

# 2007 TAX SEASON NEWSLETTER

## I) 2007 TAX UPDATES

### SMALL BUSINESS AND WORK OPPORTUNITY TAX ACT OF 2007

#### Small Business Expensing

For tax years beginning after 2006, the maximum annual Section 179 amount is \$125,000 and the qualifying property threshold amount is \$500,000.

#### Kiddie Tax Changes

Starting with the 2008 tax year, the Kiddie tax has been extended to include children age 18 or who are full-time students age 19-23, if their earned income is less than or equal to half of their support.

Previously, starting with the 2006 tax year, the Kiddie Tax (Form 8615) applies to children under the age of 18. This applies to unearned income at the parent's highest rate.

#### Husband and Wife Partnerships

For tax years beginning after 2006, a qualified joint venture (JV) conducted by a husband and wife who file a joint tax return is not treated as a partnership for tax purposes. Each spouse must file a separate schedule C to report their share of income and expenses for the year. This also applies to Limited Liability Companies (LLC's).

### TAX INCREASE PREVENTION ACT OF 2007 AND MORTGAGE FORGIVENESS DEBT RELIEF ACT OF 2007

#### AMT Patch

The AMT exemption amounts were increased to \$66,250 for married filing joint, \$44,350 for single or head of household, and \$33,125 for married filing separately taxpayers. Without this AMT patch, the AMT exemption amounts would have been \$45,000 for married filing joint, \$33,750 for single or head of household and \$22,500 for married filing separately taxpayers. This AMT patch is only effective for the 2007 tax year.

#### Mortgage Forgiveness Debt Relief Act of 2007

The mortgage relief act, effective for indebtedness discharged on or after January 1, 2007 and before January 1, 2010 generally allows taxpayers to exclude up to \$2,000,000 of mortgage debt forgiveness on their principal residence. Without this relief, numerous taxpayers could be taxed on their debt forgiven.

This mortgage forgiveness exclusion only applies with respect to a taxpayer's principal (primary) residence.

Homeowner's who took out home equity loans, to pay for expenditures not related to home improvements are not covered by the new law exclusions for the home equity loans. That indebtedness income is fully taxable, unless the taxpayer is insolvent or bankrupt.

### **Mortgage Insurance Deduction**

Starting in 2007 mortgage payments for qualified mortgage insurance premiums or principle mortgage insurance (PMI), with respect to a qualified residence of the taxpayer are treated as qualified residence interest, subject to phase-outs. The deduction has been extended through the 2010 tax year. The insurance must be in connection with home acquisition debt, the insurance contract must have been issued after 2006, and you must have paid the premiums before 2008 for coverage in effect during 2007.

### **Volunteer Emergency Responders**

The foreclosure relief bill gives volunteer and emergency medical responders who receive a qualified state and local tax benefit, any reduction or rebate of a tax and qualified payments of up to \$360 each year can exclude them from income. This applies to tax years beginning after December 31, 2007.

## **TAX CHANGES EFFECTIVE FOR 2007**

### **Domestic Production Activities Deduction**

For tax years beginning after December 31, 2006, the domestic production activities deduction percentage increases from 3% to 6%.

### **IRA Distributions to Charities**

Taxpayer's, age 70 ½ or older in 2007, can transfer up to \$100,000 from their IRA accounts to a qualifying charity without paying tax on their IRA distribution.

*Please note, no charitable deduction is allowed on the transfer.*

### **Itemized Deduction and Personal Exemptions**

The phase-out limit on personal exemptions and itemized deductions is reduced by 1/3 in 2007, allowing larger deductions of both.

### **Cash Charitable Contributions**

Starting in 2007, no deduction is allowed for cash charitable contributions unless the taxpayer has either (1) bank records (i.e.: cancelled checks) or (2) written acknowledgement from the charitable organization detailing the contribution amount and date.

### **Non-Cash Charitable Contributions**

Starting in 2007 no deduction is allowed for clothing or household goods unless the items are in good used condition or better. IRS has not yet defined what constitutes "good condition or better"

### **Direct Deposit to Individual Retirement Accounts (IRA's) of Tax Refund**

Starting in 2007, taxpayers can elect to have all or a portion of their Federal tax refund deposited into their IRA. Ask your tax preparer for details.

