YEAR-END TAX PLANNING

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2007

YEAR-END TAX PLANNING

TIME IS MONEY

The minutes until the end of 2007 are ticking away quickly. So the sooner you begin your year-end tax planning, the better. *Year-End Tax Planning for 2007* shows you how to take action to benefit from favorable tax law provisions and compensate for unfavorable ones. The action steps discussed may help you reduce your 2007 federal income-tax bill considerably.

Read the whole booklet — or turn to the sections that interest you most. But don't delay. Most of the strategies discussed in *Year-End Tax Planning 2007* will be effective only if they are implemented before the end of the year.

We encourage you to secure professional tax advice before acting on any of the ideas presented in this booklet, however. The federal tax law is complex. You'll want expert help to determine whether a particular strategy is right for you.

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PERSONAL INCOME

YOUR TAX BRACKET

A good way to begin your planning is by estimating your 2007 tax bracket (see table). The IRS adjusts the brackets each year for inflation. Knowing your bracket will let you project the tax effect of various planning strategies discussed in this booklet.

WILL YOU BE SUBJECT TO AMT?

Regular income tax isn't the only tax you may have to pay on your income. You also may be hit with the alternative minimum tax (AMT). Paid in addition to regular income tax, AMT is designed to prevent taxpayers from reaping more than their fair share of benefits when they use certain deductions, credits, and exclusions to reduce regular tax.

Items that can trigger AMT include:

- A higher-than-average number of dependency exemptions
- An unusually large deduction for state income taxes
- The exercise of incentive stock options
- A large deduction for unreimbursed employee business expenses or miscellaneous deductions
- Tax-exempt interest from "private activity" municipal bonds
- Interest on a mortgage not used to buy, build, or improve your home
- A large capital gain

INCOME TIMING

A traditional tax planning technique is to delay receiving taxable income until after the end of the year if it's economically feasible. By delaying income, you defer your taxes on that income. It also can keep you from losing tax breaks that are reduced or eliminated at higher income levels and prevent you from being pushed into a higher tax bracket in 2007.

But income deferral isn't for everyone. Some taxpayers can save money by accelerating taxable income into 2007, rather than deferring it to 2008, even though taxes will have to be paid earlier. Think about your 2008 income situation. For example, will your spouse be returning to work after several years out of the work force? If so, your combined income — and your tax bracket — could increase significantly next year. Or perhaps you have a child you'll no longer be able to claim as a dependent in 2008. The loss of that child's personal exemption could push you into a higher tax bracket next year.

INCOME SHIFTING

Shifting income to a child or other family member, such as an elderly parent you help support, is another traditional tax planning technique. Income that might be taxed to you at a rate as high as 35% might be taxed to the family member at just 10% or 15% — possibly even lower if the income consists of dividends and

2007 INCOME-TAX RATES

	Taxable Income Brackets			
Rate	Single	Head of Household	Married Filing Jointly (and Surviving Spouses)	Married Filing Separately
10%	$0 – 7,825	$0 – 11,200	$0 – 15,650	$0 – 7,825
15%	$7,826 – 31,850	$11,201 – 42,650	$15,651 – 63,700	$7,826 – 31,850
25%	$31,851 – 77,100	$42,651 – 110,100	$63,701 – 128,500	$31,851 – 64,250
28%	$77,101 – 160,850	$110,101 – 178,350	$128,501 – 195,850	$64,251 – 97,925
33%	$160,851 – 349,700	$178,351 – 349,700	$195,851 – 349,700	$97,926 – 174,850
35%	Over $349,700	Over $349,700	Over $349,700	Over $174,850

2007 AMT RATES

Taxable AMT Income	Rate
$1 to $175,000	26%
Over $175,000	28%

The 2007 AMT exemption amounts are:

- $45,000 for married couples filing jointly
- $33,750 for unmarried filers

The exemptions are phased out for higher income taxpayers.

TAKE ACTION

MINIMIZE AMT

- Consider pushing expenses that are deductible for regular tax purposes, but not for AMT purposes — such as state and local taxes and miscellaneous itemized deductions — into a non-AMT year.
- Put off exercising incentive stock options or recognizing a large capital gain on the sale of investment property if these actions will make you subject to AMT.
- Alternatively, you might accelerate income into an AMT year if your regular income-tax rate is higher than the 28% AMT rate.

DEFER INCOME

- You might delay income by asking your employer to postpone paying your year-end bonus or a late-year commission until after the first of the year.
- Invest in Treasury bills that don't mature until next year or in certificates of deposit that won't let you take out interest without penalty until 2008. The interest earned would be reported on your 2008 return.
- Rolling over a qualifying distribution from a former employer's retirement plan to an individual retirement account (IRA) or a new employer's plan can avoid current income taxes on the distribution and allow you to continue building your retirement savings.

ACCELERATE INCOME

- If you suspect your tax rate will be higher in 2008, see if you can arrange to receive a bonus or commission payment in 2007, rather than in 2008.
- Or make a withdrawal from your traditional IRA earlier than planned, if you're over age 59½.

capital gains. However, recent tax law changes have made this strategy less advantageous — at least where gifts to children are concerned.

For 2007, the amount you can transfer without federal gift-tax consequences is $12,000 (per person). Married couples can transfer $24,000. The limit will be adjusted for inflation in the future.

