

# ANDERSON TAX & CONSULTING GROUP, LLC

## 2007 NEWSLETTER

Dear Clients and Friends:

2006 will soon be over and a new year will be upon us. I hope everyone has had a prosperous year and that 2007 will be greater still. On the tax front, a number of significant tax acts passed this year, and I would like to pass the most important of these new provisions on to you as we approach tax filing season. In addition to the major new acts, there were also many other tax issues addressed in our courts and through the field work of the IRS. First, we'll look at the two major acts passed this year.

### TAX INCREASE PREVENTION AND RECONCILIATION ACT (TIPRA)

After months of tug-of-war in Congress, the TIPRA was finally passed on May 17, 2006. What was intended to simply extend tax-saving provisions of the major 2001 and 2002 tax acts ended with a mixed bag for taxpayers. Key provisions of this legislation include:



#### TAX SAVERS

- Increased 2006 exemption amounts for Alternative Minimum Tax (AMT) to \$42,500 for singles and \$62,550 for married filers
- Continuance of use of certain credits to reduce AMT
- For tax years beginning after May 17, 2006 (2007 calendar year for individuals), the sale of musical compositions or copyrights in musical works created by the taxpayer's personal efforts can be treated as the sale of a capital asset
- Continuance of higher limits for expensing equipment used in business
- Continuance of lower tax rates on capital gains through 2010, including qualified dividends

#### TAX RAISERS

- Beginning in 2006, "kiddie tax" on a child's unearned income applies until the child reaches 18, instead of age 14 as in years past
- Offers-in-Compromise submitted to the IRS must now include a partial payment of past-due taxes for the IRS to consider it a valid offer
- \$100,000 modified AGI limit on conversions of traditional IRAs to Roth IRAs has been eliminated after 2009, as well as the limitations imposed on married taxpayers filing a separate return (can convert without regard to income or filing status, means more income to higher bracket taxpayers – helps pay for tax saver provisions)

#### LATEST NEWS

**On December 9, 2006,** Congress passed the Tax Relief and Health Care Act of 2006. Many of the provisions in this Act extend laws through 2006 and 2007 that had expired in 2005. Among these are deductions for state and local sales taxes, teacher's expenses and qualified higher education costs, as well as a faster write off period for qualified leasehold and restaurant improvements.

Overall, this act contains more pros than cons, and it was definitely a win for the average taxpayer. Obviously it hasn't done away with the AMT, but allowing the increased deductions will prevent some Americans from paying tax at the higher AMT rates. Take a look at the 2007 Tax Essentials, and then read on for the second important tax act of 2006 – the Pension Protection Act.

#### 2007 TAX ESSENTIALS

Maximum 401k contribution, under 50 years old	\$15,500	Standard business mile rate	48½ ¢/mile
Maximum 401k contribution, over 50 years old	\$20,500	Medicare Pt. B prem./month	\$93.50
Social Security wages/self-employed income base	\$97,500	SS benefit COLA increase	3.3%
Maximum limit on expensing business equipment	\$112,000	Max family HSA contribution	\$5,650

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## PENSION PROTECTION ACT OF 2006

This 800-plus-page document made numerous changes in the retirement and pension plan world. Most of these provisions take effect starting in 2007. Let's look at the major changes as they relate to employees and employers:

### EMPLOYEES

**Qualified Plan Rollovers** – After 2006, distributions from the eligible retirement plan of a deceased employee can be rolled over to a non-spouse beneficiary's IRA.

**Tax Refunds Can Fund IRAs** – Beginning in 2007, tax refunds can be directly deposited into an Individual Retirement Account (IRA).

**Saver's Credit** – This tax credit was slated for expiration, but has now been made permanent. This is a nice surprise for a number of eligible taxpayers who make contributions to retirement plans.



### EMPLOYERS

**Defined Contribution Plans** – Plans must allow participants to immediately diversify any employee or elective contributions invested in employer stock. Plans also must allow participants to diversify employer contributions out of employer stock at any time after the employee has been in the plan for three years. There is an exception to this rule for ESOP's that do not have elective, employee or matching contributions. (publicly traded companies only)

**Modification to Treatment of Corporate-Owned Life Insurance** – Before this act, life insurance proceeds were generally non-taxable to the company that received the benefit. For contracts issued after August 17, 2006, benefits paid to the policyholder may be taxable if certain employment and compensation qualifications aren't met by the insured or if the insurance proceeds are not used to acquire any equity interests owned by the insured. Additional notice and consent requirements, as well as reporting requirements, were also introduced with this provision.

If you **sold stock from a demutualized insurer in 2003**, you may want to file a protective refund claim for that tax year. A federal court recently found evidence that the rights given up by policy holders in the conversion have value. Value assigned to the stock would reduce gains reported from the sale, but to protect your right to amend the return for the reduced gain, a protective claim must be filed since the value of these rights won't be determined until spring of 2007 – after the statute of limitations expires on 2003 tax returns.

One final piece of news: For over one hundred years, phone companies have collected long-distance excise tax from taxpayers and paid it to the U.S. Treasury. After losing in federal court five times, the Treasury finally **relinquished its claim to collecting the long-distance excise tax**, and now must refund the tax collected to the public – well, the tax collected for the last three years at least, not one hundred. Eligible individual taxpayers will receive between \$30 and \$60 in the form of a tax credit on their 2006 income tax returns, depending on the number of dependents claimed. Businesses have a simplified formula that they can use to determine the credit.

I'm officially out of excuses: On May 18, 2006, General Electric successfully filed their federal tax return electronically (at 24,000 pages). Therefore, I've decided to join the 21<sup>st</sup> century and offer e-file this year to clients at no additional charge.

In closing, I hope everyone has a safe and prosperous New Year! Please stop by the website at [www.andersontaxgroup.com](http://www.andersontaxgroup.com) for company information and an online version of this newsletter. If you believe something in this newsletter may apply to your situation, please contact me before taking action. My sincere thanks for the opportunity to work with you in the past, and I look forward to working with you soon.