

Federal and State Update

The following bills were signed by George W. Bush toward the end of 2007:

- * **the Tax Increase Prevention Act of 2007**
- * **the Mortgage Forgiveness Debt Relief Act of 2007**
- * **the Energy Independence and Security Act of 2007**
- * **the Technical Corrections Act of 2007**

* **The Tax Increase Prevention Act of 2007** provides for a one-year patch of the AMT for 2007 but does not offset the revenue cost with revenue raising provisions.

This is a temporary fix only. Without future Congressional action, the AMT exemption amounts for individuals in 2008 will revert to 2000 levels.

* **The Mortgage Forgiveness Debt Relief Act of 2007** excludes from taxable income up to \$2 Million of “debt forgiveness” from a mortgage secured by a principal residence and incurred in acquiring, constructing or substantially improving the residence. This relief is available for debt forgiveness taking place between January 1, 2007 and December 31, 2009.

The relief applies to refinancing of qualifying debt to the extent that the refinancing did not exceed the amount of the original debt. No relief is provided for home-equity debt where the funds were not used for substantial improvement to the personal residence. The forgiveness of home-equity debt where the cash was used to pay off credit card debt, education, medical expenses, etc. is fully taxable.

The cost basis of the principal residence is reduced by any debt forgiveness income excluded under this relief.

The Act also extends for three (3) years, through December 31, 2010, the deduction for qualified mortgage insurance premiums. The deduction is permitted for contracts entered into after December 31, 2006, and prior to January 1, 2011. It is phased-out as AGI goes from \$100,000 to \$110,000 (or \$50,000 to \$55,000 for Married Filing Separate).

Effective with tax years beginning on or after January 1, 2008, gain on the sale of a personal residence that had been jointly owned by a surviving spouse and a deceased spouse for the will qualify for the full \$500,000 exclusion if the sale closes no later than two (2) years after the date of death of the deceased spouse. Previously the full exclusion was only available if the home was sold during the year that the spouse died.

Volunteer firefighters and volunteer “emergency medical responders” can exclude from income up to \$360.00 of refunds, rebates or payments received because of their volunteer services, effective with tax years beginning after December 31, 2007 (tax year 2008).

* **The Energy Independence and Security Act of 2007** does not include any 1040 tax items. It is an Act to move the United States toward greater energy independence and security, to increase the production of clean renewable fuels, to protect consumers, to increase the efficiency of

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products, buildings, and vehicles, to promote research on and deploy greenhouse gas capture and storage options, and to improve the energy performance of the Federal Government, and for other purposes.

* **The Technical Corrections Act of 2007** provides some obscure corrections that do not directly affect most 1040 filers, with the possible exception of a slight change in the definition of the AMT refundable credit to more effectively utilize long-term unused AMT credits.

Husband and wife business owners may file as sole proprietors. Instead of having to file a partnership return, a husband and wife who are the 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.

If the election is made, each spouse's share of the net profit is considered to be his or her self-employment earnings for the purposes of figuring self-employment tax and for crediting Social Security and Medicare benefits.

Registered Domestic Partners (RDP) – Effective for taxable years beginning on or after January 1, 2007, RDPs under California law must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs will have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified. If you entered into a same sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, effective for taxable years beginning on or after January 1, 2007, you are required to file a California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status.

For purposes of California income tax, references to a spouse, a husband, or a wife also refer to a California Registered Domestic Partner (RDP), unless otherwise specified. When we use the initials (RDP) they refer to both a California Registered Domestic "Partner" and a California Registered Domestic "Partnership" as applicable. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

Withholding on California Real Estate – For transactions occurring on or after January 1, 2007, that require withholding, a seller of California real estate may elect an alternative to withholding 3 1/3 percent of the total sales price. The seller may elect an alternative withholding amount based on the maximum tax rate for individuals, corporations, or banks and financial corporations, as applied to the gain on the sale. The seller is required to certify under penalty of perjury the alternative withholding amount to the Franchise Tax Board. For real estate installment sales, if a buyer receives a seller' certification as to an alternative withholding election, the buyer would be required to withhold either the full alternative withholding amount at the time of sale or an alternative withholding percentage on the amount of each installment payment.