A child can have only a limited amount of unearned income before the so-called "kiddie tax" kicks in. Under the kiddie-tax rules, a child's unearned income in excess of $1,700 (in 2007) is taxed at the *parents'* highest marginal rate. In 2007, the tax applies to children under age 18. But in 2008 and later, it will also apply to older children — 18-year-olds and full-time students under age 24 — whose earned income doesn't exceed half of their support.

SOCIAL SECURITY BENEFITS

If you are receiving Social Security, your benefits won't be taxable unless your "provisional income" — basically your adjusted gross income (AGI) with certain modifications plus one half of the Social Security benefits — exceeds certain levels. Then, up to 85% of your benefits may be subject to taxes.

ESTIMATE YOUR 2007 INCOME	
Wages, salaries, tips, etc.	$________
Interest and dividends	$________
Profit (loss) from business	$________
Farm income (loss)	$________
Capital gain (loss)	$________
Rents, royalties, partnerships, S corporations, trusts, etc.	$________
Unemployment compensation	$________
Alimony received	$________
Taxable Social Security benefits	$________
Taxable distributions from IRAs, pensions, and annuities	$________
Taxable refunds of state and local income taxes	$________
Other income	$________
Total Estimated Income	**$________**

INVESTMENTS

LOWER RATES

All income is not created equal for tax purposes. Capital gains and dividends, for instance, are taxed differently — and often more favorably — than ordinary income. Below, we offer planning strategies you can use to secure more favorable tax treatment for your investment income.

SELLING INVESTMENTS

Planning for investment gains can reduce your tax bill significantly. Tax rates on ordinary income and short-term capital gains are currently as high as 35%. Long-term capital gains — gains on investments held more than one year before sale — generally are taxed at 15% (see table). A still lower rate (5%) applies to long-term capital gains that would otherwise be taxed at a 10% or 15% ordinary rate.

When you sell an investment, you figure your capital gain or loss by comparing your "basis" in the investment (usually, your cost) to the amount you receive from the sale. This calculation is fairly simple if you sell or redeem all of an investment at one time and more complicated when you have invested in shares of a particular stock or mutual fund at different times and prices and you decide to sell just a portion of your investment. We can help you determine which of the several methods available for figuring basis and gain (or loss) is best for you.

LOSSES CAN OFFSET GAINS

Capital losses are fully deductible against capital gains. You can deduct any excess losses against ordinary income of up to $3,000 a year ($1,500 if married filing separately). Additional losses may be carried forward to later tax years. A traditional approach to reducing taxes is to time capital losses to offset capital gains.

As you plan, you'll want to pay attention to the tax law's "wash sale" rules. Under these rules, if you sell securities at a loss and purchase substantially identical securities within *30 days before or after* the sale, your loss will be disallowed.

QUALIFYING DIVIDENDS

Like long-term capital gains, qualifying dividends are generally taxed at a maximum rate of 15% (5% for dividends otherwise taxable in the lowest two ordinary tax brackets). To take advantage of the lower rates, you might consider investing in dividend-paying stock rather than in an investment that pays ordinary interest income.

To ensure favorable dividend treatment, you'll need to hold the underlying stock for a minimum period. In general, the minimum holding period is 61 days during the 121-day period beginning 60 days before the stock's "ex-dividend" date (the date on which the stock begins trading without rights to the most recently declared dividend).

TAX BREAKS FOR HOME SALES

Your home may be one of your largest "investments." For tax purposes, your home is a capital asset which, if sold at a gain, may result in capital gains tax.

Fortunately, the tax law gives home sellers a big break. If you have owned and used a home as your principal residence for periods totaling at least two years out of the last five years before the sale, you generally may exclude from income up to $250,000 of gain ($500,000 for joint filers). The exclusion generally may be claimed only once every two years.

MAXIMUM LONG-TERM CAPITAL GAINS TAX RATES
28% **Collectibles** **Qualified small business stock held more than five years** (50% or 40% of the gain is taxed)
25% **Real estate** (up to amount of prior allowable depreciation; rest of gain taxed as other investments)
15% **Other investments**
5% **Other investments** (ordinary tax rate below 25%) This rate drops to 0% in 2008.

TAKE ACTION

PLAN FOR GAINS

- When you are going to sell appreciated securities, you might try to wait to sell them until you have met the more-than-one-year holding period required for long-term capital gain treatment. Remember, though, that taxes are only one consideration in the decision to sell or hold an investment.

- If you will be retiring in 2008 and expect to be in a 15% tax bracket, you may want to hold off on selling appreciated securities until that time to take advantage of the 0% rate on long-term gains. (Only gains otherwise taxable at a below-25% rate are eligible.)

- If you sell appreciated property and will receive at least one payment for the property after the year of sale, you may qualify to use the installment sale method to report your gain. With this method, you report gain as payments are received, thus spreading out your tax liability. The installment sale method isn't available to dealers and cannot be used for sales of publicly traded securities, or for certain sales to related parties.

KNOW YOUR BASIS

- For the tax treatment you want on your sales, identify the shares you want to sell at the time of the sale. Selling shares in which you have a high tax basis can reduce your taxable gain or increase your loss to offset other gains.

- Don't automatically use the average cost information your mutual fund company provides to figure your basis. Another method of figuring basis may give you results that are more favorable.

- Count any reinvested dividends as part of your cost basis when you sell the stock you bought through a dividend reinvestment plan. The dividends were taxed to you when they were originally paid. You don't want to pay tax on them twice. The same holds true for mutual fund dividends that have been automatically reinvested.

