

**JOHN P. COLE, C.P.A.**

132 LOMALA LANE • HOPEWELL JUNCTION, NY • 12533

PHONE: 203-674-6944 • PHONE: 845-896-5138

**To:** Valued Tax Client  
**From:** John P. Cole, CPA  
**Subject:** Highlights of New Tax Updates and **New Contact Information**

Similar to prior years, I am writing this letter to highlight some of the key changes to the tax code that may have some impact on your 2007 tax return:

2007 Key Provisions:

- As I write this letter, Congress is still meeting on the possible extension or changes to the AMT exemption amounts. I have waited all year to apprise you of the status but no decisions have been made and Congress has held numerous meetings on this subject. Being that an election year is forthcoming, I anticipate action on their behalf.
- Similarly, the law that allowed all nonrefundable personal credits to offset AMT as well as regular income tax liability for years before 2007 has also not been extended to 2007. However, an extension is expected.
- Beginning in 2007, all cash donations to charity regardless of amount; must be substantiated by a cancelled check, bank record or detailed receipt from the charity, or the contribution is not deductible.
- Instead of having to file a partnership return, a husband and wife who are sole owners of a business, who both materially participate in the business, and who file a joint return can elect to file for 2007 as sole proprietors, with each spouse reporting his or her respective share of the income and expenses on Schedule C.
- For 2007, the limit on the first year expensing deduction for business equipment is increased to \$125,000. The limit is reduced if the cost of the qualifying property placed in service during the year exceeds \$500,000.
- For 2007 only, premiums paid for mortgage insurance (PMI) in connection with home acquisition debt are deductible as interest on Schedule A provided the mortgage insurance contract was issued in 2007, the premiums paid during 2007 are allocable to 2007 and the deduction is not phased out. The phase-out applies if adjusted gross income exceeds \$100,000 or \$50,000 if married filing separate.
- Taxpayers with an unused AMT carry-forward from their 2004 Form 8801 may be entitled to a refundable credit for 2007, but higher income individuals may be unable to claim it because of a phase-out rule.
- The retirement saver's credit has been permanently extended beyond 2006 and the income ranges for the three credit rates have been expanded for 2007 by an inflation adjustment.
- The Roth IRA contribution limit for 2007 is phased out for a single taxpayer or head of household with modified adjusted gross income between \$99,000 and \$114,000 and for

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married filing joint with modified adjusted gross income between \$156,000 and \$166,000.

- The deduction limit for 2007 IRA contributions begins to phase-out for active plan participants with modified adjusted gross income exceeding \$52,000 for single or head of household or \$83,000 for married filing jointly. A \$156,000 phase-out threshold applies for a spouse who is not an active participant and files jointly with a spouse who is an active participant.
- Taxpayers age 70½ and older can exclude from 2007 income up to \$100,000 of otherwise taxable IRA distributions if the funds are transferred in 2007 directly from the IRA to a 50% limit charitable organization.
- The 2007 deferral limit for 401k, 403b, 457 plans and SEPs is \$15,500. The deferral plan limit for SIMPLE plans is \$10,500. For those age 50 and over, the plan could allow an additional deferral up to \$5,000 for 401k, 403b, 457 plans and SEPs. For a SIMPLE plan the additional deferral limit is \$2,500.
- Starting in 2007, up to \$3,000 of otherwise taxable distributions from a government retirement plan may be excluded from income by a retired public safety officer who elects to have the amount withheld from the distribution and paid directly to a health insurance company to pay premiums for accident or health insurance coverage, or qualifying long-term care insurance. Premiums may be for the retired public safety officer, his or her spouse or dependents.
- Eligible individuals with high deductible health plan coverage in December 2007 can contribute up to \$2,850 (self-only coverage) or \$5,650 (family coverage) to an HSA for 2007, regardless of their health plan deductible. An additional \$800 contribution is allowed for individuals 55 or older.
- For 2007, wages and self-employment earnings of up to \$97,500 are subject to the 6.2% Social Security (FICA) tax.
- The business mileage rate for 2007 is 48.5 cents per mile. For charitable volunteers, the deductible mileage rate is 14 cents per mile. The medical rate is 20 cents per mile.
- The first year depreciation limit for an auto placed in service in 2007 is \$3,060 and for a truck/van the limit is \$3,260.
- The reduction to itemized deductions and the personal exemption phase-out for high income taxpayers are being gradually limited between 2006 and 2010. The reduction phase-out for 2007 is 2/3 of the full amount required under pre-2006 rules; 1/3 of the previously disallowed amount is allowed.
- For 2007, the credit for each qualifying child is \$1,000 and the refundable portion is 15% of earned income exceeding \$11,750.
- The education credits are phased out for 2007 if the modified adjusted gross income is between \$47,000-\$57,000 if single, head of household or qualifying widower or between \$94,000-\$114,000 if married filing jointly.

