

Winter 2007/2008

Taxes Don't Have to be Taxing – Here's Some Good News About Filing This Year

Keeping in mind that income taxes are the single largest expense of a personal lifetime, be sure to discuss the following items with your tax preparer because they may pertain to you!

1. Taxpayers who are 70-years old or older can now exclude from 2007 income, up to \$100,000 of otherwise taxable IRA distributions if the funds were transferred in 2007 directly from an IRA to charity.

2. The Retirement Savers Credit has been extended permanently. You can contribute up to \$4,000 in an IRA, as well as another \$15,500 to a 401(k) employer plan. If you're 50 or older, those numbers increase to \$5,000 and \$20,500, respectively. The Saver's Credit helps offset part of the first \$2,000 that workers voluntarily contribute to IRAs and to 401(k) plans and similar workplace retirement programs.

3. Premiums paid for mortgage insurance (insurance that protects a lender against financial loss if a homeowner defaults on mortgage payments and the house has to be sold at foreclosure) in connection with home acquisition debt are deductible provided the mortgage insurance contract was issued in 2007. The deduction is available if your adjusted gross income is \$100,000 or less. You are entitled to a reduced deduction if your adjusted gross income is more than \$100,000.

4. The Mortgage Forgiveness Relief Act of 2007 was instituted in December 2007, providing relief to taxpayers who are facing hardship due to home foreclosures by allowing a limited exclusion for discharged home mortgage debt.

5. A one-year patch for the alternative minimum tax (AMT) was signed into law, also in December 2007. This means about 20 million households are protected from a tax increase this year caused by the alternative minimum tax.

6. To note: All cash donations made to charity must now be substantiated by a cancelled check, a bank record, or a detailed receipt of the charity. Otherwise, the contribution will not be deductible. Be sure to bring all your receipts or bank records to your tax preparer to receive your charitable deduction(s).

We look forward to working with you this tax season to help you save on your income taxes. **To make an appointment to have your taxes prepared by a Gilman Ciocia Tax Professional, please call 1.800.TAX.TEAM.**

Sources: Internal Revenue Service (www.irs.gov <<http://www.irs.gov/>>); The White House (www.whitehouse.gov <<http://www.whitehouse.gov/>>).

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Let the Sun Shine

Certain solar-powered improvements are eligible for a tax credit

You are allowed a credit for 30 percent of certain expenditures that increase the energy efficiency of your personal residence. Costs eligible for the credit include qualified solar electric property expenditures, qualified solar water heating property expenditures, and qualified fuel cell property expenditures. The credit is available for residential energy-efficient property placed in service in 2006, 2007, and 2008. There is no requirement that property be new to qualify.

Qualified solar water heating property expenditures are expenditures for property to heat water for use in your residence if at least half of the energy used is derived from the sun. Qualified solar electric property expenditures are expenditures for property that uses solar energy to generate electricity for use in your home. Qualified fuel cell property expenditures are expenditures for qualified fuel cell property installed on or in connection with your home. Costs for labor properly allocated to the onsite preparation, assembly, or original installation of qualifying property and for piping or wiring to interconnect such property to the dwelling unit are also considered qualifying expenditures. Expenditures for swimming pools and hot tubs do not qualify.

The maximum credit allowed for any tax year is \$2,000 for any qualified solar electric property expenditures or qualified solar water heating property expenditures, and \$500 for each half kilowatt of capacity of qualified fuel cell property for which qualified fuel cell property expenditures are made. If your allowable credit exceeds your tax liability, the excess can be carried over to the next year.

If your home is jointly occupied and used during the year as a residence by two or more individuals, the maximum amount of qualifying expenditures that may be taken into account by all the owners is:

- \$6,667 in the case of any qualified solar electric property expenditures;
- \$6,667 in the case of any qualified solar water heating property expenditures; and
- \$1,667 in the case of each half kilowatt of capacity of qualified fuel cell property.

Making Gifts

Know what gifts are taxable

When an individual receives a gift, whether cash or property, the gift is generally not taxable to that individual. Sometimes, however, the gift giver may incur a gift tax liability when making certain gifts. If you make a gift to family members or other individuals, you can give \$12,000 or less in value to a single individual during the year and you do not have to report the gift or file a gift tax return. The so-called “annual exclusion” of \$12,000 simply means that gifts during the year to an individual that are equal to or below this exclusion amount are not considered reportable gifts.

Certain gifts for medical expenses and educational expenses do not count toward the \$12,000 exclusion and allow you to maximize your gifts for the year. For medical expenses, amounts



you pay directly to the person or organization providing the medical service or care are excluded from the gift tax. To qualify for the exclusion, the medical expenses must meet the requirements for deductibility and generally include expenses paid for diagnosis, cure, mitigation, treatment, or prevention of disease. It also includes amounts paid for medical insurance.

