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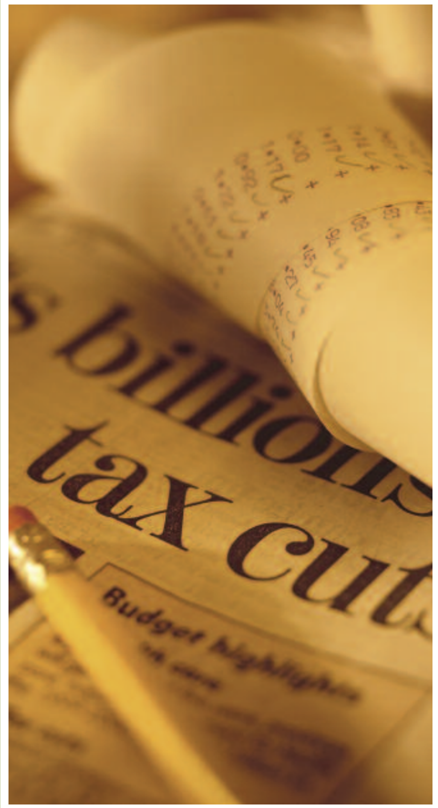
Tax Saving **Tips for 2007**



Advice from CPAs

Tax Planning for 2007

The best way to ensure you are minimizing your tax liability is to keep abreast of tax law. But consistent monitoring of the changes to tax laws can be difficult to keep up. In 2006, Congress passed numerous revisions to the tax code in areas ranging from retirement savings to charitable giving to the "kiddie tax." At the same time, Congress extended certain tax breaks through 2007, including the higher education tuition deduction and the option to deduct sales tax instead of state and local taxes.

Throughout this guide you'll find an overview of recent changes that may affect your return, as well as tips to help minimize your 2007 tax bill.

Filing Basics

Filing Status

Taxpayers can file as single, married filing jointly, married filing separately, head of household, or qualifying widower(er). If you are married and filing jointly, you can take advantage of tax credits and benefits not available to couples filing separately. Unmarried taxpayers may file as single or, if they qualify, as head of household.

Exemptions

You may claim a personal exemption for yourself, your spouse and each of your dependents. Each exemption reduces your taxable income by $3,400 in 2007. You begin to lose part of the exemption benefit if your adjusted gross income (AGI) is above the following:

2007 Exemption Phase-Out Limits

- Single — $156,400 up to $278,900
- Married filing jointly/Qualifying widow(er) — $234,600 up to $357,100
- Married filing separately — $117,300 up to $178,550
- Head of household — $195,500 up to $318,000

For 2007, even with AGIs in excess of the phase-out maximum, you still may take a $1,133 personal exemption. The good news is that the personal exemption reduction is being phased out and will be fully repealed by 2010.

Deductions

Even if you don't itemize, the following deductions may be available to you: traditional IRA, SEP and qualified plan contributions; one-half of self-employment tax; alimony; job-related moving expenses; and self-employed health insurance premiums.

In addition to above-the-line deductions, you can claim the standard deduction or itemize. The basic standard deduction for 2007 is $5,350 if single or married filing separately; $10,700 for married filing jointly or qualifying widow(er); and $7,850 for head of household. Taxpayers 65 and older and/or blind get an additional standard deduction of $1,050 for married filing jointly or separately and $1,300 for single or head of household. You should itemize if your total allowable itemized deductions are more than the standard deduction.

Keep in mind that the value of some of your itemized deductions will be reduced if your AGI is above $156,400 ($78,200 if married, filing separately). This reduction is being phased out until it is eliminated in 2010, and the reduction for 2007 will be lower than it was last year.

Tax Breaks for Homeowners

Interest and Property Taxes

Home mortgage interest on up to $1 million of home acquisition loans secured by your principal residence and/or second home is fully deductible. You also may deduct mortgage interest on a home equity loan or line of credit (up to $100,000). Points paid to secure a loan for the purchase or improvement of a principal residence usually are fully deductible in the year you pay them. Points paid to refinance an existing mortgage must be deducted over the life of the loan. Real estate taxes and state and local property taxes on all of your real estate are deductible.

Exclude Capital Gains

When you sell your principal residence, you can exclude from income up to $250,000 in gains ($500,000 if married and filing jointly). To qualify, you must have owned and used your home as a principal residence for at least two years during the five-year period ending on the date of sale. The full tax break is available once every two years.

Retirement Savings Tax Breaks

Tax-advantaged retirement plans can help you lower your current tax bill and achieve a secure retirement. What's more, recent legislation makes permanent higher IRA and 401(k) contribution limits. They are due to revert to their 2001 levels in 2010.

Individual Retirement Accounts (IRAs)

You may contribute up to $4,000 to fund a traditional or Roth IRA in 2007. Those age 50 or older can make an additional catch-up contribution of $1,000. The base contribution will rise to $5,000 in 2008.

Traditional IRA contributions may be deductible depending on your AGI and whether you or your spouse (if filing jointly) are covered by an employer's pension plan. Roth IRA contributions are not deductible, but the earnings accumulate tax-deferred and may be withdrawn tax-free if you meet the qualified distribution requirements. Eligibility to contribute to a Roth IRA is phased out as AGI rises from $99,000 to $114,000 for single filers, and $156,000 to $166,000 for joint filers. Married taxpayers who file separately cannot contribute to a Roth IRA if their income is above $10,000.