**The Tax Institute
Quick Tax Facts**

Key Figures for the 2007 tax year

STANDARD DEDUCTIONS

Married, filing joint return	\$10,700
Surviving spouse	\$10,700
Head of Household	\$7,850
Single	\$5,350
Married, filing separate return	\$5,350
Dependent standard deduction minimum	\$850
Additional amount for blindness and / or age	\$1,050
Additional amount as above if single or HH	\$1,300

EXEMPTIONS

Personal and Dependent Amount	\$3,400
Estate Amount	\$600
Simple Trust Amount	\$300
Complex Trust Amount	\$100
Joint returns or surviving spouse (Phaseout)	\$234,600
Head of Household (Phaseout)	\$195,500
Single (Phaseout)	\$156,400
Married, filing separate return (Phaseout)	\$117,300

ITEMIZED DEDUCTIONS

Married, filing separate (Phaseout)	\$78,200
Others (Phaseout)	\$156,400

TRANSPORTATION

Fringe Benefit: Employer-provided passes and vehicles	\$110/mo.
Fringe Benefit: Qualified parking limit	\$215/mo.
Business Mileage Rate	\$0.485
Charitable Mileage Rate	\$0.14
Medical and Moving Mileage Rate	\$0.20
Depreciation Component of Standard Mileage Rate	\$0.19
High Cost Per Diem Travel Rate (after 10/31/04)	\$246
Low Cost Per Diem Travel Rate (after 10/31/04)	\$148

RETIREMENT PLANS

Maximum Annual Benefit for Defined Benefit Plan	\$180,000
Maximum Annual Contribution Defined Contribution Plan	\$45,000
Highly Compensated Employee Definition (In general)	\$100,000
SIMPLE Contribution Limit	\$10,500
SEP De minimis Compensation Amount	\$500
SEP Nondiscrimination Compensation Amount	\$225,000
401 (k) Maximum Compensation Amount	\$225,000
401(k) Maximum Exclusion (In general)	\$15,500
IRA Deduction Limit (In general)	\$4,000
Catch-up Contributions (Extra amount for taxpayers over age 49)	
Traditional and Roth IRAs	\$1,000
SIMPLEs	\$2,500
401(k), 403(b) and 457 Plans	\$5,000

Key Figures for the 2007 tax year

CAPITAL GAIN RATES (ASSETS HELD MORE THAN 12 MONTHS)

General Rate:	15%
Low Rate: (Taxpayers in 10% or 15% bracket)	5%
High Rate: Collectibles (coins, art, antiques)	28%
Recaptured gain on real estate (Sec. 1250 gain)	25%
Dividends, qualified (General rate)	15%
Dividends, qualified (Taxpayers in 10% or 15% bracket)	5%

PAYROLL TAXES

Soc. Sec. (Self-employed) Combined rate (OASDI+Medicare)	15.3%
Soc. Sec. (Employer or Employee) Rate (OASDI+Medicare)	7.65%
OASDI Maximum Base	\$97,500
FUTA Rate	6.2%
FUTA Wage Base	\$7,000
Nanny Tax Threshold	\$1,500

ADJUSTED GROSS INCOME LIMITS

Casualty Loss Threshold	10%
Medical Deduction Threshold	7.5%
Miscellaneous Itemized Deduction Floor	2%

EDUCATIONAL TAX INCENTIVES

Hope Scholarship Credit	\$1,650
Lifetime Learning Credit	\$2,000
Tuition and Fees Deduction	\$4,000
Coverdell Education Savings Account Contribution	\$2,000
Student Loan Interest Deduction	\$2,500
U.S. Savings Bond Interest Exclusion (Phaseout)	
Married, filing joint return	\$98,400
Single, QW or head of household	\$65,600
Married, filing separate return	\$0

VARIOUS OTHERS

Exclusion of gain from sale of residence:	
joint filers	\$500,000
single filers	\$250,000
Maximum child tax credit (per qualifying child)	\$1,000
Maximum Section 179 deduction limitation	\$125,000
Teacher's Classroom Expense Deduction	\$250
Foreign earned income exclusion	\$85,700

CALIFORNIA KEY FIGURES FOR 2007

Dependent exemption credit	\$294
Personal exemption credit, single, MFS or HH	\$94
Personal exemption credit, MFJ or QW	\$188
Standard Deduction Single or Married filing Separate	\$3,516
Standard Deduction Married filing Joint, Head of household, or Qualifying widow	\$7,032
State Disability Insurance rate (2007)	0.60%
State Disability taxable wage limit (2007)	\$83,389
Maximum State Section 179 Deduction Limitation	\$25,000
Renter's Credit (nonrefundable):	
Single or MFS and AGI does not exceed \$33,272	\$60
HH and married couples and AGI does not exceed \$66,544	\$120