

## **TAX SAVING TIPS FOR PREPARING YOUR 2007 TAX RETURN**

### **Opening Slide 1:**

#### **TAX SAVING TIPS**

#### **FOR PREPARING YOUR 2007 RETURN**

Practice makes perfect. And in order to excel at most things in life, you need to practice consistently. The same philosophy holds true for managing your taxes.

If you only think about taxes when April 15th rolls, around you're not going to be very successful at managing your tax bill. To minimize your taxes, you need to know the rules and take advantage of year-round tax planning opportunities.

The good news is that it's not too late. In the next half-hour or so, I will give you information on tax law changes and provisions that will help you prepare your return and may help minimize your 2007 tax bill.

### **Slide 2: Recent Tax Law Changes**

Let's get started. Numerous provisions have been introduced in the last few years that have reduced tax rates, added new credits, and increased phase-out limits.

I'm going to begin by reviewing the main provisions in the Pension Protection Act of 2006, signed into law by President Bush on August 17, 2006. This Act, which mainly covers pension changes in ERISA and the Internal Revenue Code, also amends the code modifying provisions related to charitable contributions to tax-exempt organizations.

Additionally, the Act amends the Economic Growth & Tax Relief Reconciliation Act of 2001 to permanently extend qualified tuition program provisions.

### **Slide 3: Charitable Contribution Changes**

## **IRAs**

The Act allows distributions from an IRA to a qualifying charity to be excluded from the income of the IRA owner. The exclusion amount is limited to \$100,000 per year.

This exclusion is available for a two-year period (from January 1, 2006 through December 31, 2007). The distribution must be made on or after the date that the IRA owner attains age 70 ½ and must be made directly by the IRA Trustee to the qualifying charity.

### **Slide 4: Contributions of Capital Gain Real Property for Conservation Purposes**

Taxpayers are entitled to deduct the fair market value of certain interests in real estate donated to a charitable organization for conservation purposes. Before the Act, taxpayers could deduct these gifts up to 30% of their adjusted gross income in the year of the gift with any excess carried over for 5 years. The Pension Protection Act increases the deduction limit for 2006 and 2007 to 50% of adjusted gross income. Farmers and ranchers can deduct 100% of adjusted gross income provided that the donor does not restrict the use of the donated land for farming or ranching purpose. The carry forward period is extended to 15 years, regardless of the identity of the donor.

### **Slide 5: Tightening the Rules**

The Act provides that the tax benefit derived from the contribution of property, for which a fair market value deduction was taken, must be recaptured if the property is not used for an exempt purpose of the donee organization. This provision is effective for contributions made after September 1, 2006.

### **Slide 6: Tightening the Rules, Continued**

#### **Charitable Contributions of Clothing and Household Items**

The Act states that no deduction will be allowed for charitable contributions of clothing and household items if they are not in “good used condition or better”. It is not clear what Congress meant by this definition and the Internal Revenue Service is expected to issue guidance in this area. The limitation on “good used condition” does not apply to any **SINGLE** item of clothing or household goods with a value of \$500.00 or more that is supported by a qualified appraisal. It does not apply to gifts of food, art objects, jewelry, gems or collections.

This provision is effective immediately.

### **Slide 7: Tightening the Rules, Continued**

#### **Recordkeeping Requirements**

Under the Pension Act, gifts of money (cash or check) can be deducted **only if** it is supported by a bank record or a written acknowledgement from the charitable organization. A receipt from the charity must show the name of the organization, the date of the contribution and the amount of the contribution. This provision is effective for taxable years beginning after August 17, 2006 (calendar year 2007 and after for most individual taxpayers). This provision will effectively disallow deductions for small cash gifts.

### **Slide 8: Other Provisions**

The Act repeals the sunset provision in the 2001 Economic Growth and Tax Relief Reconciliation Act that applied to qualified Section 529 tuition programs. This makes the exemption from taxation of qualified tuition programs permanent.

Now I'd like to draw your attention to some tax filing basics.

## **FILING BASICS**

Let's start by taking a quick look at the basics, starting with determining your filing status.

Many people think that the amount of income tax they pay is determined by the amount of their taxable income. The truth is that people with exactly the same amount of taxable income can end up with different tax bills, depending on the filing status they choose.

Each filing status has its own tax rates, and your filing status also affects how other tax rules, such as the standard deduction, IRA contribution limits, and tax credits and deductions, apply to you.

