICPA, for over 25 years, during which time he has served on the Tax Executive Committee and has either served on or chaired various other committees such as the National Financial Literacy Commission, Individual Tax Committee, and the Tax Accounting Committee.

Additionally, he has been a spokesman for the AICPA before Congress’ Small Business Subcommittee, where he has testified on multiple occasions.

As a frequent contributor to USA Today, Mr. Hegt hosts an annual live column on tax planning. He also has co-authored several articles in recent years for The Tax Adviser and The Trusted Professional and served on the editorial board of The Tax Advisor.
Mr. Hegt speaks often at various technical conferences and has previously been honored by the New York State Society of CPA’s as the Outstanding Discussion Leader of the Year.

He holds a Bachelor’s Degree in Business Administration from the State University of New York at Buffalo and an MBA in Taxation from Baruch College.

I’d like to thank and welcome Ronald Hegt to our teleconference today.

Ronald?

Ronald Hegt: Thank you, Grace. I hope I’ll be able to live up to that introduction.

I want to spend some time in the beginning of my session trying to take some of the mystery out of some of the tax jargon that we deal with on a regular basis.

There are – and I didn’t personally do this count – there are 1.6 million words in the Internal Revenue Code, and hence some of the confusion.

But some of the issues that we need to deal with [are] … if you begin to hear terms like you’re eligible for credits or you’re eligible for deductions or you’re subject to alternative minimum tax, now what do these things mean?

A credit -- because we will be talking about some of them as we go along today -- a credit is a dollar for dollar reduction of your ultimate tax liability. So that if somebody said to you, you can do something
that will generate a $300 credit, it’s going to reduce your tax bill by $300.

As opposed to something that is deductible. A deduction is going to reduce your taxable income, but your savings are going to be proportionately less because your savings are going to be whatever you deduct multiplied by whatever your tax rate is.

[What is the] alternative minimum tax?

Now that is an area that by itself could generate days and days of discussion, but just so that people are aware of it if they’re doing their own planning or doing their own income tax returns, the alternative minimum tax is a separate tax system that lives right next to the regular tax system. An individual is required to compute their tax under [these] two different systems and then is required to pay whichever is the higher of the two taxes.

The other term that gets thrown around a lot that people find confusing or daunting when they’re talking about either tax planning or doing their own income tax return, is this concept of marriage penalty -- a marriage tax penalty. And what that results from are several inconsistencies in the Internal Revenue Code, where two people that are married may end up paying higher taxes than two similarly situated people that are single.

Now there is not a lot that can be done about that, but you know, it’s a topic of conversation that’s out there, and people should sort of have a feel for what it is.
Let me turn now for a few minutes and talk about some of the more common overlooked areas in preparing tax returns or some of the more common errors that are made.

This year there are going to be a number of things that will get overlooked in preparing tax returns. And the reason they will be overlooked is they are things that expired as deductions sometime in 2006 and were not reinstated by Congress until December.

Now by December, the Internal Revenue Service had printed and mailed and distributed tax forms, so there are a number of deductions that people are entitled to in 2006 that do not appear in your income tax booklets.

For example, the deduction for state and local sales tax, which was a deduction on the 2005 income tax - year 2005 income tax return - is also available to you in 2006, but that doesn’t appear on the tax forms.

The IRS has on its Web site information on how to deduct that item along with higher education tuition. Under certain circumstances, you can deduct college tuition of up to $4,000. Again, that’s not on this year’s tax form even though it’s deductible.

Teachers are entitled to deduct $250 worth of expenses that they are not reimbursed for, expenses that they have incurred buying classroom items. And that item is also, again, not on this year’s tax return.

All those items, you can go to the IRS Web site, which is www.irs.gov, and there is information on how to compute those deductions as well as what lines to put that information on.
Now some other things that are new and may get overlooked this year. There is a residential energy credit, and this is again a credit.

If you have installed either a heat pump, central air-conditioning, a water heater, a new furnace, new insulation, or new windows in your home, you could be entitled to up to a $500 tax credit for any of these residential energy savings improvements that you made during the year.

Something that’s also new and is a one-time item -- it does appear on the tax return, but according to the IRS, 50% of the returns that were processed through last week did not claim this credit -- and the credit I’m referring to is a credit for the federal telephone excise tax.

The courts have determined that the federal telephone excise tax was unconstitutional and inappropriately collected. And the way the government is allowing individuals to reclaim this erroneously collected tax is by claiming a credit, and the credit actually appears on Line 71 of your [Form] 1040. And you don’t need to prove how much tax you paid. You don’t need to submit any documentation. Just based on the number of exemptions that you claim, you’ll be entitled to anywhere from a $30 to a $60 tax credit just for remembering to claim the credit.

Some of the more common things in addition that people tend to either forget about or have problems with [are] student loan interest deductions. If you’re paying off interest, if you're paying interest while paying off your student loans, you’re entitled to a $2,500 a year income tax deduction for that interest.
And as long as I’m on the topic of higher education, under certain circumstances there are college tuition credits known as the Lifetime Learning Credit or the Hope Credit which allow you again a dollar-for-dollar credit for a certain portion of college tuition paid. And individuals should keep in mind that if they have children that are attending college that their children may be able to take advantage of [these] credits while they [the parents] may not be able to.

And quickly--as I look at the clock--just to say, some of the common errors that individuals should be careful with when they’re doing their own income tax returns are again to make sure you consider alternative minimum tax -- am I subject to it?--because a lot of people find out the hard way when they get a bill that they were subject to it.

Be careful with the math in doing your tax returns because there are a number of phase outs. Itemized -- your itemized deductions begin to phase out if your income is in excess of $150,000.

And if you’re not careful to follow through with the computations that need to be done, not on the face of the return, errors can be made and you can end up getting correspondence from the Internal Revenue Service.

And I think I’ve covered some of the areas that we wanted to highlight, and I’m sure there will, you know, be questions during the question and answer period.

Cynthia Dawkins: Thank you, Ron. That was really some valuable information you just gave us.