

How the New Tax Laws Impact You

By Jason Giordano, CPA, MST

As a medical professional, you are always taking care of others and may not have the time to learn about the new tax laws and how they impact you personally and professionally. Tax laws change constantly. Attention to tax legislation—tax laws passed in recent years and pending legislation—is very important. Here are the key changes and potential issues directly impacting your 2007 tax filings and 2008 tax strategy.

Expiring Provisions

A variety of popular tax credits were set to sunset at the end of 2007. Of these, the following tax breaks were still not extended by Congress as of the writing of this article. As with any tax issues, be sure to consult with your CPA advisor to determine any impact on your tax situation. And of course, as you review your 2007 tax returns, be sure to look for these tax credits if they apply to your situation.

Tax Benefits Expiring At End of 2007:

- State and local sales tax deduction.
- Mortgage insurance premiums deduction.
- Tuition and fees deduction (for qualifying tuition and fees paid in 2007 that are required for the student's enrollment or attendance at a post-secondary school—reduced taxable income by as much as \$4,000 in many cases).
- Classroom deduction (full-time teachers, instructors, counselors and other educators deducted up to \$250 worth of out-of-pocket costs for books, supplies, software, and other qualifying materials).
- Qualified conservation contributions (for contributions of real property interests dedicated exclusively for conservation purposes).
- IRA contributions to charity (effective only for 2006 and 2007, allows individuals who are 70½ or older to take tax-free withdrawals from their IRAs as long as that money goes directly to charity).

Alternative Minimum Tax (AMT)

Unfortunately, the alternative minimum tax (AMT) was not set to expire at the end of 2007 and continues to expand its reach into a growing number of taxpayers' pockets. A planning technique that may have saved you a significant amount under the "regular tax" may become worthless if you unexpectedly fall into the AMT.

In 2007, the AMT exemption amounts were at \$33,750 for individuals and \$45,000 for married couples filing jointly. A Bill in legislation proposes to increase the AMT exemption to \$44,350 for individuals and \$66,250 for couples, retroactive to January 1, 2007.

Equipment Expensing

Most small businesses are eligible for the Code Section 179 deduction, a generous and lucrative tax break that enables businesses (especially capital intensive businesses) to immediately deduct up to \$125,000 in 2007 for equipment purchases that otherwise would have to be depreciated over a number of years. The 2007 Small Business Tax Act increased the base limit from \$112,000 to \$125,000 for each tax year 2007 through 2010.

Capital Gains and Losses

Starting in 2008, traditional strategies in connection with capital gains and losses also need to accommodate a special, nontraditional opportunity—the zero percent net capital gain rate for tax years 2008 through 2010. While this zero rate is only available for individuals in the 10 or 15 percent income tax brackets, it is well worth it for families, retirees, and others to manage their income tax brackets starting in 2008. That management starts at year-end 2007, as does the decision over whether to postpone a sale of a capital asset until January 2008 to take advantage of this favorable, zero rate.

Retirement planning

As always, it's a good idea to maximize your annual contributions to your retirement plan accounts. While contributions to IRAs may be applied retroactively if made before the filing deadline, 401K contributions to qualified plans must be made before the end of the calendar year.

Gift-Giving

Take advantage of the 2008 annual and lifetime gift-giving limits to reduce your income and estate tax liabilities. For 2008 (as it was for 2007), you can transfer \$12,000 per person, per year, without paying gift tax on the amounts transferred. Married couples can gift \$24,000 per person, per year without tax liability on the amounts transferred. That strategy not only avoids the possibility of paying a hefty estate tax later, but it removes earnings from those gifts from your taxable income bracket into that of the lower-bracket gift recipient.

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