### **Slide 9: Filing Status**

There are five categories of filing status: married and filing jointly, married and filing separately, single, head of household, and qualifying widow(er). The primary factor impacting your filing status is whether you are married or not. If you are married, you and your spouse must decide whether to file jointly or separately. In most cases, you'll pay lower taxes if you file jointly and you can take advantage of tax credits and benefits that isn't available to couples who file separately.

Separate returns can be advantageous in some situations, such as when one spouse has high unreimbursed medical expenses or many miscellaneous itemized deductions. In some cases, you may be able to deduct a higher percentage of these expenses by filing separately. The only way to be sure is to compute your taxes both ways. You should also give serious thought to filing separately if you suspect your spouse of tax fraud.

If you are not married, you use the single filing status or the head-of-household filing status. Heads of household pay a significantly lower tax rate than singles, but to qualify, you must meet the requirement for supporting at least one other dependent.

If you are a surviving spouse (a widow or widower), you may use the joint tax rates for two years following the death of your spouse as long as (1) you have a qualifying dependent, (2) you provide more than half the cost of keeping up a home for you and your dependent, and (3) you did not remarry before the end of the tax year.

### **Slide 10: 2007 Tax Rates**

The tax rates remain the same as last year -- the lowest in many years. The six tax brackets are 10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent.

The tax rates are scheduled to remain the same until 2011, when the higher pre-2001 tax rates will return.

### **Slide 11: Standard Deduction**

Now let's talk about the standard deduction, the basic deduction all taxpayers can take.

Every year, the Internal Revenue Service adjusts the standard deduction to account for inflation. For 2007, the standard deduction is \$5,350 for single filers or married couples filing separately. The standard deduction jumps to \$10,700 for married couples filing jointly and for qualifying widow(er)s, and to \$7,850 for head-of-household filers. The standard deduction is higher for blind taxpayers and those age 65 or older.

### **Slide 12: Standard Deduction**

Taxpayers 65 and older and/or blind get an additional standard deduction amount that is added to the standard deduction. The slide indicates the amounts.

- Married - \$1,050
- Single or head of household - \$1,300

An individual who is both over 65 and blind may take two additional standard deductions. Married taxpayers filing jointly both of whom are over age 65 and blind

would be able to claim four of the additional standard deduction amounts.

### **Slide 13: Itemizing Deduction**

An option to claiming the standard deduction is itemizing your deductions. To determine the best strategy for you, total all of your deductions. If your total itemized deductions are greater than the standard deduction, by all means, itemize. It will save you money. High income taxpayers need to know that their allowable itemized deductions may be reduced if Adjusted Gross Income, or AGI, is over \$195,500 for single, head of household, and married taxpayers filing jointly(\$234,600), or \$117,300 for married couples filing separately. Once AGI reaches these levels, itemized deductions are reduced by 3 percent of the excess AGI. Medical expenses, casualty, theft or wagering losses, and investment interest are not subject to this reduction. To qualify as blind a taxpayer needs to have a certified statement from a doctor or registered optometrist stating that they either have 1) vision no better than 20/200 in their better eye or 2) the individual's field of vision is 20% or less.

Beginning in 2006, the overall limitation on itemized deductions phases-out for all taxpayers. The overall limitation on itemized deductions is reduced by one-third in taxable years beginning in 2006 and 2007, and by two-thirds in taxable years beginning in 2008 and 2009. The overall limitation on itemized deductions is eliminated for taxable years beginning after December 31, 2009; however, this elimination of the limitation sunsets on December 31, 2010.

Here's another tip: If you find you're getting close to exceeding the standard deduction limit, try bunching your tax breaks every other year. This allows you to claim the standard deduction one year, but itemize the next. For example, instead of writing a \$500

check every December to your favorite charity, write one \$1,000 check every other year.

#### **Slide 14: Personal Exemption**

In addition to the standard or itemized deductions, you can also subtract personal exemptions from your income to arrive at taxable income. In addition to personal exemptions for you and your spouse, you can subtract a personal exemption for each dependent. The amount you can deduct for each exemption increases from \$3,400 in 2007. However, you will lose all or part of the benefit of your exemptions if your AGI is above a certain amount. As this slide shows, the amount at which the phase-out begins depends on your filing status.

#### **Slide 15: Timing Strategies**

Timing is also an extremely critical component of tax planning.

