

IRS extends terms of confusion

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In case you didn't already think filing your income tax return was complicated enough, Congress has just passed the Tax Relief and Health Care Act of 2006. This new act contains many "extenders," as they are called. These extenders are items affecting individual and other tax returns that were scheduled to expire and no longer be available to use on tax returns.

The provisions extended include, but are not limited to, the State and Local Sales Tax Deduction, Higher Education and Fees Deduction, and Educator Expense Deduction.

These previously available deductions, which were to be eliminated, have now been reinstated for the 2006 tax year and are available to all taxpayers who qualify to take advantage of these items on their individual tax returns.

The State and Local Tax Deduction allows taxpayers to take as an itemized deduction, the local sales tax they paid throughout the year in lieu of deducting state income taxes paid.

The Higher Education Tuition & Fees Deduction is an above-the-line deduction for certain higher education expenses.

Finally, the Educator Expense Deduction is another above-the-line deduction for educators who did not get reimbursed for certain classroom expenses.

These deductions, however, were not included in the original 2006 Income Tax Forms and instructions printed by the IRS, so they have to be reported by taxpayers by using special codes. This caused the IRS to issue revised publications to address these expenses and how to report them on the 2006 tax forms.

In addition, the IRS stated that, due to these late revisions, they may have to delay the processing of tax returns claiming these deductions until they can update their software to handle these newly "restated" deductions. The IRS is also recommending that taxpayers who will be taking these deductions file their returns electronically this year to help avoid processing problems.

Basically, if you plan on taking these deductions on your 2006 tax return, you will have to use a special "code" on certain lines of your tax return to inform the IRS of the deduction so that it is processed properly.

The reinstated deductions and related codes ensure that this will be a complicated season for taxpayers filling out their income tax returns. If you don't already use one, you may want to seek a tax professional to assist you in preparing your return this year.

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