

The HSA contribution is applied pro rata based on the number of months of the year a taxpayer is an eligible individual. The catch-up contribution is pro rated based on the number of months of the year the taxpayer is age 55 and over. Eligibility requirements for the HSA deduction are found at: www.irs.gov/pub/irs-pdf/p962.pdf.

NEW OPTION TO SPLIT REFUNDS BETWEEN ACCOUNTS

Taxpayers will have more options and flexibility for choosing how to receive their 2006 federal income tax refunds. In addition to the two previous refund options – direct deposit to one account or receiving a paper check – taxpayers can now opt to split their refunds among two or three checking or savings accounts with U.S. financial institutions, regardless of which form in the 1040 family they file (except Form 1040-EZ-T Claim for Refund of Federal Telephone Excise Tax) or whether they file electronic or paper returns. Individuals electing this split refund option must file Form 8888, Direct Deposit of Refund.

TAX FILING RESOURCES

Free Tax Preparation

Need assistance with your tax return? The IRS Volunteer Income Tax Assistance (VITA) or the Tax Counseling for the Elderly (TCE) programs offer free tax help if you qualify. Learn the locations, dates and hours of the VITA and TCE programs by calling this toll-free number: 1-800-TAX-1040. In addition to free tax return preparation, many sites also offer free electronic filing (e-filing).

Electronic Tax Filing

The IRS E-file program (electronic filing of returns) means half the time compared to filing a paper return, says the IRS. You can e-file three ways:

- **E-File Using a Computer:** Go to www.irs.gov/efile and review the options for low-cost – and even free – tax filing.
- **E-File Using a Telephone:** Call 1-800-829-1040 to learn how.
- **E-File Using a Tax Preparer:** Click the e-file logo at www.irs.gov for an authorized IRS e-file Provider.

YOU CAN ESTIMATE YOUR TAXES ONLINE!

The IRS provides an online calculator to help taxpayers estimate their withholding requirements and potential tax liability. To use this online tool, log on to www.irs.gov, click “Individuals” in the top bar, then click “IRS Withholding Calculator” in the list of options.

TAKE ADVANTAGE OF IRS DIRECT **The safe, easy, quick way to get your tax refund!**

Include your credit union routing number and your account information directly on your 1040 form in the section labeled “Refund.”

The image shows a sample check form with the title "SAMPLE CHECK". At the bottom of the form, there are two MICR lines. The first line is "⑆ 23456789" and the second line is "⑆ 0123456789 ⑆ 0531". Red brackets under the first line and blue brackets under the second line point to labels below the form.

**Credit Union
Routing Number
(9 digit number)**

**Individual's
Account Number**

TAX GUIDE 2006

**Savings tips ... filing tips ...
getting help ... tax resources**



Presented by the National Association of Federal Credit Unions, an independent trade association representing federally chartered credit unions nationwide.

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TAX PLANNING NOW CAN HELP YOU TO SAVE MONEY AT TAX TIME!

Now is the best time to look ahead for what's in store with your 2006 taxes. Are you having enough withheld from each paycheck? Or perhaps too much is being taken out. Can you expect a refund ... or will you owe taxes this year? Where can you get help ... and where can you find answers to your tax questions?

Your credit union offers these timely tips to help you get a head start on this year's tax season. As always, consult with your tax advisor about your personal tax situation.

Note: Since April 15, 2007 falls on a Sunday, most individuals have until Monday, April 16 to file their 2006 federal tax returns.

TAX LAW CHANGES FOR INDIVIDUALS

Standard Deduction

Basic amounts for 2006 are:

- Head of household – \$7,550
- Married filing jointly and qualifying widow(er)s – \$10,300
- Married filing separately – \$5,150
- Single – \$5,150

Additional standard deduction for Aged and Blind are:

- \$1,000 for each
- \$1,250 if the individual is unmarried and not a surviving spouse

Earned Income Credit

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low-income working individuals and families. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. To qualify, taxpayers must meet certain requirements and file a tax return, even if they did not earn enough money to be obligated to file a tax return. If you want to claim the EITC, you should make sure you are eligible for the credit before sending in your tax

return. To learn if you qualify, you can use the EITC Assistant at www.irs.gov (search for "Earned Income Credit").

Standard Mileage Rates

Beginning January 1, 2006, the allowable deductions for the standard mileage rate are as follows:

- Business miles: 44.5 cents a mile
- Medical or moving reasons: 18 cents a mile
- Charitable services: 14 cents a mile

Exemption Amount

The exemption deduction has increased to \$3,300. The amount at which the exemption deduction phase-out begins is:

- \$112,875 – Married filing separately
- \$150,500 – Single
- \$188,150 – Head of household
- \$225,750 – Married filing jointly and qualifying widow(er)s with dependent children

IRA CHANGES

AGI Limit for Traditional IRAs

For 2006, if you are covered by a retirement plan at work, the deduction for contributions to a traditional IRA will be reduced if your modified adjusted gross income is:

- Married filing a joint return or qualifying widower: More than \$70,000 but less than \$80,000
- Single or head of household: More than \$50,000 but less than \$60,000
- Married filing separately: Less than \$10,000

Maximum Traditional or Roth IRA Contribution:

\$4,000 OR \$5,000 if age 50 or older

BRIEF OVERVIEW OF THE ALTERNATIVE MINIMUM TAX (AMT)

The alternative minimum tax (AMT) is an extra tax that some people have to pay on top of regular income tax. The AMT was originally developed to prevent people with very high incomes from using special tax benefits to pay little or no tax.

However, the AMT has been affecting more people each year. Congress is studying ways to correct this problem, but for now taxpayers must be aware of potential AMT liability. The AMT provides an alternative set of rules for calculating your income tax. In theory, these rules determine a minimum amount of tax that someone with your income should be required to pay. If you're already paying at least that much because of the regular income tax, you don't have to pay AMT. But if your regular tax falls below this minimum, you have to make up the difference by paying alternative minimum tax.

For tax year 2006, the exemption amount for alternative minimum tax (AMT) has been increased as follows:

- Single – \$42,500
- Married filing jointly or surviving spouse – \$62,550
- Head of household – \$42,500
- Married filing separately – \$31,275

TAX BREAKS TO KNOW ABOUT

Be sure to check out these tax breaks to learn if you are eligible:

Tax Information for Members of the U.S. Armed Forces

The tax laws provide some special benefits for active members of the U.S. Armed Forces, including those serving in combat zones. For federal tax purposes, the U.S. Armed Forces includes officers and enlisted personnel in all regular and reserve units controlled by the Secretaries of Defense, the Army, Navy and Air Force. The Coast Guard is also included, but not the U.S. Merchant Marine or the American Red Cross. However, these and other support personnel may qualify for certain tax deadline extensions because of their service in a combat zone. For information: www.irs.gov/newsroom/index (click "Armed Forces").

Health Savings Account (HSA) Maximum Annual Contribution

- Individual, self-only coverage: \$2,700
- Family coverage: \$5,450
- Individual catch-up contributions for persons 55 or older: \$700