One of the easiest ways to lower your tax bill is to defer income into the next year and accelerate deductions into the current year. This is a good strategy if you expect your taxable income to be about the same or lower next year. So for example, if you're an employee and expecting a bonus, you might try to convince your boss to defer payment until January, 2008. To postpone investment income, think about investing in certificates of deposit and Treasury bills that don't mature until next year.

Deferring income is easier for self-employed business owners using cash basis accounting. Simply delay your year-end billing so that payments won't reach you until after the first of the year. The flip side of deferring income is accelerating deductions, and there are a number of ways you can do this. Make charitable contributions or estimated state income tax payments in December instead of January. Pay your January mortgage check in December and you increase your mortgage interest deduction for

2006. You can also pay your first quarter 2008 property taxes on or before December 31 and claim a deduction for the current year.

Deferring income and accelerating deductions generally is an excellent strategy, but you need to take your personal circumstances into consideration. If you think your tax rate will be higher next year, perhaps because you expect a raise or your spouse plans to return to work, reversing this strategy may be more appropriate. Also be aware that accelerating deductions too aggressively could subject you to the Alternative Minimum Tax, which I'll cover in more detail later on. You should consult with a CPA if you think you might be affected.

Another timing strategy calls for bunching deductions. Some deductions are allowed only after they exceed a minimum amount tied to your adjusted gross income.

Unreimbursed medical expenses, for example, must total more than 7.5 percent of your adjusted gross income before you are eligible to claim a deduction. Similarly, miscellaneous deductions, such as unreimbursed employee business expenses, must surpass 2 percent of your AGI before you can claim a deduction. If you're close to these limits, think about bunching as many deductible costs as you can into this tax year. For example, if you're scheduled for a dental checkup or eye exam in early 2008, see if you can reschedule for December.

## **MOVING AHEAD**

### **Slide 16: Tax Strategies for Life**

Now that we have the basics behind us, let's get into some more complex strategies. As we move forward, I'm going to group my comments in several categories we can all relate to – family, education, home, investments, and retirement. Then for those of you

who are small business owners, we'll cover some strategies you can use to lower your business tax bill. And we'll wrap things up with a few tips that will give you a jump start on preparing your tax return.

### **Slide 17: Family Strategies**

Let's start with some tax breaks you may be eligible for if you are raising a family. You parents out there want to be sure to take advantage of every tax-savings opportunity available to you – the child credit, the dependent care credit, the adoption credit, and the earned income credit. And lucky for you, a credit is the best tax break you can get.

Deductions reduce the amount of taxable income on which you must pay taxes, but tax credits reduce, dollar for dollar, the taxes you actually owe.

There are also tax-smart ways to shift income to your child which I will also cover briefly.

### **Slide 18: Family Strategies: Child Credit**

For 2007, the child credit is worth \$1,000 for each child who is under age 17 at the end of the calendar year and who qualifies as a dependent under the uniform qualifying child definition. . That means if you have three children, the child credit can potentially cut your tax bill by \$3,000. And remember that as a result of the 2004 Tax Act, the \$1,000 credit remains in effect through 2010, then reduces to \$500 per child beginning in 2011. So if your children are younger, you may qualify for the credit for several more years – unless your income exceeds the phase-out levels.

For 2007, the child credit begins to phase out when modified AGI reaches \$110,000 for married couples filing jointly, \$55,000 for married taxpayers filing separately, and \$75,000 for single filers, heads of households, and qualified widow(er)s. The credit is

reduced by \$50 for each \$1,000, or fraction thereof, of AGI above these thresholds.

**Refundable Amount:**

A portion of the Child Tax Credit is refundable based on the lesser of the unclaimed portion or the extent the taxpayers earned income exceeds \$11,750 times 15 percent.

This is available to all taxpayers regardless of the tax or AMT.

**Slide 19: Family Strategies: Adoption Credit**

There is good news for people who are planning to adopt a child. Two tax benefits offset the escalating expenses of adopting a child. In 2007, the maximum adoption credit is \$11,390. Parents who work for companies with an adoption assistance program can receive up to \$11,390 in reimbursement from their employer for adoption expenses without paying taxes on that benefit. When you adopt a child with special needs, you are allowed to claim these benefits regardless of actual expenses paid or incurred in the year the adoption becomes final.