MANAGE LOSSES

- To accelerate losses without significantly changing your investment position, consider selling securities, taking the loss, and replacing them with securities of another company in the same industry having similar prospects. This strategy avoids the wash-sale rules.

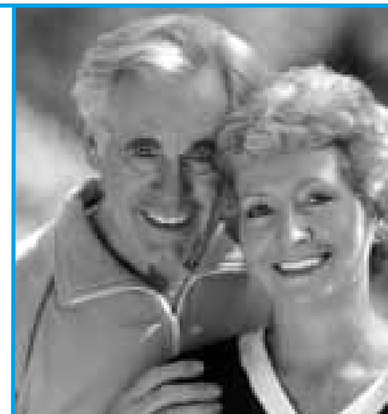
- Similarly, you can "double up" on the securities, wait 31 days, and then sell your original securities at a loss. But pay attention to any dividend payments during the wash-sale period. If they are reinvested in additional shares, you may lose your ability to deduct part of your original loss.

What happens if you have to sell before you meet the time requirements? You may still qualify for an exclusion. If the primary reason for the sale is health, change in place of employment, death, divorce, loss of a job that results in eligibility for unemployment compensation, or other unforeseen circumstances (as outlined in IRS regulations), you can still claim an exclusion, but the maximum amount is prorated.

A WELL-TIMED SALE

Roy and his wife Denise have made only one investment transaction so far this year — a sale of stock held in a taxable account — which resulted in a $9,000 short-term capital gain. They're pleased with the profit, but not with the $3,150 of tax ($9,000 × 35%, their ordinary tax rate) they'll owe the IRS if they do nothing else.

After reviewing their portfolio, they're thinking of selling a stock they no longer believe has potential. The stock is showing a paper loss of $11,500. If they do sell the stock, the loss will offset their earlier $9,000 capital gain and $2,500 of their ordinary income. When all is said and done, the tax savings of $4,025 ($11,500 × 35% tax rate) will help take some of the sting out of their stock sale loss.



TAX-ADVANTAGED PLANS

RETIREMENT PLANNING

Contributing to an individual retirement account (IRA), an employer-sponsored retirement plan, or a retirement plan for the self-employed can reduce your taxable income — while you are putting aside money toward your retirement savings goal.

IRAs. Deductible contributions you make to a traditional IRA reduce your AGI. If you or your spouse participates in a retirement plan at work, your deduction for contributions to a traditional IRA may be subject to an income-based limitation.

With a Roth IRA, contributions aren't tax deductible, but account earnings will be distributed *tax free* when certain requirements are met. As with a traditional IRA, you (or your spouse) must generally have earnings from work to contribute to a Roth IRA. In 2007, eligibility to contribute to a Roth IRA is phased out as AGI rises from $99,000 to $114,000 for unmarried filers, $156,000 to $166,000 for joint filers, and $0 to $10,000 for married-separate filers.

Employer-sponsored Plans. With an employer-sponsored retirement savings plan — such as a 401(k), 403(b), or SIMPLE plan — your contributions to the plan and any earnings on those contributions generally won't be taxed until you begin receiving funds from the plan.

Some employers also allow employees to make after-tax Roth contributions to their 401(k) or 403(b) retirement savings plans. Roth contributions are subject to current income taxes, but once in the plan, the contributions grow tax deferred. Withdrawals of both Roth contributions *and* related earnings are not taxed if certain requirements are met. Talk with us to find out whether Roth contributions would benefit you.

FOR THE SELF-EMPLOYED

If you're self-employed full-time or in a sideline business, you also have retirement savings options:

SIMPLE IRA. You generally must have a SIMPLE IRA in place by October 1 to contribute for the year.

Simplified Employee Pension (SEP). You generally have until the due date of your (or your firm's) tax return (including extensions) to set up a SEP plan for 2007 and contribute up to the lesser of 25% of compensation or $45,000. (Special computations and limits apply.)

Solo 401(k). This plan must be set up by the end of the year. In addition to a 401(k) deferral, you also can make a tax-deductible profit sharing contribution. (Limits apply.)

HOW MUCH CAN YOU CONTRIBUTE FOR 2007?

To maximize your retirement savings, contribute as much as possible each year. The maximum amounts allowed by law are shown below. Note, however, that employer plans may or may not permit participants who have reached age 50 to contribute the higher amounts indicated. And additional contribution limitations could apply.

Type of Plan	Under Age 50	Age 50 or Older
Traditional/Roth IRA	$4,000	$5,000
401(k)/403(b), 457, SEP*	$15,500	$20,500
SIMPLE IRA	$10,500	$13,000

* *Only SEP plans established before 1997 may allow employees to make pretax contributions.*

TAKE ACTION

SAVE MORE FOR RETIREMENT

- You have until April 15, 2008, to open and contribute to an IRA for 2007.
- If you participate in a retirement savings plan at work, check with your employer to find out whether you can increase your contribution amount before year-end. If you're age 50 or older, also ask whether you can make catch-up contributions.

PLAN FOR DISTRIBUTIONS

- 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, consider rolling over the distribution to an IRA or your new employer's plan (if permitted) within 60 days. You'll postpone current income tax on the distribution and continue to defer tax on account earnings.
- You can avoid mandatory 20% tax withholding on your distribution by having it directly transferred to the IRA or new employer's plan.
- Coordinate your tax and investment planning by taking some of your distribution in appreciated company stock instead of cash, if offered. You'll have to pay current income tax, but only on the stock's basis (generally, its value when it was added to your account). Any increase in the stock's value after that time won't be taxed until you sell the stock and realize a capital gain. Thus, you stand to benefit from deferral and the favorable capital gains tax rate.