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- An increased charitable contribution ceiling applies to a 2007 donation of a qualified charitable conservation contribution and a 15-year carryover is allowed for qualified contributions exceeding the limit.
- A charitable deduction is not allowed for contributions made after February 17, 2007 to a donor advised fund if the sponsoring organization is a war veterans' organization, a fraternal society, a nonprofit cemetery company or certain supporting organizations.
- A \$500 filing fee must be paid on Form 8283-V for a contribution after February 12, 2007 of an easement on a building in a registered historic district if the claimed deduction is more than \$10,000.
- The maximum foreign earned income exclusion for 2007 is \$85,700.
- Energy improvements installed in or on a principal residence in the United States qualify for a limited tax credit on Form 5695. The total credit for 2007 is limited to \$500, of which no more than \$200 can be for exterior windows. There is also a limit of \$50 for any advanced main circulating fan, \$150 for a qualified furnace or hot water boiler, or \$300 for any qualified central air conditioner, heat pump or water heater.
- For property placed in service in 2007, a credit is allowed for 30% of the cost of qualifying solar panels up to \$2,000 per year and a similar 30%/\$2,000 credit limit for qualifying solar water heaters. The credits do not apply to equipment used to heat swimming pools or hot tubs. In addition, a 30% credit is allowed for fuel cell property, up to \$500 for each half-kilowatt of capacity installed per year.
- The annual exclusion remains at \$12,000 for gifts made in 2007.

Table of Key tax Numbers for 2007:

<b>Description</b>	<b>Amount</b>	<b>Joint</b>	<b>HOH</b>	<b>Single</b>	<b>Separate</b>
Exemptions / Phase-out	\$3,400	\$234,600- \$357,100	\$195,500- \$318,000	\$156,400- \$278,900	\$117,300- \$178,550
Standard Deduction		\$10,700	\$7,850	\$5,350	\$5,350
Dependents-minimum deduct.	\$800				
Additional Deduct (65 & older)		\$,1050	\$,1300	\$1,300	N/A
Long-Term Care Premiums					
Age 40 or under	\$290				
Over 40 but not over 50	\$550				
Over 50 but not over 60	\$1,110				
Over 60 but not over 70	\$2,950				
Over 70	\$3,680				
Limit on Itemized Deductions					
Reduction Starts		\$156,400	\$156,400	\$156,400	\$78,200
IRA Contributions:					
Traditional IRA	\$4,000				
Additional if 50 or over	\$1,000				

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Deduction Phase-out		\$83,000- \$103,000	\$52,000- \$62,000	\$52,000- \$62,000	\$52,000- \$62,000
<b>Description</b>	<b>Amount</b>	<b>Joint</b>	<b>HOH</b>	<b>Single</b>	<b>Separate</b>
Roth IRA Limits	\$4,000				
Additional if 50 or over	\$1,000				
Deduction Phase-out		\$156,000- \$166,000	\$99,000- \$114,000	\$99,000- \$114,000	\$99,000- \$114,000
Elective Deferral Limits					
401k, 403b, 457 & SEP	\$15,500				
SIMPLE IRA	\$10,500				
Additional contribution 50+					
401k, 403b, 457 & SEP	\$5,000				
SIMPLE IRA	\$2,500				
Education					
Hope credit limit	\$1,650				
Lifetime learning credit	\$2,000				
Phase-out of credits		\$94,000- \$114,000	\$47,000- \$57,000	\$47,000- \$57,000	
Student loan interest deduct	\$2,500				
Phase-out		\$110,000- \$140,000	\$55,000- \$70,000	\$55,000- \$70,000	
Tuition & Fees Deduct.-Tier I	\$4,000				
Income cut-off		\$130,000	\$65,000	\$65,000	
Tuition & Fees Deduct.-Tier II	\$2,000				
Income cut-off		\$160,000	\$80,000	\$80,000	
L/T Capital Gains rates					
Top bracket of 10% or 15%	5%				
Top bracket over 15%	15%				
All collectables gain	28%				
All un-captured Section 1250	25%				
Qualified Dividends tax rate					
Top bracket of 10% or 15%	5%				
Top bracket over 15%	15%				
IRS Mileage rates					
Business	48.5 cents				
Charitable	14.0 cents				
Medical & moving expenses	20.0 cents				
Exclusion for Employer Paid Transportation	Parking - \$215/mo	Transit - \$110/mo			

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I have some personal good news, but this will make the upcoming tax season a little challenging. My wife and I are expecting the birth of our second child in mid to late March; I know, poor tax planning on my part. Seriously, I am fully committed in supporting you during this season, I just anticipate a few days of unavailability when my wife gives birth. If you can keep this in mind when scheduling appointments, that would be appreciated. I already have my tax software and will be ready once you receive your information.

Lastly, I have changed jobs late in 2007. My new contact information is below. Please use these numbers going forward to reach me. My home number and address remain the same.

Contact Information:

John P. Cole, CPA/MBA

Address: 132 Lomala Lane, Hopewell Junction, NY 12533

Phone: Office 203-674-6944, Cell 203-219-9243, Evenings 845-896-5138

Website: [www.cpataxprep.net](http://www.cpataxprep.net)

Email: [john@cpataxprep.net](mailto:john@cpataxprep.net) or [jpcole@optonline.net](mailto:jpcole@optonline.net)

In conclusion, I truly appreciate your patronage and hope this letter finds you and your loved ones in good health and happiness and wish you a happy holiday/new-year. I look forward to working with you in 2008.

Please remember, if you have a final estimated payment due, it must be postmarked by January 15<sup>th</sup>.

Sincerely,



John P. Cole, CPA

**Disclaimer:**

The information contained in this memo is of general tax information. It should not be construed as legal advice nor should it be acted upon in your specific situation without further details or professional assistance. It is advised and is the responsibility of the reader to seek proper instruction and / or professional assistance in all matters regarding taxes and the IRS.