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# Client Information Bulletin

*April 2008*

## Five Ways to Claim Deductions "Above the Line"

***Common write-offs that may provide other tax benefits***

Do you know the difference between deductions claimed "above" and "below" the line? In this case, "the line" is the point where your adjusted gross income (AGI) is computed on your federal tax return. Thus, deductions claimed above the line are entered before your AGI is determined while other familiar deductions—such as mortgage interest and charitable gifts—are claimed after the AGI computation is made.

Just think about the implications. An above-the-line deduction is more valuable because it reduces your AGI for various purposes. So you may qualify for other tax benefits, such as higher education tax credits or medical expense deductions. And above-the-line write-offs are available whether the tax filer itemizes deductions or not.

Which deductions can be claimed above the line on 2007 tax returns? Here are five common possibilities:

***1.*** **IRA contributions**: You may be able to deduct IRA contributions unless you "actively participate" in an employer-sponsored retirement plan. In that case, deductions for 2007 are phased out for single filers with an AGI between $52,000 and $62,000; $83,000 and $103,000 for joint filers if both spouses are active participants. If only one spouse is an active participant, the deduction is phased out between $156,000 and $166,000 of AGI. The maximum contribution for 2007 is $4,000 ($5,000 if age 50 or older).

***2.*** **Tuition and fees**: You can deduct as much as $4,000 of tuition and related fees paid for higher education, if you fall below certain income limits. The $4,000 deduction is available for single filers with an AGI up to $65,000; $130,000 for joint filers. Otherwise, single filers can claim a $2,000 deduction for an AGI up to $80,000; $160,000 for joint filers.

***3.*** **Moving expenses**: If you make a job-related move, you can deduct moving expenses under two conditions: (1) The new workplace must be 50 miles farther from your old home than your old workplace was from your home. (2) You generally must stay at the new job for at least 39 weeks of the next 12 months. Assuming you qualify, you can deduct the cost of transporting household goods and personal effects, plus related travel and lodging expenses (but not meals).

***4.*** **Student loan interest**: A taxpayer who is paying off a student loan for higher education may deduct up to $2,500 of the interest on his or her tax return. This deduction is phased out for a single filer with an AGI between $55,000 and $70,000; $110,000 and $140,000 for joint filers. **Note**: Your child can deduct the

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interest on any portion of the loan you repay as long as he or she cannot be claimed as your dependent.

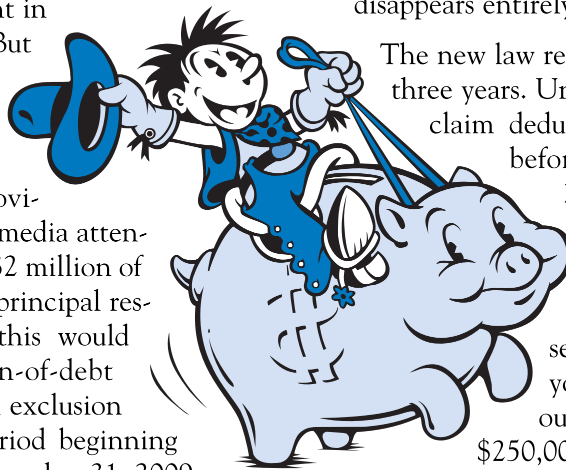
**5. Self-employment tax**: If you are a self-employed individual, you may claim several tax types of deductions above-the-line. This includes 50% of the required annual self-employment tax and 100% of health insurance coverage. Similarly, you can deduct your annual contributions to a qualified retirement plan—such as a SEP (Simplified Employee Pension), SIMPLE (Savings Incentive Match Plan for Employees) or Keogh—within generous limits.

*This is not the complete list, by all means. For more details, contact a tax professional.*

# Roundup of New Mortgage Law Tax Breaks

## *Key new law provisions affecting homeowners*

The new Mortgage Forgiveness Debt Relief Act—signed into law on December 20, 2007—provides some tax relief for debtors caught in the subprime mortgage crisis. But the new law also creates other key tax breaks for homeowners. Here is a quick rundown.



**Debt forgiveness**: This is the provision that has received the most media attention. Under the new law, up to $2 million of mortgage debt forgiveness on a principal residence is tax-free. Normally, this would represent taxable cancellation-of-debt (COD) income. The special tax exclusion is available for a three-year period beginning January 1, 2007, and ending December 31, 2009.

