Supplement to the 2007 Tax Planning Guide

At the end of 2006, Congress passed and the President signed into law the Tax Relief and Health Care Act of 2006 (TRHCA). The law began as an effort to reinstate several federal income-tax provisions that had expired at the end of 2005. However, several of the rules were also modified and new tax breaks were included, as well.

This supplement to our *2007 Tax Planning Guide* summarizes important individual and business provisions of the new law that may have changed some of the information found in the *Tax Planning Guide* and could have an impact on your 2007 planning. As always, before acting on any of the items discussed in this supplement, talk to a tax professional to determine if your action is appropriate for your situation.

Deductions and Credits for Individuals

Itemized Deduction for Sales/Use Taxes. The optional deduction for state sales and use taxes (which could be claimed instead of state income taxes) expired at the end of 2005. TRHCA reinstates and extends the deduction for 2006 and 2007.

Deduction for College Expenses. The deduction for a limited amount of tuition and related higher education expenses also expired at the end of 2005. The deduction, which may be claimed even if you do not itemize deductions ("above-the-line") and is phased out above certain income levels, is reinstated and made available for 2006 and 2007.

Deduction for Educators' Expenses. Likewise, the above-the-line deduction for up to $250 of the qualifying out-of-pocket expenses of primary and secondary school teachers and other eligible educators was reinstated and extended through the 2007 tax year (it, too, had expired after 2005).

Residential Energy Tax Credit. The new law extends the 30% tax credit for the purchase of residential solar water heating or solar electric equipment and fuel cell property through the end of 2008.

Home Mortgage Insurance Deduction. TRHCA includes a new one-year itemized deduction for the cost of premiums for qualified home mortgage insurance for amounts paid or accrued in 2007. The deduction is phased out for those whose adjusted gross income exceeds $100,000.

AMT Credit. The new law provides limited relief for individuals who pay alternative minimum tax (resulting from the exercise of incentive stock options, for instance). This provision is very complex and professional guidance is required.

Health Savings Accounts. Many changes apply to Health Savings Accounts (HSAs), including, among others:

- Permitting one-time rollovers of amounts from health care flexible spending accounts (FSAs) and health reimbursement arrangements into HSAs (effective for rollovers made from December 20, 2006, until the end of 2011).
- Repealing, after 2006, the annual plan deductible limit on HSA contributions.
- Allowing one-time rollovers from Individual Retirement Accounts into HSAs after 2006.

Provisions Affecting Businesses

R&D Credit. The research and development credit, which expired at the end of 2005, is reinstated and extended for amounts paid or incurred before January 1, 2008. The credit is enhanced for portions of tax years that are in 2007.

Employment Credits. The Work Opportunity Tax Credit and the Welfare to Work Tax Credit (both incentives available to employers to hire people from certain targeted groups or those on public assistance) are extended in their pre-2006 form for 2006 and are combined and modified for workers hired after 2006 and before 2008.

Deduction for C Corporation Computer Donations. The enhanced deduction for contributions of computers acquired or constructed by regular C corporations is reinstated and extended so that it is available for tax years beginning after 2005 and before 2008.

Accelerated Depreciation for Improvements. The new law extends the 15-year straight line write-off for qualified leasehold improvements and qualified restaurant improvements for improvements placed in service after 2005 and before 2008.