



It's never too early to start planning...

2007 Year End Tax Considerations

Each year brings new tax regulations or changes in existing tax laws. Staying abreast of these changes can be overwhelming to say the least. Milligan & Company compiled this overview of some of the 2007 tax laws that we thought would most likely affect our clients.

We encourage you to review this newsletter and take advantage of any opportunities to minimize your 2007 tax liability.

Retirement Plans

- You can contribute up to \$4,000 (\$5,000 if age 50 or over) to a traditional or Roth IRA. You have until April 15, 2008 to make the contributions.
- If you are retiring or leaving your employer for another job, and will be receiving a lump-sum distribution from your employer's retirement savings plan, you can avoid the mandatory 20% withholding on your distribution by having it directly transferred to another IRA or a new employer's plan.

Charitable Giving

- You can help your favorite charities and your tax situation by making year-end contributions. A check mailed on

December 31, 2007 can be counted as a 2007 contribution even though the charity doesn't receive it until 2008.

- Be aware of new charitable giving rules:
 1. *To claim a deduction for clothing and household items, the donated items must be in good used (or better) condition.*
 2. *For all cash contributions, you must have a bank record or receipt from the charitable organization showing the name of the charity, the contribution date and the contribution amount.*

Clean Air Act

- If you buy certain vehicles powered by fuel cells, advanced lean-burn technology or alternative fuels, you may be eligible for a tax credit. Qualified hybrid vehicles are also eligible. The credit amount varies with the type of vehicle.

Home-Ownership

- A tax credit of up to \$500 is available for the costs of making certain energy-efficient improvements to your principal residence, including energy-saving exterior doors, windows and insulation. Limits apply.
- Subject to limitations, premiums that you pay or accrue for "qualified mortgage insurance" during 2007 in connection with home acquisition

debt on your qualified home are deductible as home mortgage interest. The amount you can deduct is reduced by 10% (.10) for every \$1,000 (\$500 if your filing status is married filing separately) by which your adjusted gross income exceeds \$100,000 (\$50,000 if your filing status is married filing separately).

Adoption

- Beginning in 2007, the credit allowed for an adoption of a child with special needs is \$11,390 and the maximum credit allowed for other adoptions is the amount of qualified adoption expenses up to \$11,390. The credit begins to phase out if you have modified adjusted gross income of \$170,820 or more and is completely phased out if you have modified adjusted gross income of \$210,820 or more.

Investment Income

- Opportunities for parents to shift investment income to their children in lower tax brackets have been limited by an expansion of the “kiddie tax” rules. They now apply until the year a child turns 18 years old, rather than the old law’s age 14.

Alternative Minimum Tax

- The AMT exemption amount has decreased to \$33,750 (\$45,000 if married filing jointly or qualifying

widow(er); \$22,500 if married filing separately).

Intellectual Property

- Musical compositions and copyrights in musical works are generally not capital assets. However, you can elect to treat these types of property as capital assets if you sell or exchange them in tax years beginning after May 17, 2006, and:

1. *Your personal efforts created the property, or*
2. *You acquired the property under circumstances (for example, by gift) entitling you to the basis of the person who created the property or for whom it was prepared or produced.*

Wage Tax

- The maximum amount of wages subject to the social security tax for 2007 is \$97,500. There is no limit on the amount of wages subject to the Medicare tax.

Education Related Expenses

- The education expense deduction allows a \$250 above-the-line deduction for primary and secondary school teachers' classroom expenses.
- For 2007, the amount of your Hope or lifetime learning credit is phased out (gradually reduced) if your modified adjusted gross income (MAGI) is between \$47,000 and \$57,000 (\$94,000

and \$114,000 if you file a joint return). You cannot claim an education credit if your MAGI is \$57,000 or more (\$114,000 or more if you file a joint return). This is an increase from the 2006 limits of \$45,000 and \$55,000 (\$90,000 and \$110,000 if filing a joint return).

If you have any questions on the tax tips presented in our newsletter or if you would like to discuss your tax planning needs, please contact LaVon Wells-Chancy, Esq. at Milligan & Company - 215 496 9100 ext 131 or by email: lwells@milligancpa.com

Business Considerations

- **Section 179 deduction** - Don't overlook the possibility of deducting up to \$112,000 of your 2007 business asset purchases instead of depreciating them. (The \$112,000 cap reflects an estimated inflation adjustment for 2007.) You can make this election for most non-real-estate assets.
- **Energy-efficient commercial buildings** - Amounts spent to make a commercial building energy efficient can generate a deduction of as much as \$1.80 per building square foot. Specific energy and power cost reduction targets must be met. Unless extended, this deduction will not be available after 2007.

Significant tax benefits, which expired in 2006 and will not apply for 2007, include:

- Relief granted for Hurricanes Katrina, Rita, and Wilma, and;
- Credits for certain qualified electric vehicles

The general information in this correspondence is not intended to be nor should it be treated as tax, legal, or accounting advice.

Additional issues could exist that would affect the tax treatment of a specific transaction and, therefore, taxpayers should seek advice from a tax advisor based on their particular circumstances before acting on any information presented.

This information is not intended to be nor can it be used by any taxpayer for the purpose of avoiding tax penalties.

Audit & Assurance Services

Compilation, Review & Audit of Financial Statements

Internal Financial Reporting

Agreed-Upon Procedures Reporting

Attest Engagements

Cash Flow Analyses & Statements

Financial Forecasts

Financial Management Systems Reviews

Internal Control Assessments

Co-Source of Internal Audit

Employee Benefit Plan Services

Low Income Housing Tax Credit Partnerships

Tax & Accounting Services

Federal, State & Local Tax Returns

Consultation & Tax Planning

Tax Audit Representation

Negotiation of Assessment & Disputes

Assessing Tax Impact of Major Transactions

Accounting Policies & Procedures

Development

Monthly General Ledger Maintenance & Controllership Functions

Management Advisory

Business Planning & Start-up Consulting

Risk Assessments

Operational Audits

Financial Planning & Capital Budgeting

Financial Projections

Assessment of Financial, Operational & Contract Policies & Procedures

Software Implementation & Installation

Business Valuation

Transportation & Capital Project Consulting

Planning Studies

Funding Strategies

Grants Management & Training

Contract Compliance Reviews & Monitoring

Financial & Indirect Cost Allocation Plans

Economic Development

Supplier & Workforce Diversity Consulting

Development & Implementation of Diversity Programs

Program Oversight

Civil Rights Compliance Reviews

DBE Program Development & Training

MILLIGAN & COMPANY | www.milligancpa.com

Philadelphia, PA
105 North 22nd Street
Philadelphia, PA 19103
Phone: 215.496.9100
Fax: 215.496.0980

Cherry Hill, NJ
811 Church Road
Suite 105
Cherry Hill, NJ 08002
Phone: 856.964.0049

Baltimore, MD
119 South Ann Street
Baltimore, MD 21231
Phone 410.732.4626

Washington, DC
1625 K Street, NW
Suite 330
Washington, DC 20006
Phone: 202.223.5550