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IRS Simplifies Filing Extension For Business Taxpayers

The Internal Revenue Service has simplified the process for business taxpayers filing for an extension.

All business taxpayers who previously filed extension Forms 8800, 8736, 7004, and 2758 will now only need to file the revised Form 7004, "Application for Automatic 6-Month Extension of Time To File Certain Business Income Tax, Information, and

Other Returns." The revised Form 7004 grants taxpayers an automatic six-month extension without the need to file intervening forms.

Business taxpayers must file Form 7004 by the due date of the return to get the automatic six-month extension, which is calculated from the due date of the return.

New regulations make this option available to

most non-corporate business taxpayers, including partnerships and trusts. Previously, only corporations could request this extension.

Individual Taxpayers Note: Individuals who need additional time to file their tax returns may request an automatic six-month extension by filing Form 4868. More details are available in IRS News Release 2005-131, published Nov. 4, 2005.

Estate And Gift Tax Extensions Streamlined

Revised Form 4768, "Application for Extension of Time To File a Return and/or Pay U.S. Estate (and Generation-Skipping Transfer) Taxes," allows a single six-month extension for all Form 706 return filing. The request must be made on or before the due date of the return in order to be accepted. Previously, taxpayers

had to make multiple requests in order to get the maximum of six months.

A revised Form 8892, "Payment of Gift/GST Tax and/or Application for Extension of Time To File Form 709," must be filed for 2005 extension requests when the taxpayer is extending Form 709 only without

extending the Form 1040, or when the taxpayer is paying a gift tax liability. It may be used to request an automatic six-month extension for filing the Form 709 in those cases where a Form 4868 was not filed. A new tear-off section, Form 8892-V, includes a voucher for paying a gift/GST-tax liability.



“A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain.”

Mark Twain

US humorist, novelist, short story author, & wit (1835 - 1910)

Filing Extension Is Not Extension of Time to Pay

Approval of extensions requested on Forms 7004, 4768, and 8892 is automatic. Taxpayers don't need to sign extension requests or provide explanations. In addition, the IRS will no longer issue confirmation of receipt of the request and will

respond only if the extension request is denied.

An extension of time to file, however, is not an extension of time to pay. Taxpayers will owe interest on any past-due tax and may be subject to a late-payment

penalty if payment is not made by the due date of the return.

REMINDER: Corporate returns (1120/1120S) are due March 15.

Hurricane Victims Have More Time To Claim Losses On Prior-Year Returns

Victims of Hurricanes Katrina, Rita, or Wilma wishing to claim disaster-related losses on their prior-year federal income tax return now have an extra six months to make this choice.

Taxpayers suffering disaster-related losses in certain areas of Alabama, Florida, Louisiana, Mississippi, and Texas due to the hurricanes can choose

to claim those losses on their current- or prior-year return, up until October 16, 2006.

To speed processing of these claims, taxpayers should write the name of the hurricane in red at the top of their return. Those who have already filed their prior-year return can still file an amended return (Form 1040X for individuals).

An explanation of the liberalized disaster-loss rules and special instructions for claiming these losses can be found in Publication 4492, "Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma." This publication, along with other disaster-related information, is available on IRS.gov or can be obtained by calling the special IRS disaster hotline toll-free at 1-866-562-5227.

If you were recently divorced and are paying or receiving alimony under a divorce decree or agreement, you need to consider the tax implication for your 2005 federal income tax return.

Here are the general guidelines:

Alimony payments you receive are taxable to you in the year you receive them. Because no taxes are withheld from alimony payments, you may need to make estimated tax payments or increase the amount withheld from your paycheck.

Alimony payments you make under a divorce or separation instrument are deductible if certain requirements are met. Any payments not required by such a decree or agreement do not qualify as deductible alimony payments.

Child support is never deductible. If your divorce decree or other written instrument or agreement calls for alimony and child support, and you pay less than the total required, the payments apply first to child support. Any remaining amount is then considered alimony.

If you paid or received alimony you must use Form 1040. You cannot use Form 1040A or Form 1040EZ. If you received alimony, you must give the person who paid the alimony your social security number, or you may have to pay a \$50 penalty.

For more information, including rules for divorces and separations before 1985, get Publication 504, "Divorced or Separated Individuals," available at IRS.gov or by calling 1-800-TAX-FORM (1-800-829-3676).



New Steps Taken To Improve Questionable Refund Program

The IRS has updated the Questionable Refund Program (QRP) to reduce the number of taxpayers whose refunds are frozen.

IRS Commissioner Mark W. Everson said the changes include notifying taxpayers when a tax refund has been frozen. Other new procedures will result in a more timely release of frozen tax refunds for those cases that do not warrant further review.

"The actions we're

announcing constitute significant improvements to an important program," Everson said. "Going forward, we're going to both improve our screening procedures and notify all taxpayers whose refunds are held."

Highlights of the changes:

Improvements to screening procedures. The IRS will improve and refine the accuracy of filters in the program to reduce the initial number of valid refund claims held.

Earlier release of refunds. The IRS will expedite the review of returns, resulting in an earlier release of refunds.

Notification of taxpayers. The IRS will notify all taxpayers whose refunds are frozen.

Notification procedures will be implemented this filing

season. Improvements to the screening and review processes will be implemented as soon as possible in the coming months. The IRS will also continue to identify other areas for improvement and implement changes as necessary.

The changes were spurred by questions from members of Congress and the National Taxpayer Advocate regarding the length of delay and lack of notification for frozen refund claims. The IRS developed the new procedures in consultation with the National Taxpayer Advocate.

The IRS established the QRP to deal with the serious problem of refund fraud, which has increased significantly in recent years. The IRS estimates that fraudulent refund claims now exceed a half-billion dollars a year.