**Slide 20: Family Strategies: Dependent Care Credit**

Working parents know how expensive child care can be. So does Uncle Sam. The dependent care tax credit aims to ease some of the burden. Basically, the credit works like this: If, in order to work, you pay someone to care for a dependent under 13 whom you also claim as a dependent, you may be eligible for a tax credit of between 20 and 35 percent of your qualifying expenses. For 2007, the dollar limit on the expenses toward which you can apply the credit percentage is \$3,000 for the care of one individual and \$6,000 for two or more. The percentage of the expenses you can take as a credit depends on your AGI . These dollar limits must be reduced by the amount of any dependent care benefits provided by your employer that you exclude from your income from your

income or pretax contributions to a dependent care plan.

Take note that the dependent care tax break isn't restricted to child-related care costs. If you pay someone to look after an incapacitated dependent of any age or a spouse who is physically or mentally incapable of self-care, you may be eligible for this tax break.

### **Slide 21: Family Strategies: Earned Income Credit**

There's one more credit I want to touch on. Although the earned income credit doesn't apply only to families with children, eligible low-wage taxpayers with children get the largest benefit. The earned income credit is subtracted directly from the amount of tax you owe. Even if you do not owe any tax to the IRS on your tax return, you might still get some money back.

On 2007 returns, the maximum credit can be as much as \$4,716 for workers supporting two or more children. A worker with one child can get a credit worth up to \$2,853. For an eligible worker with no children, the credit drops to \$428. The credit is phased out as AGI increases. Keep in mind also that taxpayers with investment income of more than \$2,900 are not eligible for the credit.

### **Slide 22: Family Strategies: Shifting Income**

Now let's talk about some of the other ways parents can save on taxes. Shifting income to a child in a lower tax bracket is a popular strategy that has been made even more favorable by the Tax Relief Act of 2003. The tax law says you can give a child, or anyone else, for that matter, up to \$12,000 in 2007, without being subject to the gift tax. Be aware that if your child is under age 18, the kiddie tax rule applies. This rule says that unearned income above a certain threshold amount is taxed at the parents' top marginal tax rate. For 2007, the kiddie tax threshold is \$1,700. That means your child under age

18 can earn up to \$850 in investment income without paying any tax and an additional \$850 that will be taxed at your child's own rate. Unearned income above that level is taxed at your own top rate, so it doesn't pay to shift a significant amount of income to a young child.

For 2008, the kiddie tax will apply to children over the age of 18 and under 24 who are full time students and whose earned income does not exceed the amount of their support. Here's another way to cut the family tax bill. If you have an asset that has appreciated in value that you plan to sell, perhaps to pay for college, consider gifting the stock to your child and having your child sell it. Depending on your child's age, the entire gain may be taxed at the child's lower capital gains tax rate.

If you're a sole proprietor, you can shift income by hiring your children to help in your business. In addition to providing valuable work experience for your child, this arrangement offers significant tax savings to the business. As long as the work your children do is legitimate and they receive reasonable wages, you can deduct their wages from your income and shift the money to your children in lower tax brackets. As an added bonus, if your son or daughter is under 18, you don't have to pay Social Security or Medicare taxes on the wages you pay. Because of the standard deduction, in 2007, the first \$5,350 earned by each child is not taxed. And since it's earned income, it is not subject to the kiddie tax. The child can earn an additional \$4,000 tax deferred if the child contributes to a traditional IRA.

### **Education Strategies**

Since, in most cases, education accounts for the greatest cost associated with raising kids, you'll want to listen carefully to learn all you can about the credits and deductions for

education expenses. Keep in mind, however, that these education benefits are available to students of every age.

### **Slide 23 Education Strategies: Tax Credits**

Two popular tax credits -- the Hope Credit and the Lifetime Learning Credit -- can help defray education expenses for you and your youngsters. And because they are credits, rather than deductions, they take a bigger bite out of your tax bill.

The Hope Scholarship Credit – worth up to a maximum of \$1,650 per qualifying student – can be claimed for only each of the first two years of college for each student. For the 2007 tax year, this education credit is gradually reduced if your modified AGI exceeds \$47,000 for single filers and \$94,000 for joint returns. Once a single filer's AGI reaches \$57,000, the credit is eliminated. For joint filers, the cap is \$114,000.