CHECK YOUR FLEXIBLE SPENDING ACCOUNT

- If you don't already know, find out if your employer's arrangement requires you to spend all the money in your flexible spending account before the end of the year or if your employer offers the optional 2½-month grace period to use unspent benefits or contributions. You'll forfeit any amounts not used by the plan deadline.
- Check out the types of health-care expenses that are reimbursable. You may be paying out of pocket after tax for over-the-counter medicines or drugs (such as antacids, allergy medicines, pain relievers, and cold medicines) that you could be paying for with pretax money.

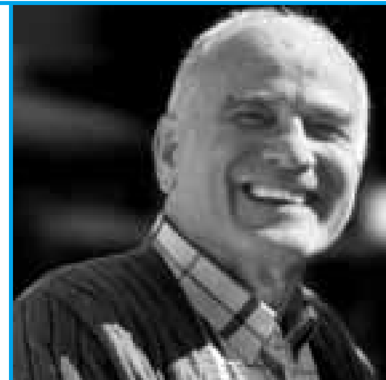
Keogh Plan. A Keogh plan must be in place before the end of the year to be effective for 2007. Then, you'll have until April 15, 2008 (plus any filing extensions), to contribute. The maximum contribution varies, depending on the type of Keogh plan established.

FLEXIBLE SPENDING BENEFITS

If you have flexible spending benefits through your employer, take advantage of them. With a flexible spending arrangement, you elect to pay health- and/or dependent-care expenses on a pretax basis. The plan reimburses you from the account for amounts you spend on expenses allowed by the plan. (Some plans allow employees to use a plan-provided debit or credit card to pay expenses directly.)

A CHARITABLE IDEA

As part of his regular charitable giving, James always makes a larger year-end gift to his favorite charity. This year he's decided to make his gift with a charitable rollover from his traditional IRA. Because he's over age 70½, James can exclude from income up to $100,000 paid directly from his IRA to a qualified charity. In addition, the IRS will count the amount distributed from the IRA toward his required minimum distribution for 2007. Please talk with us soon if you think this might be a good strategy for you. The opportunity is only available through 2007.



PERSONAL DEDUCTIONS AND CREDITS

ABOVE-THE-LINE DEDUCTIONS

Timing deductible expenses for the greatest tax benefit is a classic year-end planning strategy. First on the list: expenses that are deductible "above-the-line" as adjustments to income. Above-the-line deductions are valuable because they work double-time, reducing your AGI *and* helping you preserve tax breaks you might otherwise lose because your AGI is too high.

DEDUCTION FOR PERSONAL EXEMPTIONS

You can claim a personal exemption for yourself, your spouse, and for any qualified dependent. In 2007, each exemption you claim reduces your taxable income by as much as $3,400. The deduction begins to be phased out with AGI over $156,400 (single), $195,500 (head of household), $234,600 (married filing jointly), and $117,300 (married filing separately). For 2007, the phaseout is reduced by one third.

STANDARD DEDUCTION

You can choose between itemizing deductions and claiming a standard deduction — whichever option gives you the largest write-off.

For 2007, the basic standard deduction is $5,350 for single taxpayers and married couples filing separately, $7,850 for heads of household, and $10,700 for married

ESTIMATE YOUR 2007 ABOVE-THE-LINE DEDUCTIONS AND AGI

2007 Estimated Income (from page 3)	$ ______
Adjustments ("Above-the-line" deductions)	
IRA deduction	$ ______
Student loan interest (up to $2,500)	$ ______
Tuition for higher education (up to $4,000)*	$ ______
Health savings account deduction	$ ______
Moving expenses	$ ______
One half of self-employment tax	$ ______
Self-employed health insurance premiums	$ ______
Self-employed SEP, SIMPLE, and qualified retirement plan contributions	$ ______
Penalty on early withdrawal of savings	$ ______
Alimony paid	$ ______
Educator expenses (up to $250)*	$ ______
Domestic production activities deduction	$ ______
Certain expenses of reservists, performing artists, and fee-basis government officials	$ ______
Attorney fees and court costs of certain wrongful discrimination suits	$ ______
Total Adjustments	$ ______
ADJUSTED GROSS INCOME (AGI) (Total income minus total adjustments)	$ ______

* Scheduled to expire after 2007

Minimizing AGI gives you a variety of tax advantages, so be sure you don't overlook any adjustments you are entitled to use.

Tax Breaks That Depend on AGI

- Personal Exemptions
- Individual Retirement Accounts: Traditional IRA deduction (if you or your spouse participates in an employer's plan) Roth IRA contribution
- Student Loan Interest Deduction
- Tuition Deduction
- Itemized Deductions
- Medical Expense Deduction
- Miscellaneous Expense Deduction
- Child Tax Credit
- Child Care Credit
- Adoption Tax Credit
- Hope Scholarship Credit
- Lifetime Learning Credit

TAKE ACTION

MAXIMIZE EXEMPTIONS

- If you support an elderly parent or other relative, you can claim an exemption for that family member if you provide more than 50% of his or her support, and that person's gross income for the year (not including tax-free Social Security benefits, insurance proceeds, inheritances, or gifts) doesn't exceed the personal exemption amount. Monitor the support you are providing near the end of the year if you believe you'll be eligible for an exemption.

