



7700 Leesburg Pike, Suite # 402-B
 Falls Church, VA 22043
 Tel: (703) 448-9121 Fax: (703) 893-6485
 Website: www.GillilandCPA.com



Client Update

Table of Contents

Summary of recent tax law changes	Page 1
Alternative Minimum tax 101	Page 1
Window tinting can mean a tax credit	Page 2
Tax planning and preparation tips	Page 2

SUMMARY OF RECENT TAX LAW CHANGES

Learn how federal-tax-law changes could impact your return in upcoming tax years.

Starting in 2007

Higher Income Limits for Deductible IRAs and for Roth IRAs.

If you are covered by a retirement plan at work, you can take a full IRA deduction if your modified adjusted gross income is less than \$83,000 (married filing jointly) or \$52,000 (single or head of household). A partial deduction is allowed until your adjusted gross income reaches \$103,000 if you are married filing jointly or \$72,000 if you are single or a head of household. Also, the opportunity to contribute to a Roth IRA is now phased out as your modified adjusted gross income rises between \$156,000 and \$166,000 if you are married filing jointly or \$99,000 to \$114,000 if you are single or a head of household.

Larger Personal Exemptions. For 2007, each personal exemption you can claim is worth \$3,400, up by \$100 from 2006.

Reduction in Itemized Deductions and Personal Exemptions for high-income. As we have noted previously, itemized deductions and personal exemptions are phased out (reduced) as your income rises. In 2007, the reduction of itemized deductions occurs once your adjusted gross income exceeds \$156,400, regardless of your filing status. The reduction in personal exemptions begins at \$234,600 of adjusted gross income for marrieds filing jointly, \$195,500 for heads of households and \$156,400 for singles.

Increased Section 179 Expense Deduction. The maximum amount of equipment placed in service in 2007 that businesses can expense increases to \$125,000, a \$4,000 increase from 2006. The annual

investment limit increases to \$450,000 for 2007, up from \$430,000 the year before. Thus, you won't lose the benefit of expensing until you place more than \$450,000 of assets in service in 2007.

http://turbotax.intuit.com/tax_help/tax_law_changes_turbotax/article

ALTERNATIVE MINIMUM TAX 101

A brief overview of the alternative minimum tax.

The alternative minimum tax (AMT) is an extra tax some people have to pay on top of the regular income tax. The original idea behind this tax was to prevent people with very high incomes from using special tax benefits to pay little or no tax. But for various reasons the AMT reaches more people each year, including some people who don't have very high income and some people who don't have lots of special tax benefits. Congress is studying ways to correct this problem, but until it does, almost anyone is a potential target for this tax. The name comes from the way the tax works. The AMT provides an *alternative* set of rules for calculating your income tax. In theory these rules determine minimum amount of tax that someone with your income should be required to pay. If you're already paying at least that much because of the "regular" income tax, you don't have to pay AMT. But if your regular tax falls below this minimum, you have to make up the difference by paying alternative minimum tax.

Top Three Things that Cause AMT Liability:

An overview of some of the things that may cause you to pay alternative minimum tax (AMT)

Exemptions

Believe it or not, exemptions contribute to AMT liability. The exemptions you claim for yourself, your spouse and your dependents are not allowed when calculating alternative minimum tax. It's pretty rare (though not impossible) to see a tax return where someone had to pay AMT solely because of their exemptions, but the more exemptions you claim, the more likely it is that you'll have AMT liability when all is said and done.

Standard Deduction

Some 70% of American taxpayers claim the standard deduction (rather than itemizing). The standard deduction isn't allowed under the AMT. Usually this isn't a problem because the AMT generally hits people with higher incomes, and these people are more likely to claim itemized deductions. Yet it's worth noting that a deduction that's so widely used can contribute to AMT liability.

State and Local Taxes

If you itemize, there's a good chance you claim a deduction for state and local tax, including property tax and state income tax. If you live in a place where state and local taxes are high, you're more likely to be subject to the alternative minimum tax.

<http://fairmark.com/amt/amt101.htm>

Do you know...

Window tinting can mean a tax credit

With the promise of cash back from Uncle Sam, homeowners last year flocked to home improvement stores for products to make their residences more energy efficient. By adding insulation, installing new windows or converting to a solar water heater, the homeowners recouped part of the energy-saving upgrade costs via a tax credit.

But window film, a relatively easy fix that typically costs a fraction of replacing a home's drafty old windows, was overlooked for most of 2006. The reason: Window tinting wasn't specifically mentioned as an eligible tax credit option under the Energy Tax Incentives Act of 2005. That changed last year when the window film industry got word from the Internal Revenue Service that its product does indeed fall under the category of "other" energy saving home

improvements. The product meets the standards because it can help reduce a home's air conditioning needs. According to California Energy Commission calculations, 30 percent of a structure's cooling requirements are due to solar heating through windows and door glass.

"Applying solar control film to glass rejects up to 80 percent solar energy, and can reduce your energy cost between 30 percent and 50 percent," says Robert Kerr, president of Epic Glass Tinting, which has operations throughout California. "It's a win-win situation, especially with the new tax credit."

The win for the homeowner is a 10 percent tax saving on the cost of solar control window film. Since it's a tax credit, the consumer gets a dollar-for-dollar tax bill reduction.

<http://www.bankrate.com/brm/news/tax>

Tax Planning tips – Tax Planning and Preparation

Zero Capital Gains Tax Rate

Beginning 2008 through 2010, taxpayers age 24 and older with low incomes will qualify for a zero capital gains tax. The exemption applies to total taxable income below approximately \$32,000. The exact figure will be released later this year. To reduce your tax exposure, evaluate gifting highly appreciated assets to adult children with taxable income under the qualifying sum.

Health Savings Accounts

If you are healthy and make few trips to the doctor's office, consider funding a tax deductible Health Saving Account or HSA. Account earnings and distributions for high-deductible health plans are tax free. Unused balances may accumulate without limit for future years. Maximum tax deductible contributions this year are \$2,850 for single taxpayer health plans and \$5,650 for family plans. An additional \$800 contribution is allowed for taxpayers age 55 or older.

<http://www.taxpractice.com/monthly.html>