

Tax Tips

- A) **Equipment Expensing Election** – Up to \$108,000 of qualifying business equipment purchased in 2006 may be expensed currently in lieu of depreciation. (A limit applies to business autos.)
- B) **Business Use of Home Deduction** – If an area of the home is used regularly and exclusively for business, a deduction for a portion of mortgage interest, taxes, insurance, utilities, and depreciation may be allowed. If business use of the home is established, a mileage deduction for travel between home and other job location may be allowed.
- C) **Per Diem Meal Rates** – In lieu of using actual expenses incurred for meals and incidental expenses, self-employed individuals may deduct per diem amounts equal to or less than IRS-approved rates. The rate for meals and incidental expenses (M & IE) depend on location. Provide a detailed list of locations you traveled to for business.
- D) **Auto Loan Interest** – Self-employed taxpayers are allowed a deduction for the business portion of auto loan interest. *Note:* Business portion of auto loan interest for an employee is considered nondeductible personal interest.
- E) **Self-Employed Health Insurance Deduction** – Up to 100% of health insurance premiums may be deducted. The deduction is not allowed for any month that the self-employed individual or his or her spouse is eligible to participate in a subsidized health plan maintained by an employer.
- F) **Residential Energy Credits** – There are two new credits related to energy efficient improvements made to personal residences. Heat-reduction improvements can result in a lifetime credit amount of \$500. The addition of solar equipment can create a credit equal to 30% of the item's cost, limited to \$2,000 per type of item.
- G) **Hybrid Vehicles** – Instead of a \$2,000 deduction for hybrid vehicles for purchases made before 2006, there is a credit of up to \$3,400 for hybrid vehicles purchased after 2005. This is a major benefit since this tax credit could represent a dollar for dollar tax reduction.