DEDUCT TAXES

- To increase your itemized deduction for taxes, pay state or local income taxes by making any January 2008 estimated payments in 2007.
- Or increase your state or local tax withholding for the rest of 2007.
- Check in to whether state and local sales taxes would produce a higher deduction than state and local income taxes. Buying a motor vehicle or boat before year-end could boost your sales-tax deduction, even if you use the optional IRS table to figure your deduction. (Keep your receipt.)
- But watch out for AMT. These strategies may not be appropriate if they will cause an AMT problem for you in 2007.

couples filing jointly. Also for 2007, higher income taxpayers whose itemized deductions are reduced will see their deductions reduced by only two thirds of the normal amount. The reduction begins with AGI over $156,400 ($78,200 for married taxpayers filing separately).

Don't make the mistake of going with the standard deduction just because it's easier. Read through the rest of this section, and you may find that your projected itemized deductions for 2007 exceed your standard deduction.

DEDUCTIBLE TAXES

You can claim deductions for state and local income taxes *or* state and local general sales and use taxes paid. You can't deduct both. You can claim the actual amount you paid in sales tax or use an amount from an IRS table, plus actual sales tax paid on the purchase of motor vehicles, boats, and other IRS-specified items. The sales tax option is scheduled to expire after 2007.

You also can deduct real property taxes, personal property taxes, and foreign income taxes (especially on investment income). Alternatively, you may be able to claim the foreign tax credit.

HOME MORTGAGE INTEREST

One of the advantages of home ownership is the ability to deduct mortgage interest payments. Interest on up to $100,000 of home equity debt also may be deductible, regardless of how you use the loan proceeds. You also may be able to deduct:

- Mortgage "points" (prepaid interest) in full in the year you purchase the home
- Points paid on a mortgage refinancing for home improvements in full in the year you enter the loan, provided you pay the points from separate funds
- Points you pay to refinance an existing mortgage over the life of a loan
- Remaining unamortized points in the year you pay off or refinance your loan

If you obtained a qualified mortgage during 2007, your mortgage insurance premiums may be deductible (as if they were interest). The deduction is phased out with AGI over $100,000 ($50,000 if married filing separately).

INVESTMENT INTEREST

Along with home mortgage interest, be sure to include any deductible investment interest you pay in 2007 in your itemized deductions. You can deduct interest paid on loans used to buy or carry taxable investments — a margin loan, for example. The amount of interest you can deduct is limited to your net investment income for the year. You cannot include net capital gain or qualified dividends in your investment income for this purpose unless you forgo the favorable tax rates on that income and subject it to tax at your higher ordinary rate. Excess investment interest expense that you can't deduct can be carried forward for deduction in

subsequent years, subject to that year's limitation.

CHARITABLE CONTRIBUTIONS

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 organization does not receive it and it does not clear the bank until 2008.

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

"FLOOR EXPENSES"

Certain itemized deductions are subject to "floor" amounts set by law. Only amounts over and above the floor are deductible. Looking at your deductible expenses now may save you from an unpleasant surprise at tax time. Deductions subject to floors include medical expenses, which are deductible only to the extent they exceed 7.5% of your AGI, and unreimbursed employee business expenses and miscellaneous expenses, which are deductible only to the extent that together they exceed 2% of AGI.

EDUCATION EXPENSES

The tax law also has breaks to help taxpayers with college expenses. For example, you may be eligible to deduct tuition and related expenses. The maximum deduction is $4,000 if your modified AGI doesn't exceed $65,000 (single) or $130,000 (married filing jointly). With a somewhat higher income of up to $80,000 (single) or $160,000 (married filing jointly), the deduction is capped at $2,000. No deduction is available with income over the $80,000 or $160,000 threshold. Unless extended, the tuition deduction expires after 2007.

Instead of claiming the tuition deduction, you may be eligible for a tax credit. The Hope Scholarship Credit is available for payment of your, your spouse's, or your claimed dependent's first two years of post-secondary tuition and related expenses. For 2007, the maximum credit is $1,650 (100% of up to $1,100 of expenses plus 50% of the next $1,100 of expenses) for each eligible student in your family. Students must be enrolled at least half-time.

A Lifetime Learning Credit is available for qualified tuition and related expenses for courses to acquire or improve job skills, as well as for undergraduate and graduate-level courses at an eligible educational institution. The credit is 20% of up to $10,000 of expenses, to a maximum of $2,000 per return.

The credits are phased out for joint filers with modified AGI between $94,000 and $114,000 and single filers with AGI between $47,000 and $57,000. No credit is allowed for married persons filing separately.

CHILD-RELATED CREDITS

While deductions lower taxable income, credits actually offset income tax dollar for dollar. In 2007, you may be eligible for a child tax credit of $1,000 for each qualifying child who is under age 17 on December 31. This credit begins to be phased out with modified AGI in excess of $110,000 for married taxpayers filing joint returns, $75,000 for unmarried taxpayers, and $55,000 for married taxpayers filing separately. In addition, if you adopt a child, a credit of up to $11,390 is available for your qualified adoption expenses. The credit begins to phase out with modified AGI over $170,820, with full phaseout at $210,820.

A credit also is available for 20% or more of your eligible employment-related

TAKE ACTION

MAKE CHARITABLE GIFTS

- Consider donating publicly traded stock that is showing a paper gain. If you've held the stock for more than one year, you'll be entitled to deduct not just your cost, but also the paper gain on which you've paid no tax. (Limits may apply.) Because you can't deduct a capital loss when you donate stock or other assets that are worth less than your cost basis, you'll generally obtain a better tax result if you sell the asset first, realize the loss, and then donate the sale proceeds.