### **Slide 24: Education Strategies: Tax Credits**

Another credit you may qualify for is the Lifetime Learning Credit which provides a maximum credit of 20% of qualified tuition expenses paid up to \$2,000 per year. As its name suggests, the Lifetime Learning Credit can be used by anyone for undergraduate, graduate, and professional degree courses. It is subject to the same phase-out rules as the Hope Scholarship Credit. You may not claim both credits for the same student's expenses for the same tax year.

### **Slide 25: Education Strategies: Tuition Deduction**

If your AGI exceeds the threshold allowed for the Hope and Lifetime Learning credits, you may be eligible to claim a deduction for qualifying higher education, tuition and fees. Unfortunately, this tax break is set to expire after 2006. Be sure to take advantage of it this year if you can.

For 2007, the maximum deduction for tuition and fees is \$4,000. This maximum applies regardless of the number of students in your household. The tuition deduction is an above-the-line deduction, which means you don't have to itemize in order to claim it. You qualify for the maximum \$4,000 tuition deduction if your modified adjusted gross income is not more than \$65,000 for single filers, or \$130,000 for those who are married filing jointly. Above these levels, a phase-out rule applies. Joint filers with AGIs between \$130,000 and \$160,000 and single filers with AGIs between \$65,000 and \$80,000 can claim a tuition deduction of up to \$2,000 for the year. The deduction is not available to those with AGIs that exceed these levels.

Keep in mind that you cannot take the tuition deduction and claim a Hope credit or Lifetime Learning credit for the same student, but you can claim the education credit for one student and the deduction for another. Remember that tax credits are more valuable than deductions. A \$1,000 credit saves you \$1,000 in *taxes*. In the 28 percent bracket, a \$1,000 deduction would only save you \$280. One final thought: taxpayers who are married and filing separately are barred from taking the education credits and the tuition deduction.

### **Slide 26: Education Strategies: Student Loan Deduction**

If you're paying off student loans, you'll be happy to know that the rules for deducting student loan interest recently became more liberal. Taxpayers can deduct up to \$2,500 of the interest paid on a student loan, regardless of how long it takes to repay the loan. And you don't have to itemize in order to take this deduction.

For the 2007 tax year, the deduction is phased out for single taxpayers with AGIs between \$55,000 and \$70,000. For married couples filing jointly, the phase-out kicks in

at AGI of \$110,000 and ends at \$140,000.

## **HOME**

Now let's turn our attention to the tax benefits of owning a home, because these can be quite significant.

### **Slide 27: Homeowner Strategies: Deductions**

In most cases, you can deduct all of the interest you pay on any loan secured by your home. Interest is deductible on up to \$1 million of home acquisition loans. These are loans used to buy, build, or substantially improve your principal residence or second home and secured by that same residence.

Interest on a home equity loan or line of credit of up to \$100,000 is also deductible. As long as the home equity loan is secured by your home, it doesn't matter how you spend the proceeds. Home improvements, college tuition, debt consolidation, or an exotic vacation – it's up to you. Just be sure you have a plan to pay it back. You will need to itemize your deductions on Schedule A in order to take the mortgage interest deduction. The IRS defines points as any extra charges paid by a home buyer at closing in order to obtain a mortgage. In effect, points are prepaid interest. Points paid to secure a loan for the purchase or improvement of a principal residence are usually fully deductible in the year you paid them. Points paid to refinance your home mortgage must be deducted ratably over the term of the loan. If you refinance your refinanced mortgage, the points you were previously amortizing are now fully deductible.

After the home mortgage interest deduction, the next most important tax break for homeowners is the deduction for real estate taxes. You can deduct the taxes paid on all your real estate. Your deduction is not limited to only two principal residences, as it is

with the home mortgage interest deduction.

### **Slide 28: Homeowner Strategies: Selling Your Home**

You're in for another valuable tax break when it's time to sell your principal residence.

If you meet certain requirements, you can have a significant profit on the sale of your principal residence without having to pay tax on the gain. Here are the rules. When you sell your home, you can exclude from income up to \$250,000 in gains, \$500,000 for joint filers, provided that you have both owned and used your home as a principal residence for at least two of the five years preceding the sale. The full tax break is available only once every two years.

However, be aware that you may be eligible to claim a reduced exclusion if you were required to sell your home due to a change in place of employment, health issues, or unforeseen circumstances before meeting the two-year principal residence rule.

When it comes to investing and taxes, strategy and timing can be as important as skill.

