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RE: Amount Changes for 2007; the Tax Relief and Health Care Act of 2006

Amount Changes for 2007

The IRS recently announced deduction and exemption figures for 2007. Changes in the amounts for the most common deductions and exemptions are listed below.

Standard Deduction

For the calendar year 2007, the standard deduction amounts are increased as follows:

Filing Status	Standard Deduction 2006	Standard Deduction 2007
Married filing joint returns and Surviving Spouses	\$10,300	\$10,700
Heads of Households	\$7,550	\$7,850
Unmarried individuals	\$5,150	\$5,350
Married filing separately	\$5,150	\$5,350

Itemized Deductions

The limitation on itemized deductions for tax years beginning in 2007 will affect taxpayers with incomes exceeding \$156,400 (or \$78,200 for a separate return filed by a married individual), an increase of \$5,900 and \$2,950, respectively, from the 2006 figure.

Personal Exemption

For the calendar year 2007, the personal exemption amount is \$3,400, an increase of \$100 from 2006.

The personal and dependency exemption begins to phase out at, and is completely phased out after, the following adjusted gross income amounts:

Filing Status	AGI-Beginning Phase Out	AGI-Above Which Fully Phased Out
Married filing joint returns	\$234,600	\$357,100
Heads of Households	\$195,500	\$318,000
Unmarried individuals	\$156,400	\$278,900
Married filing separately	\$117,300	\$178,550

Annual Gift Tax Exclusion

For the calendar year 2007, the annual gift tax exclusion will be \$12,000 per donee, \$24,000 for split gifts from spouses. This exclusion amount has not changed from 2006.

Social Security and Medicare Taxes

The maximum amount of earnings subject to the Social Security tax has increased to \$97,500 for 2007 from \$92,400 in 2006. The Social Security tax rate of 6.2% has not changed from 2006. As a result of the earnings increase, the maximum yearly Social Security tax paid by employees and employers in 2007 will be \$6,045.

All earnings are subject to the 1.45% Medicare tax. Such tax rate has not changed from 2006. Please note that self-employed taxpayers are required to pay double the Medicare tax and Social Security Tax.

Tax Relief and Health Care Act of 2006

Refundable AMT Tax Credit

The Tax Relief and Health Care Act of 2006 (the “Act”) provides new rules with respect to the minimum tax credit (the “AMT credit”) allowable for tax years beginning before January 1, 2013. The new rules provide that a portion of an individual’s “long-term unused AMT credit” carried over from prior years is now refundable to the individual; before, no part of the AMT credit was refundable.

A long-term unused AMT credit is an unused AMT credit attributable to the individual’s adjusted net minimum tax for years at least 4 years prior to the current taxable year, assuming the AMT credits are used on a first-in, first-out basis. The AMT refundable credit amount is the greater of (1) the lesser of \$5,000 or the long-term unused minimum tax credit or (2) 20% of the long-term unused minimum tax credit. Such credit is phased out at the same AGI thresholds for personal exemptions, detailed above.

Various Tax Provisions Extended

The Act extends many important tax provisions, including tax breaks that expired at the end of 2005. Some of the more popular extensions are listed below.

- **The Work Opportunity Tax Credit.** For tax years 2006 and 2007, employers who hire members of certain target groups may take a credit against income tax of a percentage of first year wages up to \$6,000 per employee (\$3,000 for qualified summer youth employees).
- **Above-the-Line Deduction for Eligible Individual’s Higher Education Expenses.** For tax years 2006 and 2007, eligible individuals may deduct qualified tuition and related expenses for themselves, spouses and dependants. The deduction is based on Adjusted Gross Income (AGI); it may not exceed \$4,000.
- **Above-the-Line Deduction for Educators’ Expenses.** The above-the-line deduction for qualifying expenses of eligible educators, up to \$250, is available for tax years 2006 and 2007.

- **Optional Itemized Deduction for Sales and Use Taxes.** For tax years 2006 and 2007, taxpayers may elect, on schedule A of Form 1040, to deduct state and local general sales and use taxes paid (by accumulating receipts) instead of state and local income taxes. Please note, the 2006 Form 1040, Schedule A, was printed before this option was extended so there is no place on the form to indicate the election. However, the IRS will soon issue revised instructions on how to claim the deduction for sales and use taxes for 2006.
- **Research Expense Credit.** The research expense credit is available for tax years 2006 and 2007.
- **Accelerated Writeoff for Qualified Leasehold and Restaurant Property.** Improvements to qualified leasehold property and qualified restaurant property may be eligible for an accelerated 15-year depreciation schedule, rather than the usual 39-year straight-line depreciation schedule, for buildings placed into service in 2006 and 2007.

Extensions and Changes for Energy-Related Credits and Deductions

The Act also extends and/or modifies many important energy-related tax provisions, described briefly below.

- **Electricity from Renewable Sources.** The renewable electricity production tax credit has been extended through 2008. Qualifying renewable electricity sources include wind, closed-loop biomass, open-loop biomass, geothermal, incremental hydroelectric, small irrigation, landfill gas and trash combustion.
- **Residential Energy Efficient Property.** The 30% tax credit for the purchase of solar water heating, solar electric equipment and fuel cell property has been extended through 2008.
- **Certain Business Purchases.** The 30% business tax credit for the purchase of fuel cell power plants and solar equipment has been extended through 2008.
- **HOLDERS OF CLEAN RENEWABLE ENERGY BONDS.** The Clean Renewable Energy Bond program has been extended through 2008. An additional \$400 million in bonds may be issued.
- **Builders of New, Energy Efficient Homes.** The tax credit for builders of new energy efficient homes has been extended through 2008.
- **Energy Efficient Commercial Buildings.** The deduction for energy efficient commercial buildings meeting a 50% energy reduction standard has been extended through 2008.

We hope that you found this information helpful. Please contact us if you have any questions on these new tax changes or on any other matters. Our firm extends best wishes for a happy, healthy and prosperous 2007!

Very truly yours,

GELT & GRASSGREEN P.C.



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specific situation. We would be pleased to provide such legal assistance as you require on this and other subjects.

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