

Education



The **“HOPE ” credit** is a nonrefundable credit of 100% of the first \$1,100 and 50% of the next \$1,100 per student for tuition and fees for the first two years of post secondary education. The maximum annual credit is \$1,650 per eligible student. **Note:** The credit is per student per year. A family may have more than one eligible student in a year.

The **Lifetime Learning** credit is

a nonrefundable tax credit of 20% of up to \$10,000 of tuition costs for post secondary education, graduate school, and other courses to gain or improve job skills. The maximum credit allowed is \$2,000. **Note:** The credit is per tax return, not per individual

The **\$4,000 above-the-line deduction** (you qualify for it even if you don’t itemize) for

higher education expenses continues through 2007. You cannot claim the deduction and the higher-education credits for the same student.

Student-loan interest is an above-the-line deduction (\$2,500 maximum, directly reducing AGI) allowed to the person obligated to make the loan payment. Phaseout starts at AGI of \$110,000 for couples, \$55,000 for singles.

Health Savings Accounts (HSA)

An HSA is a savings account set up exclusively for paying the medical expenses of the account beneficiary or the beneficiary’s spouse or dependents.

To qualify for an HSA, an individual:

- ★ Must be covered under a high deductible health plan (HDHP)
- ★ Cannot be covered by other health insurance
- ★ Cannot be enrolled in Medicare

- ★ Cannot be claimed as a dependent on another person’s return

HSA contributions can be made for the entire year even though an individual is HSA-eligible for only part of the year. Beginning in 2007, an individual who is eligible to contribute to an HSA during the last month of the year is treated as being eligible for the entire year. Thus, their HSA contribution limit is the full-year amount and not a pro-rated amount based on the number of months covered by a high de-

ductible health plan. The contributions can be made in cash or through a cafeteria plan. For 2007, contributions must be made by April 15, 2008.

If you are enrolled in a flexible spending arrangement or a health reimbursement arrangement, you generally cannot have an HSA. There are some permitted exceptions to this rule but they are very complicated. Please contact us if you are interested in finding out more.

HSA Contribution Limits

	2007		2008	
	Individual	Family	Individual	Family
Maximum Contribution	\$2,850	\$5,650	\$2,900	\$5,800
Maximum Annual Out of Pocket	\$5,500	\$11,000	\$5,600	\$11,200
Maximum Deductible Amounts	\$1,100	\$2,200	\$1,100	\$2,200



Business Tidbits

New in 2007

- ★ Section 179 expensing deduction increases to \$125,000. The deduction for heavy SUVs (with loaded vehicle ratings of 6,000-14,000 lbs) stays capped at \$25,000. Very heavy pickups, vans and small buses, and off-the-shelf software enjoy the high limit. The benefit begins phasing out once \$500,000 of assets are placed in service during the year.
- ★ The Domestic Production Activities Deduction has increased from 3% to 6% of net profit. This computation is based on 6% of qualifying net profit or 50% of W-2 wages paid, whichever is less.
- ★ The Work Opportunity and Employer Tip Credits can now offset the AMT. Also, although the minimum wage has risen, the calculation for the Employer Tip Credit will not be impacted.
- ★ Enforcement: The IRS has detected massive non-compliance

by S corporations on payroll taxes, often because shareholders take pay in other than salary form. Be sure a “reasonable” wage is being paid to the shareholders to avoid problems.

Other Credits

- ★ The credit for energy derived from renewable sources extends through 2007. Builders get a credit (max of \$2,000 per house) for energy-efficient homes built after 2005 and sold in 2006 and 2007.

Business Deductions

Businesses can increase their deductions in many ways:

- ★ The deduction for business meals and entertainment is 50% of eligible expenses, with receipts required only for expenditures above \$75. You need an itemized bill for lodging; a credit card receipt is not enough.
- ★ Instead of buying your client a

meal, which is only 50% deductible, give the client a \$25 gift certificate (100% deductible) to his or her favorite restaurant.

Misc Info

- ★ Documentation of hours worked by family members is an important item to consider. In a recent court case, IRS disallowed a \$4,000 wage to a minor child that was paid in December of the IRS audit year. One item of interest was that the parent put the wage back into their business checking account. A big no, no! A child’s wage should be used for their expenses and not returned to the parents’ account. In addition, this amount should be reasonable for services rendered based upon documentation of hours worked.

Work Opportunity Tax Credit (WOTC)

The “welfare-to-work” credit was folded into the Work Opportunity Tax Credit (WOTC) which was extended through August 2011. As of May 25, 2007, the new category of eligible workers includes an individual who has attained age 18 but not 40 on the date of hire and who resides in a county that lost population through the 1990’s. In our area, examples of counties that qualify are: **Clay, Emmet, Hancock, Humboldt, Kossuth, Palo Alto, Pocahontas, Winnebago and Worth.** Employers have only 28 days after the date of hire to submit a certification request to their state workforce agency.