There are a number of tax-smart investment strategies you may want to consider, especially in light of recent legislation that lowered the tax rate on dividends and capital gains.

## **INVESTMENT STRATEGIES**

### **Slide 29: Investment Strategies: Dividends**

Dividend income received by an individual shareholder from a domestic or qualified foreign company is taxed at a top rate of 15 percent and at just 5 percent for taxpayers in the 10 percent and 15 percent tax brackets. Prior to the tax law change, dividend income was taxed at the individual's ordinary tax rate.

But be careful. To receive a dividend that qualifies for the lower tax rate, you must buy

the stock as least one day before the ex-dividend date and hold that stock for at least 60 more days. The ex-dividend date is the last date on which shareholders of record are entitled to receive the upcoming dividend. Essentially, what this means is that if you owned shares for only a short time around the ex-dividend date, your dividend income will be taxed as ordinary income and not eligible for the 15 percent rate.

Here's another caveat: not all income payments that are called dividends are qualified dividends in the "taxed at 15 percent" sense. For example, the money you earn on savings accounts, certificates of deposit, and money market funds is sometimes referred to as dividends especially when paid by Federal Credit Unions, but is really interest and is taxed as ordinary income.

You might be wondering whether you should invest more heavily in stocks that pay high dividends. The answer is yes -- and no. Surely, stocks that pay a high dividend are more attractive now, but that doesn't mean they are going to perform better than stocks that don't pay dividends. And here's something else to consider. If you're holding stocks that don't pay dividends, there is no tax bill until you sell those stocks at a gain. In contrast, the tax on dividends applies in the year the dividend is paid.

In any case, you should never let tax considerations drive your investment decisions. Be sure that your overall financial objectives guide your investment strategies.

In 2008, the rate for people in the 10% and 15% brackets will be a zero rate on both Qualified Dividends and on Long-term Capital Gains.

### **Slide 30: Investment Strategies: Capital Gains Tax**

Similarly, the maximum tax rate on net long-term capital gains was reduced to 15 percent during 2003. If you're in the 10 percent or 15 percent tax bracket, your net long-term

capital gains will be taxed at only 5 percent. To qualify for long-term tax treatment, an asset must be held for more than one year before it is sold. Keep in mind that the net long-term capital gains tax rate from the sales of collectibles remains at 28 percent. I covered this earlier when I spoke about family-friendly tax benefits, but it bears repeating. These changes in the tax law provide a great opportunity to cut your overall family tax bill by transferring stock – both appreciated growth stocks and dividend stocks to children age 18 and older who are in lower tax brackets. In 2008, the rate for people in the 10% and 15% brackets will be a zero rate on both Qualified Dividends and on Long-term Capital Gains.

### **Slide 31: Investment Strategies: Offset Capital Gains with Losses**

Knowing when to make the right move is critical for timing your investment decisions. Be sure to periodically review your investment portfolio and determine whether you should initiate any investment moves. You may have some gains to report on your 2007 tax return. If that's the case, consider whether it makes good investment sense to take some losses to offset capital gains. 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. That figure is \$1,500 if married filing separately. Excess losses may be carried forward to offset ordinary income in subsequent years. Keep in mind that an investment sold at a loss need not be gone forever. If you believe it was a good long-term investment, you can buy it back. Just be sure to wait 31 days, otherwise you'll get caught up in the wash sale rule. This rule disallows losses on securities sold if substantially identical securities are bought within 30 days before or

after the loss sale.

## **RETIREMENT**

Contributing to a retirement plan can not only help you achieve a secure retirement, but lower your current income tax bill as well.

### **Slide 32: Retirement Strategies: Employer-Sponsored Plans**

Pre-tax contributions to an employer-sponsored savings plan reduce the amount of taxable wages you report on your tax return, making qualified retirement plans an excellent way to cut your tax bill. If you have a 401(k) or 403(b) and you haven't arranged to contribute the maximum, try to increase your contributions before year end. This is especially important if your employer makes matching contributions – which, in effect, represents an automatic return on your investment.

For 2007, if you're under 50, the maximum contribution to a 401(k) plan is \$15,500.

Taxpayers who are age 50 or older can make an additional “catch-up” contribution of \$5,000 in 2007.