- You can increase your deductible charitable contributions for the year by using a credit card to make a tax-deductible gift in 2007 that you can pay for in 2008.

- Create a charitable remainder trust to make a substantial gift to charity while retaining an income from the gifted property for life or a period of years. You could receive a 2007 tax deduction for a gift that will actually be made in the future. Talk with us. We can give you more details.

BUNCH DEDUCTIONS

- One way to deduct more of your medical and miscellaneous expenses is to "bunch" two years of expenses into one year so you exceed the deduction floor. To boost your medical deduction for 2007, you could schedule and pay for elective surgery, dental work, and eye appointments in late 2007.

- You might also consider paying 2008 professional dues, subscriptions to professional journals, and investment management fees in late 2007. These are all included in the "miscellaneous" category.

child- or dependent-care expenses up to a maximum of $3,000 for one dependent or $6,000 for two or more dependents. This credit isn't limited to children. If you support an elderly parent who lives with you, for instance, the cost of adult day care and the cost of certain domestic services that enable you to work may also qualify for the credit.

ENERGY-RELATED TAX BREAKS

If you buy a vehicle powered by fuel cells, advanced lean-burn technology, or alternative fuels in 2007, you may be eligible for a tax credit. Qualified hybrid vehicles are also eligible. The credit amount varies with the type of vehicle.

In addition, 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, insulation, and certain metal roofs, and for the installation of equipment (such as a furnace or water heater) that meets specified standards for energy efficiency. Limits apply.

Installing solar equipment in your principal residence or second home may qualify you for another tax credit. For qualifying photovoltaic property, the credit is 30% of the cost, up to a maximum credit of $2,000. A similar credit is available for solar water heating equipment. The law also provides a 30% credit for installing certain fuel cell property in a principal residence, up to a maximum of $500 for each 0.5 kilowatt of the property's capacity.

GOING GREEN

Jean and Mark are remodeling their colonial style home. As part of the renovations, they replaced the home's windows and exterior doors with new energy-saving doors and windows. The windows cost them $3,000 and the new doors cost $800. In 2007, Jean and Mark can claim an energy credit of $280 — $80 for the doors and $200 for the windows. The credit is generally 10% of the cost of the energy-saving home improvements, but only $200 of the credit can be used for the windows. The credit is capped at $500.

BUSINESS INCOME

OVERVIEW

The structure of your business — C corporation, S corporation, partnership, limited liability company, or sole proprietorship — determines how your business income is taxed. A regular C corporation pays tax on its income at corporate tax rates (see table). Generally, the income, losses, deductions, and credits of an S corporation, partnership, or limited liability company (LLC) are passed through to the owners to be reported on their tax returns. Sole proprietors also report business income and deductions on their personal tax returns.

The tax accounting method used by your business determines when income must be recognized for tax purposes and when expenses are deductible. Cash-method taxpayers report income when it is actually or constructively received and deduct expenses when payments are actually disbursed. Accrual-method taxpayers report these items for tax purposes in the year that their right to the income becomes final and all events have occurred creating the liability to pay the deductible expenses. In addition, you must be able to determine the amounts with reasonable accuracy.

DISTRIBUTING EARNINGS

If your business is organized as a C corporation, you may want to take a look at alternatives for distributing corporate earnings. Amounts paid as dividends are not deductible by the corporation and represent taxable income to you and the other shareholders who receive them. But, as discussed in the section on investments, you'll pay tax on qualified dividends at a maximum rate of 15% through 2010. Compensation is deductible by the company (as long as it is reasonable in amount) and taxable to you as ordinary income. Thus, the income is taxed only once.

Amounts not distributed can be retained by the corporation for later use. However, if a company accumulates excessive amounts of retained earnings to avoid paying taxable dividends to shareholders, the IRS can assess a 15% accumulated earnings tax penalty. Generally, a corporation can accumulate up to $250,000 of earnings ($150,000 in the case of certain service corporations) without penalty.

ALTERNATIVE MINIMUM TAX

Like individual taxpayers, corporate taxpayers can find themselves subject to alternative minimum tax. The AMT exemption amount for corporations is $40,000 (subject to an income-based phaseout) with AMT income taxed at a flat 20% rate. Small corporations that meet a gross receipts test are exempt from AMT. To qualify, a corporation's average annual gross receipts for all three-tax-year periods beginning after 1993 and ending before the current tax

CORPORATE TAX RATES

If your company is a C corporation other than a personal service corporation,* you can estimate your corporation's regular 2007 federal income taxes using this table.

If taxable income is over	But not over	Your tax is	Of the amount over
$0	$50,000	15%	$0
$50,000	$75,000	$7,500 + 25%	$50,000
$75,000	$100,000	$13,750 + 34%	$75,000
$100,000	$335,000	$22,250 + 39%	$100,000
$335,000	$10,000,000	$113,900 + 34%	$335,000
$10,000,000	$15,000,000	$3,400,000 + 35%	$10,000,000
$15,000,000	$18,333,333	$5,150,000 + 38%	$15,000,000
$18,333,333		a flat 35%	

Personal service corporations pay a flat 35% tax.

TAKE ACTION

REVIEW YOUR BUSINESS FORM

- As a preliminary to your year-end planning, look at your current form of doing business. You may discover that another structure would be more beneficial. Remember, taxes are just one consideration.

