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Tax Tips from Our Friends at the Internal Revenue Service

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Highlights of 2007 Tax Changes: Law Raises AMT Exemption, Filers of Five Forms Must Wait Until Feb. 11

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AMT exemptions rise. Filing is delayed for some taxpayers. Several popular deductions reappear on IRS forms. Tax relief is available to struggling homeowners whose mortgage debt is forgiven. Retirement savings incentives expand. A new deduction is available for some mortgage insurance premiums. And new recordkeeping rules apply to cash donations to charity.

These are among the changes taxpayers will find when they fill out their 2007 tax returns. More information about the changes, summarized below, can be found on IRS.gov and in various IRS documents, including the Instructions for **Form 1040** (**www.irs.gov/pub/irs-pdf/i1040.pdf**)

AMT Exemption Increased for One Year

For tax-year 2007, Congress raised the alternative minimum tax exemption to $66,250 for a married couple filing a joint return, up from $62,550 in 2006. The exemption rises to $33,125 for a married person filing separately, up from $31,275, and it rises to $44,350 for singles and heads of household, up from $42,500. Under current law, these exemption amounts will drop to $45,000, $22,500 and $33,750, respectively, in 2008. **Form 6251** (**www.irs.gov/pub/irs-pdf/f6251.pdf**) and the AMT Calculator, which is being updated and will be available later in January, provide more information.

While the vast majority of taxpayers can file as usual, about 13.5 million taxpayers who file any of five tax forms affected by recent tax law changes related to the AMT will have to wait until Feb. 11, 2008, to file their returns. IRS.gov has more information on this important subject, including a list of affected forms and questions and answers.

Extender Tax Breaks Reappear on IRS Forms

Several popular tax breaks, renewed too late to be included on 2006 forms, once again appear as separate items on various 2007 IRS forms. As a result, unlike last year, eligible taxpayers will no longer have to follow special instructions in order to claim the deduction for state and local sales taxes, the educator expense deduction and the tuition and fees deduction.

Those who itemize, rather than taking the standard deduction, can choose to claim state and local sales taxes on Form 1040 Schedule A, Line 5.

The educator expense deduction is reported on Form 1040, Line 23 or Form 1040A, Line 16.

Taxpayers who choose to claim the tuition and fees deduction must fill out and attach new **Form 8917** (**www.irs.gov/pub/irs-pdf/f8917.pdf**). The resulting deduction is reported on Form 1040 Line 34 or Form 1040A Line 19. Note that many who qualify for the tuition and fees deduction may reap greater tax savings by instead claiming the Hope credit or the lifetime learning credit for a particular student. Figure these credits on **Form 8863** (**www.irs.gov/pub/irs-pdf/f8863.pdf**). **Publication 970** (**www.irs.gov/publications/p970/index.html**) has details on these and other education-related tax benefits.

Contribution Limits Rise for IRAs and Other Retirement Plans

This filing season, more people can make tax-deductible contributions to a traditional IRA. The deduction is phased out for singles and heads of household who are covered by a workplace retirement plan, with incomes between $52,000 and $62,000, compared to $50,000 to $60,000 last year. The phase-out range is $83,000 to $103,000, up from $75,000 to $85,000 last year, if the spouse making the IRA contribution is covered by a workplace retirement plan. Where an IRA contributor, not covered by a workplace retirement plan, is married to someone who is covered, the deduction is phased out if the couple's income is between $156,000 and $166,000, up from $150,000 to $160,000 in 2006. The phase-out range remains $0 to $10,000 for a married individual filing a separate return who is covered by a retirement plan at work. Use the worksheet in the line instructions for Form 1040 Line 32 or Form 1040A Line 17 to figure the IRA deduction.

For 2007 and 2008, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b) and most 457 plans rises $500, to $15,500. The catch-up contribution limit for those aged 50 to 70-1/2 remains at $5,000. For SIMPLE plans, the limit is also up $500, to $10,500, and the catch-up limit remains $2,500.

This year for the first time income limits for the saver's credit are adjusted for inflation. The saver's credit supplements other tax benefits available to low- and-moderate income taxpayers who save for retirement. Begun in 2002 as a temporary provision, the saver's credit is now a permanent part of the tax code. Use **Form 8880** (**www.irs.gov/pub/irs-pdf/f8880.pdf**) to claim the credit.

Mortgage Insurance Premiums May be Deductible

Some borrowers may be able to deduct mortgage insurance premiums paid on mortgages taken out or refinanced during 2007. A borrower who prepays premiums for later years may deduct only the premiums that relate to 2007, except for prepayments for guarantees made by the Department of Veterans Affairs or the Rural Housing Service. Only mortgage insurance contracts issued during 2007, 2008, 2009 or 2010 qualify for this new itemized deduction. Proceeds of the mortgage, secured by a first or second home, must be used exclusively to buy, build or improve these homes, or alternatively, to refinance a mortgage, secured by the home and used for these purposes. Home-equity loans used for other purposes are not eligible. The deduction for mortgage insurance premiums is phased out for taxpayers with adjusted gross incomes exceeding $100,000 ($50,000, if married filing separately). Claim this deduction on Schedule A, Line 13. Further details are in **Publication 936** (**www.irs.gov/publications/p936/index.html**).

New Rules for Giving to Charity

To deduct any charitable donation of money, taxpayers must have a bank record or a written communication from the recipient showing the name of the organization and the date and amount of the contribution. Though taxpayers are already required to keep records to support their contribution deductions, this new provision is designed to provide greater certainty, both to taxpayers and the government, in determining what may be deducted as a charitable contribution. See **Publication 526** (**www.irs.gov/publications/p526/index.html**).

Standard Mileage Rates Adjusted for 2007

The standard mileage rate for business use of a car, van, pick-up or panel truck is 48.5 cents a mile, up 4 cents from 2006.

The standard mileage rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is 20 cents a mile, up 2 cents over last year.

The standard mileage rate for using a car to provide services to charitable organizations is set by law and remains at 14 cents a mile.

A Pastor went to his Church office on Monday morning and discovered a dead mule in the Church yard.

He telephoned the police. Since there did not appear to be any foul play, the police referred the Pastor to the Health Department. They explained, "Since there was no health threat, you'll need to call the Sanitation Department."

When the pastor called the Sanitation Department, the Manager of the Sanitation Department said, "I can't pick up that dead mule without authorization from the mayor."

The Pastor was not at all too eager to call the mayor, who possessed a very bad temper and was always extremely unpleasant and hard to deal with, but, eventually, the Pastor called the mayor anyway.

The mayor did not disappoint the Pastor. The mayor immediately began to rant and rave. After his continued rant at the pastor, the mayor finally said, "Why did you call me any way? Isn't it your job to bury the dead?"

The pastor paused for a brief prayer, and asked the Lord to direct his response.

The Lord led the pastor to the words he was seeking, "Well yes, Mayor, it IS my job to bury the dead, BUT I always like to notify the next of kin first!"