### **Rollovers of Deceased Individuals Retirement Plan**

Starting in 2007, a non-spouse beneficiary, of a deceased individual's IRA or qualified employer's retirement plan, can roll the funds over tax-free in a direct trustee to trustee (direct) transfer.

***THE FOLLOWING DEDUCTIONS EXPIRED AT THE END OF 2006, BUT HAVE BEEN EXTENDED BY CONGRESS FOR 2007.***

**Itemized Deduction for State and Local General Sales Tax**

Taxpayers can elect to deduct their state and local general sales and use taxes as an itemized deduction, instead of deducting their state and local income taxes.

Taxpayers who make this election may choose from two options in calculating their sales tax deduction:

- 1) Deduct their actual sales taxes paid during 2007 or
- 2) Use IRS published tables plus sales tax paid for any motored vehicles, boats and other larger priced items specified by IRS.

**Tuition and Fees Deduction**

The maximum Tuition and Fees Deduction is \$4,000 in 2007. The deduction allows for up to \$4,000 of tuition and fees paid for the enrollment at an eligible educational institution. In 2007, if taxpayer's Adjusted Gross Income is above the first phase out amounts of \$130,000 for Married Filing Jointly and \$65,000 for Single or Head of Household they can qualify for a reduced deduction. The reduced deduction of \$2,000 is available only if the taxpayer's Adjusted Gross Income does not exceed \$160,000 for Married Filing Jointly and \$80,000 for Single or Head of Household taxpayers.

**Educator's Expenses**

Continuing in 2007, an above the line deduction is available for kindergarten through grade 12 teachers, that purchase books, supplies, equipment used in the classroom. The deduction is limited to \$250 per taxpayer, provided the taxpayer spends at least 900 hours during the year as an educator.

**15-YEAR RECOVERY (DEPRECIATION) PERIOD FOR QUALIFIED LEASEHOLD IMPROVEMENTS & RESTAURANT PROPERTY**

**Qualified Leasehold Improvements**

For property placed in service through 2007, the Act provides a statutory straight-line 15-year depreciation period for Qualified Leasehold Improvements. Previously, leasehold improvements were depreciated as 39-year property.

In general terms, qualifying leasehold improvements are interior improvements made under a lease to commercial property and placed in service more than three years after the building was first placed in service. Certain structural improvements or expansions do not qualify.

**Qualifying Restaurant Property**

Similar rules apply for Restaurant Property placed in service through 2007. The act provides a 15-year straight-line depreciation for qualified restaurant property.

Qualified restaurant property is any improvement to a building if the improvement is placed in service more than three years after the building was originally placed in service

and more than 50% of the building's square footage is devoted to the preparation of or seating for on-premises consumption of prepared meals.

**Standard Mileage Rate for 2007**

The standard mileage rate for 2007 is 48.5 cents per mile.

**2007 NEW YORK STATE TAX LAW CHANGES**

**Volunteer Firefighter's and Ambulance Workers' Credit (Form IT-255)**

2007 active volunteer firefighter's or ambulance workers' may be entitled to a \$200 NYS tax credit. You must be an ACTIVE volunteer firefighter or volunteer ambulance worker, as defined by NY State, to qualify for the credit.

**Empire State Tax Credit (Form IT-213)**

This refundable tax credit is available to full-year NYS residents who qualify for the federal child tax credit. The credit is equal to 33 percent of the federal child tax credit or \$100 for each child whichever is greater. The credit applies to each child who qualifies for the federal child tax credit and is at least four years old.

**Home Heating System Credit (Form IT-240)**

A credit up to \$500 is available to taxpayers who purchased an energy star label home heating system from July 1, 2006 – July 1, 2007 and installed prior to December 31, 2007.

**Non-Custodial Earned Income Credit (Form IT-209)**

Starting in 2006, a non-custodial earned income tax credit is available to NYS residents who have paid child support through a support collection unit.