TIME INCOME

- Like individual taxpayers, business owners may find income-timing strategies useful in lowering taxes. If you expect your corporation to be in a substantially higher tax bracket in 2008, you may want to accelerate corporate income into 2007. If not, deferring income is probably the way to go.

- If your business uses the cash method of accounting, you might defer income by delaying billing notices so that payment won't be received until early next year.

- As an accrual-method taxpayer, you might defer income by delaying shipping products or providing services until the beginning of your 2008 tax year.

- Making year-end shipments FOB destination, rather than FOB shipping point, can delay the transfer of title until next year. Income won't be realized until title passes.

- Advance payments received for the sale of goods or services may be deferred until next year if your business reports income on the accrual basis and meets other requirements. For example, it may be possible to defer amounts received for gift cards that expire next year, to the extent not redeemed by year-end.

PLAN DISTRIBUTIONS

- When making decisions about distributing earnings from your C corporation, consider all of the tax factors discussed on page 12.

- If your corporation has a reasonable business purpose for accumulating earnings greater than the $250,000/$150,000 that may trigger the accumulated earnings tax penalty — the anticipated purchase of new equipment or the purchase or construction of new facilities, for instance — document why the additional money is needed in the corporate minutes.

year generally can't exceed $7.5 million. A $5 million threshold applies for the first three-tax-year period taken into account in the test. Computing the AMT is very complex. If you have any concerns that your corporation may be subject to this tax, please discuss them with us.

HOW BUSINESS INCOME IS TAXED

Form	Taxed to Business Entity?	Taxed to Owners?
C Corporation	Yes	If Distributed
S Corporation	No*	Yes
Partnership	No	Yes
Limited Liability Company	No	Yes
Sole Proprietorship	No	Yes

**Some exceptions apply.*

BONUS OR DIVIDEND?

A common strategy for owners of profitable closely held C corporations is to try to minimize corporate taxes by paying year-end bonuses to themselves and other shareholder-employees. But that may not always be the most tax-effective strategy to use. Consider Consuela. Tax projections for her and her corporation indicate that there may be an overall tax advantage if the company pays part of her income as a dividend instead of compensation. Although the dividend would not be tax deductible, it would be taxed to Consuela at a maximum 15% rate, and she and the corporation will avoid payroll taxes on the dividend amount. The company would have to pay a dividend to other shareholders, as well. But the only other shareholder is her daughter, who works part-time for the company and is in a 15% tax bracket. Her daughter's rate on the dividend would be just 5%.

BUSINESS DEDUCTIONS AND CREDITS

TIMING

When it comes to taxes, the more deductions and credits, the better. So you won't want to overlook any that your business may be able to claim. As year-end approaches, you may be able to accelerate certain deductible and credit-eligible expenses into the current tax year. However, if you anticipate a substantial increase in business income next year — with a corresponding higher tax rate — postponing expenses until 2008 may be more tax effective.

ASSET PURCHASES

Being able to recover some of the costs of newly acquired business assets over time through depreciation is an important tax benefit for businesses. *When* you purchase assets and *how* you choose to depreciate them can make a difference in your tax bill.

A special rule allows businesses a full half-year's depreciation deduction for equipment and various other assets (not real estate) that are purchased and placed in service late in the year. Thus, last-minute purchases of business assets may achieve significant tax savings. An exception applies where the aggregate cost of assets placed in service during the last three months of the year exceeds 40% of the year's total purchases. Then, assets are treated as though they were acquired in the middle of the appropriate quarter.

Your business also may elect under Section 179 of the tax code to currently deduct ("expense") the cost of qualifying assets instead of depreciating them. For 2007, the maximum amount that may be expensed is generally $125,000. However, you cannot expense more than the amount of your taxable income from active trades or businesses, and the amount of the available expensing

BUSINESS TAX CREDITS

A variety of tax credits are available to offset taxes on business income. Here is a partial list.

Disabled Access. For eligible small businesses, 50% of eligible access expenditures greater than $250 and not more than $10,250

Employer-provided Child Care. 25% of expenses to buy, build, rehabilitate, or expand property that will be used as part of an employer's child-care facility plus 10% of the amount paid under a contract to provide child-care resource and referral services to employees, up to a maximum credit of $150,000 a year

Employer Social Security. The amount of a food and beverage establishment employer's FICA tax obligation attributable to employee tips received in excess of tips treated as wages for purposes of satisfying the federal minimum wage requirement in effect on January 1, 2007 ($5.15 per hour)

Energy Efficient Home. $2,000 of the cost of new construction ($1,000 for a manufactured home)

Investment. 10% (or more) of the costs of (1) rehabilitating a building first placed in service before 1936, (2) installing solar, geothermal, or fuel cell equipment, or (3) qualifying coal and gasification projects

Research. A percentage (generally 20%) of qualified research expenses in excess of a base amount (or an alternative simplified credit)

Small Employer Pension Plan Start-up. 50% of administrative and retirement-related education expenses for the first three plan years, up to a maximum credit of $500 a year

Work Opportunity. A percentage of first year wages (generally up to $6,000) paid to members of certain target groups; for long-term family assistance recipients who began work after 2006, a percentage of first and second year wages

