

2007 Tax Update

- 2007 Exemptions, Deductions & Phase-outs
 - Standard Mileage Rates
 - Telephone Tax Refund
- Charitable Contribution Deductions
- 2007 Tax Season: Danger Ahead!!!

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2007 Exemptions & Deductions

- Social Security
 - 6.2% collected on 1st \$97,500 of income.
- Personal Exemption
 - \$3,400/person.
 - Phase-out begins at \$156,400 for single filers and \$234,600 for MFJ.
- Standard Deductions
 - \$5,350 for single filers, \$10,700 for MFJ.
 - Additional \$1,250 for age 65 & blindness (single & head of household) or \$1,000 (MFJ, qualifying widower).
- Itemized Deductions
 - Phase-out begins at AGI of \$156,400 for single & MFJ.

'06 & '07 Standard Mileage Rates

- 2006
 - 44.5 cents per mile: Business & Employee Related Miles
 - 18 cents per mile: Medical Miles
 - 18 cents per mile: Moving Miles
 - 14 cents per mile: Charitable Miles
 - 32 cents per mile: Katrina-Related Miles
- 2007
 - 48.5 cents per mile: Business & Employee Related Miles
 - 20 cents per mile: Medical Miles
 - 20 cents per mile: Moving Miles
 - 14 cents per mile: Charitable Miles

Telephone Tax Refund

- One-time refund on 2006 federal tax.
- Designed to refund previously collected long-distance federal excise taxes (originally charged to help cover the Spanish-American War) on landlines, cell phones & Voice over Internet Protocol (VoIP) service between 2/28/03 & 8/1/06.
- Individuals can either choose standard refund amount (Line 71 of 1040) or calculate 41 months of phone records and prepare Form 8913 of 1040.
 - One exemption, refund = \$30
 - Two exemptions, refund = \$40
 - Three exemptions, refund = \$50
 - Four exemptions, refund = \$60
- Businesses & Tax-Exempt Organizations must file Form 8913, Credit for Federal Telephone Excise Tax Paid.
 - Sole proprietors, independent contractors and owners of rental property may file Form 8913 only if their gross rental and business income exceeds \$25,000.

Changes for Charitable Contributions - Cash

- Pension Protection Act of 2006, effective for contributions made after January 1st, 2007.
- Increased requirements for recording charitable deductions.
- Cash Contributions
 - Individuals must show a receipt from the charity, a cancelled check, or credit card statement to prove their donation.
 - No tax deduction will be allowed if the taxpayer cannot provide any supporting documentation.
 - Bank registers, diaries or notes are no longer sufficient records.
 - Taxpayers will not need to mail in the receipts with their tax return, but will need to provide as documentation in the event of an IRS audit.

Changes for Charitable Contributions – Non-Cash

- Pension Protection Act of 2006, effective for non-cash contributions made after August 17th, 2006.
- Non-Cash Contributions
 - Anything over \$5,000 must include a qualified appraisal for the property.
 - All donated items must be in good condition, or better.
 - “A taxpayer may claim a deduction of more than \$500 for any single item, regardless of its condition, if the taxpayer includes a qualified appraisal of the item with the return.”
 - Very little guidance as to “good condition.”
 - Current speculation is that, while the requirement is new, the IRS will start pulling more returns that list donated property and asking filers to confirm the worth of their gifts.

2007 Tax Season: A Disaster Waiting to Happen



- The Background
 - Congress left in November without renewing several tax benefits:
 - Tuition Deduction (up to \$4,000 deduction for taxpayers with Adjusted Gross Income up to \$65,000 (single) or \$130,000 (MFJ)).
 - State & Local Sales Tax Deduction.
 - Teachers' Classroom Deduction (\$250).
 - And, NEW!!!, Mortgage Insurance Premium Deduction (for taxpayers with AGI of \$110,000 or less).
- IRS printed 2006 tax forms in November
 - None of the tax benefits could be included in the forms.

2007 Tax Season: A Disaster Waiting to Happen



- Congress returned in early December, and extended the breaks for the two years beginning retroactively on January 1, 2006.
- IRS will issue supplemental instructions regarding how and where taxpayers should include the deductions on their 2006 returns.
- Tax return processing...and refunds...are likely to be delayed this year.
 - Recommend e-filing and direct deposit (Form 8888).

Questions?

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