**II) 2007 TAX FIGURES**

**Standard Deductions for 2007**

Married Filing Jointly	10,700.00
Single	5,350.00
Head of Household	7,850.00
Married Filing Separately	5,350.00

**Personal Exemptions for 2007**

\$3,400.00 per person

**2007 Phase-Out Amounts / Adjusted Gross Income Ranges**

<u>Filing Status</u>	<u>Lifetime Learning &amp; Hope Scholarship</u>	<u>Coverdell ESA</u>	<u>Student Loan Int</u>
Married Filing Joint	\$94,000-114,000	\$190,000-220,000	\$110,000-140,000
Single	47,000 - 57,000	95,000 - 110,000	55,000-70,000
Head of Household	47,000 - 57,000	95,000 - 110,000	55,000-70,000
Married Separately	Do Not Qualify	95,000 - 110,000	Do Not Qualify

<u>Filing Status</u>	<u>Regular IRA Active Participant</u>	<u>Roth IRA</u>	<u>Child Tax Credit</u>
Married Filing Joint	\$83,000-103,000	\$156,000-166,000	(under)\$ 110,000
Single	52,000-62,000	99,000-114,000	(under) 75,000
Head of Household	52,000-62,000	99,000-114,000	(under) 75,000
Married Separately	0-10,000	0- 10,000	(under) 55,000

<u>Filing Status</u>	<u>Tuition &amp; Fees Deduction</u>	
	<u>First Phase out</u>	<u>Second Phase out</u>
Married Filing Joint	\$0-130,000	& \$130,000 – 160,000
Single	0-\$65,000	& \$ 65,000 – 80,000
Head of Household	0-\$65,000	& \$ 65,000 – 80,000
Married Separately	Do Not Qualify	

### III) **ELECTRONIC FILING PAYMENT OPTIONS**

#### New York State

Taxpayers may elect to pay their balance due by authorizing a direct debit from their savings or checking account for 2007. Taxpayers must specify, at the time their return is electronically filed, the type of account (savings or checking), account number, routing number of the bank account and the date they wish the debit to occur. The direct debit option must be chosen before the state income tax is transmitted to New York State.

Taxpayers can pay their 2007 tax liability with their credit cards (American Express, Discover, MasterCard or VISA), by contacting one of the two credit card service providers listed below. Taxpayers must contact these providers directly.

Official Payments Corp  
Call - 1-800-2PAYTAX  
[www.officialpayments.com](http://www.officialpayments.com)

Link 2 Gov Corp  
Call – 1-866-TAXESNY  
[www.nytaxpayment.com](http://www.nytaxpayment.com)

You can also connect to either of these sites by visiting the NYS Tax Department's website [www.tax.state.ny.us](http://www.tax.state.ny.us)

#### Internal Revenue Service

Taxpayers can pay their federal taxes using a direct debit or credit cards (American Express, Discover, MasterCard or VISA) for 2007. Direct debit payments can be made by calling 1-888-353-4537 or by setting up the payment schedule with your tax preparer at the time of your tax appointment.

You can pay income taxes using either of the two credit card service providers listed below. Taxpayers must contact these providers directly.

Official Payments Corp  
Call - 1-800-2PAYTAX  
[www.officialpayments.com](http://www.officialpayments.com)

Link to Gov Corp  
Call - 1-888-PAY1040  
[www.PAY1040.com](http://www.PAY1040.com)

#### **IV) WHAT'S AHEAD IN 2008**

##### **Capital Gain Rate Reduction**

For the period 2008 through 2010, the 5% maximum capital gain tax rate for taxpayers in the 10% or 15% tax brackets will drop to 0%.

##### **Dependency Exemption**

In 2008 the dependency exemption will increase to \$3,500.

##### **Estate Tax Exemption**

The Estate tax unified credit will remain at \$2,000,000 for 2008. This will increase to \$3,500,000 in 2009.

##### **Standard Mileage Rate**

IRS has announced that the standard mileage rate for business use has adjusted to 50.5 cents for 2008.

##### **Social Security Tax**

Social Security tax will be assessed on the first \$102,000 of wages in 2008, up from \$97,500 in 2007.

##### **PLEASE NOTE:**

REMEMBER, THE TOPICS COVERED IN THIS NEWSLETTER ARE AN ABRIDGED VERSION TO THE ACTUAL TAX LAWS AND CODES COVERED BY THE IRS AND NEW YORK STATE. THEREFORE SOME INFORMATION MAY BE SUBJECT TO CHANGE ON A CASE-BY-CASE BASIS. IF YOU HAVE ANY QUESTIONS REGARDING THE ABOVE INFORMATION PLEASE EMAIL US AT [KS@PRATTASSOCIATES.COM](mailto:KS@PRATTASSOCIATES.COM).