In 2006, tax law changes allowed for a new “Roth 401(k)” option. Employees with plans that allow this option may designate some or all of their 401(k) contributions as Roth 401(k) contributions. Although these contributions will not reduce the employees' taxable income, the balances may grow untaxed and no income tax will be levied on qualified distributions.

### **Slide 33: IRAs**

The top annual contribution for traditional and Roth IRAs is \$4,000 for 2007 and \$5,000 for 2008, provided you have earned income to cover the contribution. If you're age 50 or older, you can make an extra \$1,000 catch-up contribution for 2007 and 2008.

Deductible contributions to a traditional IRA reduce your adjusted gross income. A full deduction to a traditional IRA is available, regardless of your income, if neither you nor your spouse is an active participant in an employer-sponsored retirement plan. If you participate in a retirement plan at work, your AGI may limit the IRA deduction. For joint filers, who are both active participants in employer-sponsored plans, the deduction phase-out ranges from \$83,000 to \$103,000 for 2007 and for single filers from \$52,000 to \$62,000. If you don't participate in an employer-sponsored plan, but your spouse does, the deduction for your contribution is phased out as your joint AGI rises from \$156,000 to \$166,000. If one spouse has little or no compensation, that spouse may base a contribution to an IRA on their spouse's compensation.

With a Roth IRA, contributions are not deductible, but investment earnings accumulate on a tax-deferred basis and may be withdrawn tax free, as long as you meet certain 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.

You have until the filing deadline of April 15, 2008, to open and contribute to an IRA for 2007. But why wait? The sooner you contribute, the longer your money grows tax deferred or tax-free.

This next tip is only for the remainder of 2007 and is not scheduled to exist in subsequent years.

An individual may have up to \$100,000 of their IRA balance distributed directly to a charitable organization without having to recognize income on the distribution. The account owner needs to be over 70 ½ years of age. The individual also does not get a charitable deduction on his or her personal income tax return.

The allowance is great for someone charitably inclined. By not recognizing income they may be keeping their income tax rate at a lower level and the contribution given is not being subject to the 50% limitation of AGI that cash contributions to charity are subject to on Schedule A of the personal income tax return Form 1040.

## **BUSINESS STRATEGIES**

I'd like to take a few minutes now to address those of you in the audience who are self-employed or small business owners and those of you who aspire to become free agents.

### **Slide 34: Business Strategies: Structure**

The structure of your business determines how your business income is taxed. If you are planning to start a business, consider your options carefully to determine whether a C Corporation, S Corporation, partnership, limited liability company, or sole proprietorship is best for you. While small businesses often start out as sole proprietorships or partnerships, many owners eventually explore the transition to another entity. If you're already in business, it makes sense to periodically review your business structure to determine if it's still the best option for you.

### **Slide 35: Business Strategies: Expensing Deduction**

Typically, when a business buys property that has a useful life of more than one year, the cost must be depreciated over the life of the asset. But under new provisions in the law for Section 179 expensing, for 2006, you can immediately elect to deduct 100 percent of the cost of up to \$108,000 in new and used personal property put into service before year end. The Section 179 allowance is phased out on a dollar-for-dollar basis when qualifying assets costing over \$430,000 are placed in service.

You should also know that the cost of computer software, which previously had to be

depreciated, generally over 36 months, is now eligible for the expensing deduction.

### **Slide 36: Additional Business Strategies**

If you're self-employed, in 2006, you can deduct 100 percent of amounts paid for health insurance for yourself, your spouse, and your dependents. The amount is taken as an individual deduction from gross income to arrive at AGI. You can also deduct one half of your self-employment tax. Several of the strategies we've already discussed today apply to small businesses as well. I'm referring to deferring income and accelerating expenses, and to contributing to a retirement plan. But there are several other strategies you want to be aware of.

Do you have some debts you haven't been able to collect? A business bad debt is deductible by a cash basis taxpayer only if an actual cash loss was incurred or if the amount deducted was included as income.

Be sure to make the most of your deductible expenses. Business-related auto expenses, travel, meals and entertainment costs, and interest expenses are all deductible. Just be sure to keep good records.

### **FINAL YEAR-END TIPS**

Before I close, I'd just like to touch on two timely year-end strategies – charitable contributions and flexible spending accounts.

### **Slide 37: Year-End Tips: Charitable Deductions**

For most people, making charitable contributions is synonymous with writing a check.

I'd like to propose that you look at some other means of sharing your good fortune.