The following is a checklist for claiming the credit:

- ★ Employee hired is between age 18 and 40
- ★ Employee resides in a rural renewal county (some of which are listed)
- ★ Employee cannot be a dependent or relative of employer
- ★ Employee must never have worked for the employer before
- ★ Employee is expected to work at least 120 hours in the first twelve months

If you meet these requirements, you

will need to contact your local Iowa Workforce Development office or call our office for details on filling out the forms to get certified to claim this credit.



Estate Planning

“Estate” planning is now simple for most U.S. taxpayers: the goal is to leave the exemption amount or less in one’s estate. Those who might accumulate \$2 million—or more if the exemption rises—should offload the excess early through planned gifts and other devices. Your estate includes home equity, retirement accounts, coming inheritances and proceeds from life insurance. Most of your “extra” assets should pass outside your will, through IRAs, qualified plans and insurance proceeds. So a precise designation of beneficiaries may be your most crucial planning issue. For example, if you name your “children” as your beneficiaries and one of them dies before you, that child’s children will get nothing.

Beginning in 2007, non-spousal heirs of retirement plans can transfer plan balances (through direct transfer only) to inherited IRAs and start taking required payouts based on their own life expectancy. When done properly, tax deferral on the earnings can be preserved and large income tax bills avoided.

Under the “marital deduction,” one spouse can pass (outright

or in trust) an unlimited amount to the other without tax. Yet such transfers only delay taxes; the assets are taxed when the surviving spouse passes them on to children. If one spouse passes everything to the other, they get only one exemption. To secure two exemptions, set up two asset pools: pass one, valued at the exemption amount, to children or others; pass the remaining assets to the surviving spouse under the marital deduction. Then the spouse can later pass on another exemption amount. Because the tax rates climb steeply with the size of an estate, the best way to use the marital deduction often is to equalize the value of the two estates, to keep the overall rate as low as possible. Review how assets are owned so that each spouse gets maximum benefit from the unified credit. Each should have in his/her name an exemption amount not passing to the other spouse.

Avoiding probate is also important consideration. This can be done by a) Living Trusts—assets in the trust avoid probate and go directly to the heirs, but don’t confuse estate tax and probate. Living trusts bypass

probate but don’t affect estate tax liability. Even a valid will can be subject to probate, costly in time and money b) Irrevocable Trust—if you set up a trust now and make it irrevocable, the assets you donate to it are out of your estate and escape estate tax (but there may be Gift Tax implications). Assets put into a trust after you die are subject to probate.

Beneficiary Designations

Important—your provisions in a will do not supersede or trump the beneficiary designations you make in trust agreements, insurance policies, bonds, bank accounts and retirement and profit-sharing plans, which can represent most of an estate. These designations trump a will, so keep them up to date. Better yet, make sure your will and such designations agree.



Retirement

You can have a tax refund sent directly to your IRA.

The largest benefits of Roth IRAs may be in their use to transfer wealth to heirs. See us for more details.

Retirement Account Contribution Limits

* Age 50 catch-up	2007		2008	
IRA	\$4,000	\$5,000*	\$4,000	\$5,000*
SIMPLE IRA	\$10,500	\$13,000*	Indexed to inflation	
401k / Solo 401k	\$15,500	\$20,500*	Indexed to inflation	
Phaseout with pension plan	IRA		Roth IRA	
Individual	\$52,000 to \$62,000		\$99,000 to \$114,000	
Couple	\$83,000 to \$103,000		\$156,000 to \$166,000	



January 2008

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Tax Update - 2007

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Tax Increase Prevention Act of 2007

On December 26, 2007, Congress signed into law the Tax Increase Prevention Act of 2007. The Act increased the AMT exemption amounts for 2007 to \$66,250 for married individuals filing a joint return and surviving spouses and to \$44,350 for single taxpayers.

In order to determine an individual’s AMT liability you deduct out this exemption amount before having to compute the tax. The passing of this Act will prevent an expansion of the AMT to millions of taxpayers for 2007.

The act also extends, for 2007, the AMT relief for nonrefundable personal credits such as the following:

- ★ dependent care credit,
- ★ child credit,
- ★ education credit,
- ★ retirement savings contribution credit,
- ★ residential energy efficient property credit.

Due to the Act being passed so late in the year, there will be a delay in the filing of some returns. For example, if your return includes Education Credits, Residential

Energy Credits, and some others, you will have to delay filing your return until mid-February.



Charitable Gifts

Beginning in 2007, all monetary donations, regardless of amount, must be substantiated. For donations made via payroll deductions, a pay stub or W-2 with donated amounts, and a pledge card with the charity’s name, may be enough for substantiation. It may be a

good idea to make all donations via checks.

Remember, you can also contribute stock to a favorite charity to get a deduction for the fair market value (you pay no tax on the capital gain).

Mileage Rates

Mileage for 2007	
Business	.485
Medical and Moving	.20
Charity	.14
Mileage for 2008	
Business	.505
Medical and Moving	.19
Charity	.14