However, this new tax exclusion does not apply if the mortgage discharge is not directly related to a decline in the value of your home or some other financial condition. Furthermore, it does not apply to taxpayers involved in a Title 11 bankruptcy. Finally, you cannot claim the COD exclusion in exchange for rendering services to the lending institution.

**Mortgage insurance**: Prior to 2007, Congress had authorized a one-year deduction for mortgage insurance premiums as qualified residence interest. A deduction is available on your 2007 return for the full amount of insurance paid (for contracts issued after 2006) if your adjusted gross income (AGI) for the year does not exceed $100,000. But the deduction is gradually phased out and disappears entirely if your AGI exceeds $109,000.

The new law restores the deduction and extends it for three years. Under this provision, you may be able to claim deductions for premiums paid or accrued before 2011 (for contracts issued after 2006).

**Home sale exclusion**: The home sale exclusion allows you to realize a tax-free gain of up to $250,000 when you sell a home you have owned and used as your principal residence for at least two out of the five years before the sale. The $250,000 exclusion is doubled to $500,000 for married couples. However, prior to the new law, the $500,000 exclusion was available only if a husband and wife filed a joint tax return for the year of the sale.

In other words, if one spouse passed away and the other spouse did not sell the home until the following year or later, the surviving spouse could not claim the $500,000 exclusion. Instead, he or she was limited to the $250,000 exclusion.

The new law eliminates this inequity. For sales after 2007, a surviving spouse may claim a $500,000 exclusion for a sale occurring within two years of death.

**Co-op tax breaks**: If certain requirements are met, the tenant-stockholders of a co-op are entitled to claim allocable deductions for mortgage interest and property taxes. The new law liberalizes the test used to qualify as a co-op for this purpose. This change applies to tax years ending after December 20, 2007 (the date of enactment).

*To offset these tax breaks, the new law includes several revenue-raising provisions. It increases the penalties for partnerships that fail to file returns, institutes a similar penalty for S corporations and adjusts estimated tax payments for certain large corporations in 2012.*

### *Give Us A Call!*

*Do you have any questions or comments about this newsletter or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

# How to Manage Your Business Better

***Follow these tips to remain successful***

Although your business is successful, there are times when sales may level off or profits might start to slide. In this uncertain economic climate, you cannot take anything for granted. So you might take a more aggressive stance in 2008.

Keeping that in mind, here are several basic management tips to observe. It can't hurt to follow these practices even if your business has been prospering.

**Prepare for the days when things will not be going as well as they are now**. Just witness the recent rash of high-profile corporations that have fallen on hard times. There are simply no guarantees about the future success of your company. One of the worst enemies of every business owner or manager is complacency.

**Avoid knee-jerk assumptions about customers or clients**. For example, a salesperson might assume that a certain territory is all wrapped up or a particular client will remain loyal forever. Then the other shoe drops when a large account is unexpectedly lost to the competition. Even if you have provided quality services to someone in the past, you must show that you will continue to do so tomorrow and the day after.

**Continue to expand your business**. It is rare to be in the enviable position of having "too much" business. More often than not, a business tends to get bogged down at a certain comfort level. When that happens, it is easier for a competitor to siphon off some of your profits. In addition, you may come across as being arrogant to clients and prospects if you make a halfhearted attempt to generate new business. A successful business is usually a growing business.

**Keep learning more about your clientele**. Gathering information should be an ongoing process. For instance, you should regularly ask customers or clients questions about any concerns and opportunities they are facing, the changes that are affecting them and any special conditions that are causing problems. If you do not regularly keep in touch, you may not be able to fulfill their needs in the future.

**Do not risk everything on just one or two accounts**. Similarly, if your sales are completely price driven, your business can go down the drain quickly if a competitor decides to undercut you. In other words, you must offer more to customers than just a low price. The way you operate should give the impression that you intend to stay in business for the long haul.

**Plan ahead for potential economic downturns**. This is not to suggest that you should let doom and gloom pervade your thinking. Instead, it is meant to convey the idea that it is better to be safe than sorry. A "safe and sound" approach is to recognize the uncertainty of the future and to act accordingly.

***Don't wait***: *Take these precautionary measures before the danger signs appear. As a result, you can keep your business growing despite the inevitable bumps in the road.*

## REPORT CARD

### *How Do Your Employees Rate?*

Do you really know which employees are "working hard" and which are "hardly working"? It may not be easy to tell, and even astute observers can be fooled occasionally. To help clarify matters, consider these helpful hints.