Employer-Sponsored 401(k)s

Pre-tax contributions to employer-sponsored retirement plans reduce your taxable wages. Matching contributions and income earned within your plan also are tax-deferred. The employee contribution limit for 2007 is $15,500. Employees age 50 or older by the end of 2007 may make an additional catch-up contribution of $5,000 for 2007.

Child and Education-Related Tax Breaks

Child Tax Credit

The Child Tax Credit allows you to reduce your federal income tax by $1,000 for each qualifying child under the age of 17. This credit begins to phase out if your modified AGI is above $110,000 for joint filers, or $75,000 for single or head of household filers.

Dependent Care Credit

Parents who must pay for the care of a dependent under age 13 in order to work may be eligible for a tax credit of between 20 percent and 35 percent of qualifying expenses. For 2007, the maximum amount of expenses on which the credit can be claimed is $3,000 for the care of one dependent or $6,000 for two or more.

Education Tax Credits

Two popular credits can help defray the cost of higher education. The Hope Credit, worth up to $1,650 for each qualifying student, is available for each of the first two years of college. A Lifetime Learning Credit of up to $2,000 per year is available for undergraduate, graduate and professional degree courses. Both credits are phased out once modified AGI surpasses $94,000 for joint filers and $47,000 for single filers. You cannot claim both credits for the same student in the same tax year.

529 Plans

The tax benefits of 529 college savings plans, which were to expire in 2010, are now a permanent part of the tax code. These plans give parents and other relatives a tax-advantaged way to save money for higher education expenses. Funds in the account grow tax-free and withdrawals also are tax-free if they are used to pay for qualified educational expenses.

Tax Considerations for Investors

Long-Term Capital Gains and Dividends

The maximum tax rate on net long-term capital gains remains at 15 percent. For taxpayers in the 10 percent or 15 percent tax brackets, net long-term capital gains are taxed at 5 percent in 2007, and will be tax-free from 2008 to 2010. To qualify as a long-term capital gain, the asset must be held for more than one year before selling. Capital gains on investments held for one year or less are taxed at regular income tax rates – as high as 35 percent. For collectibles held for more than one year, the maximum capital gains tax rate is 28 percent.

Qualified dividend income from a domestic or qualified foreign company is taxed at a top rate of 15 percent (5 percent for taxpayers in the 10 percent and 15 percent tax brackets).

Offset Capital Gains with Losses

Net capital losses are fully deductible against capital gains. If your capital losses exceed your capital gains, you can deduct up to $3,000 in net capital losses against ordinary income ($1,500 if married filing separately). Any remaining capital losses may be carried over to the next year.

New "Kiddie Tax" Rules

Investors with children need to be aware that Congress has increased the age threshold of dependents subject to the "kiddie tax." Under the kiddie tax rules, a child's investment income over a certain threshold is taxed at the parent's tax rate. Before the rule change, the kiddie tax ended at the age of 14. At that age, the child's income was taxed at his or her own rate. Now, however, the kiddie tax applies until the year the child reaches age 18. For 2007, any net unearned income over $1,700 will be taxed at parental rates if the child is under age 18. Beginning in 2008, the kiddie tax will be expanded to apply to many children under the age of 24.

Other Recent Tax Law Changes

Energy Tax Breaks

Making energy-efficient improvements to your home, such as new exterior windows, water heaters or furnaces, may garner a tax credit of up to $500 in 2007. Additionally, a credit may be available for the purchase of hybrid or alternative fuel vehicle. Check with the IRS at *www.irs.gov* for a list of qualifying vehicles.

New Rules for Charitable Contributions

Beginning this year, a donor must be able to show proof of a donation to take a deduction for any monetary charitable gift. A cancelled check, credit card statement or receipt from the charity will satisfy the documentation requirement.

A law passed in 2006 allows a deduction for the donation of clothes or household items only if they are in "good" used condition. However, the law did not define the term "good." Be sure to get a receipt from the charity and take pictures of the items to substantiate the deduction. An exception to this rule exists for a single donated item appraised at more than $500, as long as a qualified appraisal is included with the donor's tax return.

Those age 70½ or older can transfer up to $100,000 directly from an IRA to charity. No deduction can be taken on the gift, but there is no income tax due on the distribution. This provision is scheduled to expire at the end of 2007.

Common Deductions

- *Teacher classroom expenses (expires after 2007)*
- *Student loan interest*
- *Penalty for early withdrawal of savings*
- *Alimony*
- *Charitable contributions — cash, property and donated clothing or household items*
- *State and local income taxes and personal property taxes*
- *Points paid for mortgage or refinancing*
- *Mileage and other expenses associated with volunteer work*
- *One-half of self-employment tax*
- *Unreimbursed casualty and theft losses*
- *Income tax preparation software and fees**
- *Job-search expenses**
- *Investment expenses**
- *Unreimbursed employee business expenses**
- *Prescription eyeglasses, contacts and hearing aids***
- *Crutches, canes and orthopedic shoes***
- *Medical transportation***
- *Cost of alcohol or drug abuse treatment***

* Deductible as miscellaneous itemized deductions to the extent the total exceeds 2% of AGI

** Deductible to the extent the total of all medical and dental expenses exceeds 7.5% of AGI

Get Professional Advice

A CPA tax professional understands the business of taxes and finances and can review your overall financial picture to help you find winning tax strategies.

Finally, late in 2007 Congress passed a one-year patch for Alternative Minimum Tax (AMT) relief in the form of an expanded exemption. As the AMT defies most traditional tax saving strategies, it is best to consult with a CPA to find out how it may affect you.

Information is current as of January 4, 2008.