TAKE ACTION

ACCELERATE/INCREASE DEDUCTIONS

- You might have equipment or vehicle repairs done or purchase supplies before year-end if these expenses would be incurred in 2008 anyway.
- If you're an accrual-method taxpayer, you have a little more freedom to accelerate deductions. Look at deducting employee bonuses that you don't plan to pay until early next year (within the first 2½ months of 2008). You generally can't use this strategy for employees who own a greater-than-50% interest in the business.
- You also may be able to deduct vacation pay that is vested at year-end and will be paid within 2½ months after year-end.
- To deduct charitable contributions that you have planned for early 2008, make sure you note the charitable obligation in the corporate minutes before the end of 2007.
- Another way you might increase your 2007 deductions is to hire your children to work in your business during school breaks. As long as you pay them a reasonable amount for the work they do, you can deduct their compensation — potentially moving highly taxed business income into your child's lower personal tax bracket. And, if your business is unincorporated, you don't have to pay FICA tax on the wages paid to your child if he or she is under age 18.

CONSIDER SECTION 179 EXPENSING

- Think about purchasing equipment (with a loan, if necessary) that you'll need next year if you'll be able to claim the Section 179 deduction for the equipment in 2007.
- If you plan to make the expensing election but find that your total asset purchases for 2007 are already close to the $125,000 limit, you may want to postpone buying additional items until 2008. In 2008, your business may be able to write off another $125,000 (as adjusted for inflation) in asset purchases.
- If you will elect Section 179 treatment for only some of your company's 2007 asset acquisitions and depreciate the others, it may make sense to use the election for the assets with the longest lives.
- Make your commercial building more energy efficient. In 2007, businesses can make a special election to expense the costs of making such improvements to commercial buildings. The deduction is limited to $1.80 per square foot. Several requirements apply.

election is reduced dollar for dollar as annual asset purchases rise from $500,000 to $625,000.

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION

This deduction is available to companies involved in domestic manufacturing, construction, engineering or architectural services related to construction projects, and other eligible production activities. For 2007, the deduction generally equals 6% of the lesser of: (1) qualified production activities income or (2) taxable income before taking the deduction into account. (Sole proprietors use their adjusted gross income, with certain modifications, instead of their taxable income.) However, the deduction can't exceed 50% of W-2 wages allocable to domestic production gross receipts. If your company is eligible, the deduction could cut your taxes — and increase your after-tax profits — without any additional outlay of cash.

START-UP COSTS

If you launched a new business in 2007, you may have incurred expenses before the business actually began operating. Examples include the costs of conducting market surveys, traveling to find customers or suppliers, advertising, and training employees. You can elect to currently deduct up to $5,000 of these expenses as long as the business is up and running by year-end. (The $5,000 limit is reduced dollar for dollar once total start-up costs exceed $50,000.) The remainder of the costs can be deducted ratably over a 180-month period.

SELF-EMPLOYMENT EXPENSES

If you're self-employed, you can deduct amounts paid for health insurance for yourself, your spouse, and your dependents as a business expense (requirements apply). You also can

TAKE ACTION

CONTRIBUTE TO RETIREMENT PLANS

- Another way to lower business taxes is to contribute as much as possible to your company's retirement plan.
- To increase your deduction, consider modifying your 401(k) plan before year-end to allow discretionary employer profit sharing contributions.
- Declaring a profit sharing contribution for 2007, even if your business won't have the cash to contribute until after the end of the year, is another way to increase your deduction. You have until the due date of your return to contribute (possibly 8½ months after year-end if your corporation received a valid six-month filing extension). Consider this approach even if you have the funds available at year-end. Your business can invest the cash or use it for business purposes until the contribution is due.
- If you don't have a retirement plan, look into establishing one. We can help you review your options.

USE LOSSES EFFECTIVELY

- If you expect to have an NOL for 2007 that can be carried back and used to offset your taxable income for a prior year, you might want to increase the loss by accelerating deductions into 2007.
- S corporation shareholders should make sure they have sufficient basis and amounts at risk to claim their full share of any loss passed through from the corporation. Making a direct loan to the corporation or an additional capital contribution before the end of the corporation's tax year can serve to increase basis. See us for more information.

deduct half of your self-employment tax. In 2007, the 12.4% OASDI (Social Security) part of the tax applies to self-employment earnings of up to $97,500. The 2.9% Medicare tax applies to all your self-employment income.

LOSSES

You're certainly not in business to generate losses. However, if you do incur a loss, be sure you use it to lower your taxes. If you own an unincorporated business or are an S corporation shareholder, business losses generally are deductible on your personal tax return. Regular C corporations deduct allowable losses on their corporate returns.

Check this list of possible loss deductions:

- Business bad debts — but make sure you can substantiate your failed collection efforts
- Casualty and theft losses, including natural disaster losses
- Capital losses
- Losses on the sale of business assets
- Net operating losses

A net operating loss (NOL) is generated when your business' deductions for the tax year are more than its income. NOLs generally may be carried back two years. By carrying back an NOL realized in 2007, you may secure a refund of income taxes paid for 2005 and 2006. Unused NOLs may be carried forward to offset future income for as long as 20 tax years. A special election to forgo the carryback period is also available.

TALK WITH US

Now may not be the most convenient time for tax planning. But it can be one of the most rewarding. By beginning your year-end planning as early as possible, you'll have the time to better accomplish your tax-saving goals.

Why not make an appointment to come in and talk with us soon? As skilled professionals, we have the experience and knowledge to help you with all your planning needs. For more information about any of our services, call us today.

The general information in this publication 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 an independent 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.

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