**Put it in writing**. Don't try to memorize everything employees do, whether it's good or bad. Enter the information promptly into their personnel files.

**Don't be wedded to your first impression**. Give someone the latitude to change your mind.

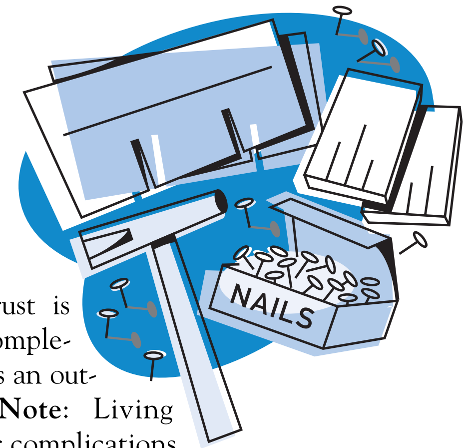
**Create objective standards**. Devise a substantive means for evaluating employees. Don't let employee reviews turn into a popularity contest.

**Ask other supervisors their opinions**. Similarly, if your employees deal with customers or clients, question those individuals about employee performance.

You may find the picture that emerges is different from the one that is currently in your mind.

# Build an Estate Plan for the Future

## *Finding the proper "tools" for the job*




Despite the scheduled repeal of the federal estate tax in 2010, the tax will be revived in 2011—with a vengeance—unless Congress takes action. Thus, estate planning remains a critical concern for well-to-do families. Fortunately, however, there are various estate-planning tools at your disposal that may benefit your heirs. Here are a few prime examples.

**Will**: A will is usually the centerpiece of an estate plan. For one thing, your assets are distributed according to its terms. Secondly, it may contain other key provisions (e.g., naming the guardian for minor children). And you can use a will to establish tax-saving trusts (see below).

Naturally, a will does not do much good if your assets cannot be located or the terms are not clear. It is generally recommended that you prepare a letter of instructions to accompany your will.

**Credit shelter trust**: This type of trust is used by married couples to maximize the tax benefits of the federal estate-tax exemption in conjunction with the unlimited marital deduction. Currently, the credit can be used to shelter up to $2 million from estate tax. (This figure will increase to $3.5 million for 2009 before the estate tax is eliminated in 2010. The tax is scheduled to be revived in 2011 with a less-favorable estate-tax exemption.)

**Living trust**: A living trust allows you to pass assets to beneficiaries without going through probate. In some cases, this can save both time and money for your family. However, a living trust is generally used as a complement to a will—not as an outright replacement. **Note**: Living trusts may cause other complications, depending upon the applicable state laws.

**Charitable remainder trust**: If you own property that has appreciated in value, you might set up a charitable remainder trust. Typically, the trust provides you with income during your lifetime. After your death, the proceeds go to a designated charity. **Added incentive**: You are entitled to a current tax deduction based on the value of the property transferred to the trust.

**Living will**: A living will, if valid under state law, typically provides for someone to not be kept alive by artificial means in the event of a disabling injury or a terminal disease. Be careful about the wording.

**GRATs and GRUTS**: Grantor retained annuity trusts (GRATs) and grantor retained unitrusts (GRUTs) are devices that allow you to receive payments for a term of years or your lifetime. Then, the remainder goes to the named beneficiaries. In brief, a GRAT pays out a fixed amount while a GRUT is based on a fixed percentage of assets. In either case, the trust is irrevocable.

***Practical idea:*** *Use these tools in tandem as part of a comprehensive estate plan. Your professional advisers can provide guidance in this area.*

# Facts and Figures

## *Timely points of particular interest*

➡**Fast Track Settlements**—The IRS has announced that it is expanding its "fast track settlement plan" for small-business owners and self-employed individuals. This initiative is designed to expedite case resolution. Initially, it was being tried out in Chicago, Houston and St. Paul, MN. Now five more areas have been added: Philadelphia; central New Jersey; San Diego; Laguna Niguel, CA; and Riverside, CA. The IRS says it will evaluate the benefits of the plan later this year.

➡**Accentuating the Positive**—It may seem counter-intuitive, but some business experts advise you to concentrate on the strengths of your employees rather than their weaknesses. This philosophy is based on the principle that you can increase productivity by challenging your best people to do more. Conversely, dwelling on the negative may result in decreased productivity. Since your time is valuable, focus your main efforts on boosting spirits instead of dampening them.

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