With regard to educational expenses, similar rules apply. Transfers made to qualifying educational institutions for tuition are not subject to the gift tax and do not count toward the \$12,000 annual exclusion. The exclusion applies to tuition for full or part-time students paid directly to the educational institution. Amounts paid for expenses such as books, room, board, or other supplies are not eligible for the exclusion.

Gifts made during the year that exceed the annual exclusion are considered “taxable” gifts and are required to be reported on a gift tax return. You are allowed a lifetime exclusion of \$1 million in taxable gifts before any out-of-pocket gift tax is actually due.

Divorced?

Know the rules before claiming a dependent

If you are a divorced or separated parent, the rules for determining which one of you can claim the children as dependents is confusing at best. A few years ago, the IRS created rules that provided a uniform definition of a child for purposes of claiming certain tax benefits such as the head of household filing status, the child tax credit, the dependent care credit, and the earned income tax credit.

When parents divorce, the decision of who will claim the children is generally outlined in the divorce decree. In most cases, the judge will award to the noncustodial parent the dependency exemption for the children because he or she is paying child support while the children reside with the custodial parent. This arrangement tends to even out the tax burden somewhat by allowing the noncustodial parent a deduction for the child’s personal exemption since there is no deduction for child support payments.

This works great when the parents abide by the judge’s ruling. There are cases where they do not. This is when the trouble starts. Why? Because the IRS doesn’t care what the divorce decree states. The IRS makes the assumption that the custodial parent is entitled to the

Quik Tips

1 If you are a teacher who spent your own money for classroom supplies, this is the last year you can take a deduction for up to \$250 of those costs. Unless Congress extends the deduction, expenses you incur next year won’t be deductible.

2 If by year-end you haven’t contributed funds to your 2007 IRA, or if you’ve put in less than the maximum allowed, don’t worry. You can contribute to either a traditional or Roth IRA until the April due date for filing your tax return for 2007, not including extensions. You can contribute up to \$4,000 to your IRA each year. If you are age 50 or older, you are allowed to contribute an additional \$1,000.

3 In 2007, premiums that are paid or accrued for “qualified mortgage insurance” in connection with home acquisition debt on your residence are deductible as home mortgage interest.

4 You are permitted to make a one-time transfer from your IRA to your HSA from which you can pay future medical expenses. A “qualified HSA funding distribution” is a distribution from your IRA (other than a SEP or a SIMPLE IRA plan) to the extent that the distribution is contributed to your HSA in a direct trustee-to-trustee transfer. Once made, the election is irrevocable.

5 The optional sales tax deduction has been extended for the 2007 tax year. This means you can elect to deduct your state sales tax in lieu of your state income tax when you itemize deductions.

6 If you paid qualifying tuition and related expenses in 2007, you can elect to deduct up to \$4,000 of the costs.

7 Military personnel may elect to treat combat pay that is excluded from gross income as earned income in determining both eligibility for the earned income tax credit and the amount of that credit. Availability of this election is extended for one year through tax years ending before January 1, 2008.





dependency deduction—period. The only exception to this assumption is when the custodial parent releases the claim by signing Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents, or a similar statement. If Form 8332 is not used, a similar statement must contain the same information—the name of the child(ren), the tax year to which it applies, and the name and social security number of the parent releasing the claim. The noncustodial parent can no longer attach the pages of the divorce decree that states he or she is entitled to the dependency exemption and satisfy the waiver requirement, unless the wording in the decree includes the specific wording as used on Form 8332.

In the event the custodial parent refuses to sign the waiver and claims the children, the noncustodial parent cannot claim the same children. If both parents claim the same children, the IRS will promptly send a notice stating that there has been an error. Each parent's refund

will be adjusted to reflect the denial of the dependency exemptions until the matter is settled. If the custodial parent still refuses to release the claim to the other parent, the only recourse is to go back to the judge that issued the original divorce decree and have the ruling enforced. Until that is done, the IRS will award the dependency exemptions to the custodial parent provided that parent can prove the children lived in his or her home for more than half of the year.

Money for College

Are scholarships taxable?

Many college students receive scholarships or fellowships to help pay for their education. If you are in college and received a scholarship or fellowship grant, there are a few key points to keep in mind. Qualified scholarships and fellowships are treated as tax-free and not included in taxable income if all of the following conditions are met:

- You are a candidate for a degree at an educational institution.
- The amount received as a scholarship or fellowship is used for tuition and fees required for enrollment or attendance at the educational institution, or for books, supplies, and equipment required for courses of instruction.
- The amounts received are not a payment for services.

If the scholarship or fellowship received exceeds the cost of tuition, fees, books, or other qualified expenses listed above, the excess will be taxable.