Donating appreciated assets that qualify for the long-term capital gains treatment can actually do more to cut your tax bill. When you give appreciated long-term securities to

a nonprofit, you deduct the full market value of the asset at the time of the donation and you avoid paying capital gains tax on the appreciation. (This deduction is subject to limitations based on adjusted gross income.) Now, even though the capital gains tax has dropped to 15 percent, zero tax beats 15 percent any day and you get the benefit of a deduction. But don't wait until the last minute. You'll need to allow time for processing these transactions.

Here's another suggestion. Clean out your closets and basements. When you donate clothing, household goods, and furniture, you can write off the fair market value.

According to the Internal Revenue Service, and I quote, "fair market value is the amount at which property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the relevant facts." As a practical matter, be aware that the fair market value of used property is likely to be well below what you paid for it. In any case, be sure to ask the charity for a receipt. The better the documentation, the more secure your deduction. Additionally, the Pension Protection Act of 2006 deemed that no charitable deduction would be allowed for any contribution of clothing or a household item unless the clothing or household item is in good used condition or better.

And a few things to keep in mind regarding cash charitable contributions. Remember that to claim a deduction for charitable contributions with a claimed value of \$250 or more, in addition to meeting general substantiation requirements, you must substantiate your contribution by obtaining a contemporaneous written acknowledgement of the contribution from the donee organization. This acknowledgment must include, among other information, a description (but not the value) of the contributed property.

Additionally, the 2006 Pension Act disallows any charitable deduction for any contribution of cash, check or other monetary gift unless the donor maintains as a record of the contribution a bank record or a written communication from the donee showing the name of the donee organization, the date of the contribution, and the amount of the contribution. The provision applies to any contribution of money, regardless of amount. Keep in mind, too, that volunteering to help others may also bring tax deductions. There is no deduction for the value of the services you provide to a charity, but you can deduct some costs associated with volunteering. Deductible expenses include your out-of-pocket costs for transportation, lodging, and meals when you travel in connection with charitable work as long as there is no significant element of personal pleasure or vacation. You can also take a deduction of 14 cents per mile plus parking fees and tolls for your philanthropic driving. Other charitable deductions include the cost of supplies such as stamps, stationery, and the like that your charitable work requires.

### **Slide 38: Year-End Tips: Flexible Spending Accounts**

Flexible spending accounts are a great way to reduce your taxable income while planning for medical or child care expenses you will face in the coming year.

Once you decide how much you want to contribute, your employer deposits the money in your accounts pre-tax, so you don't pay taxes on the dollars you contribute. The major drawback to flexible spending plans is the use-it-or-lose-it feature. The IRS says any amounts unused at the end of the year can be carried over for two-and-a-half months and used to pay for expenses during that time. After that, any unused funds will be forfeited. So if you're already in a plan, check your balance. If there are still funds, you might want to schedule dental cleaning, buy a pair of prescription sunglasses, or even stock up

on certain over-the-counter medications, which the IRS recently announced can be paid for with flexible spending account money.

### **Slide 39: Year-End Tips: Avoid AMT**

Finally, and I almost hate to bring this up but, in addition to income tax, more and more taxpayers are finding themselves subject to the alternative minimum tax, the dreaded AMT. The AMT was designed years ago to make sure that the wealthy pay their share of taxes. But because the AMT is not indexed for inflation, more and more taxpayers are finding themselves affected. Some of the items that can trigger the AMT include a higher than average number of dependency exemptions, large deductions for state and local income taxes, higher real estate taxes, high miscellaneous itemized deductions, and medical expenses. Exercising incentive stock options can also subject you to this costly tax.

Congress extended the AMT's expanded exemption for individuals and families through 2006 and while the extension of the expanded exemptions will keep many people from being affected by AMT, New York State taxpayers with total adjusted gross income as low as \$100,000 can become those affected by AMT.

Unfortunately, the AMT defies most traditional tax planning strategies, but if you think you might be affected, you should discuss the matter with your CPA.

### **CLOSING**

#### **Slide 40: Training for Success**

I know that was a lot to cover. But, my key takeaways for you are these: One, consider tax planning year a round endeavor if you want to achieve the maximum tax savings; and two, focus on taking advantage of year-end strategies for saving tax dollars. Keep in

mind, too, that your CPA can be valuable partner in helping to keep your tax bill to the minimum. Thank you.

Now, I would be happy to answer any questions you may have.