

AHLBECK & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

UPDATE ON TAX CHANGES AND ISSUES

PERSONAL INCOME TAXES

- Individual income tax rates for 2006 consist of six brackets (from 10% to 35%).
- Single individuals may be eligible for "head of household" status.
- Children under age 18 with more than \$1,700 of investment income may pay tax on the excess at their parent's marginal rate (if higher than their own).
- Taxpayers subject to AMT (alternative minimum tax) should try to reduce or move to a different (non-AMT) year items that are added back to income for AMT purposes (i.e. real estate and state taxes). Large capital gains and non-recurring high income need proper AMT planning.
- The maximum tax rate for qualifying dividends and long-term capital gains of 15% (lower tax brackets subject to a 5% rate) is extended through 2010.
- All 2007 cash contributions require substantiation, regardless of size. Donations of household goods or clothing must be in good condition or better and an appraisal is required for individual items worth more than \$500.
- For 2006 and 2007, an exclusion of up to \$100,000 is allowed for traditional or Roth IRA distributions paid to a qualified charity for taxpayers at least age 70 ½.

ESTIMATED TAXES

- Taxpayers are subject to penalty unless total 2007 quarterly estimated tax payments or withholding are the lesser of:
 - 90% of the expected 2007 tax liability or
 - 100% of the actual 2006 tax liability (110% if adjusted gross income is greater than \$150,000 for married filing joint)

EDUCATION

- Coverdell Education Savings Account (Education IRA) contributions are \$2,000.
- Qualified distributions from Section 529 plans are generally tax-free. Plan contributions are subject to gift tax, but may be spread over five years.
- For 2006 and 2007, the maximum Lifetime Learning Credit is \$2,000 and the Hope Scholarship Credit is \$1,650. Alternatively, you may deduct up to \$4,000 for qualified post-secondary expenses. You are not required to itemize but income limitations apply.
- All student loan interest is deductible up to \$2,500 based on income limitations.

CHILD AND DEPENDENT CARE

- "Qualifying" child and dependent care expenses of up to \$3,000 for one qualifying individual and \$6,000 for two or more are eligible for a credit.

DEDUCTIONS AND CREDITS

- In 2006, taxpayers may request a credit for federal telephone excise tax paid using either a "safe harbor" or actual calculation.
- Extended through 2007, individuals who itemize deductions may elect to claim the higher of state and local income taxes or sales and use taxes.
- The 2007 standard mileage rate for medical and moving expenses increased from 18 to 20 cents. The charity mileage deduction remains at 14 cents.
- You may be able to take a residential energy credit for expenses paid in 2006 and 2007 to have qualified energy saving items installed in your principal residence.

RETIREMENT PLANNING

- The maximum IRA contribution is \$4,000 in 2006 and 2007. If age 50 or older, the contribution is \$5,000. A “saver’s credit” up to \$1,000 is available to low-income individuals through 2006.
- For 2007, participants can defer up to \$15,500 to 401(k), 403(b), SEP or 457 plans and \$10,500 to a SIMPLE plan. Individuals age 50 or older are eligible for “catch-up contributions.” The additional amount allowed in 2007 is \$2,500 for SIMPLE IRAs or SIMPLE 401(k) plans and \$5,000 for other qualified plans.
- Certain long-term employees with 403(b) tax-sheltered annuity contracts might have higher “catch-up” contribution limits.
- Annual employer contributions to profit sharing and stock bonus plans, as well as SEPs, are 25% of compensation (reduced for self-employed individuals). Overall, contributions are limited to \$45,000 for 2007.
- Roth 401(k) and 403(b) plans offer alternatives to traditional qualified plans. Contributions are taxable but distributions are tax-free (not tax deferred).
- Starting 2008, direct rollovers from qualified plans to Roth IRAs are allowed.
- The income limitation is eliminated on conversion of a traditional IRA to a Roth IRA starting in 2010. Income from 2010 conversions may be spread ratably over the next two years.

BUSINESS

- For 2006, you may be able to deduct up to 3% (6% in 2007) of your qualified

domestic production activities income from certain business activities, such as manufacturers, contractors, engineers and architects.

- Extended through 2009, IRS Code Section 179 depreciation expense is limited to \$108,000 for 2006 (\$112,000 for 2007), subject to phase-out when asset purchases exceed \$430,000 (\$450,000 for 2007). Vehicles are excluded (except those over 6,000 pounds, which are then limited to \$25,000).
- The standard mileage rate for business increased from 44.5 to 48.5 cents for 2007.
- Self-employed health insurance and qualified long-term care insurance for you or your family are deductible, subject to limitations.
- In 2007, wages up to \$97,500 are subject to FICA.

ESTATES AND TRUSTS

- The estate tax exclusion is \$2,000,000 and the exclusion for gifts of present interests remains at \$12,000 for 2007.
- The IRS allows 65 days after year-end for distributions of trust income (if an election is made).

ABOUT AHLBECK & COMPANY

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