SHOEMAKE TAX NEWS

JANUARY 2008 NANCY SHOEMAKE CPA WWW.SHOEMAKECPA.COM

Greetings from Nancy and Staff

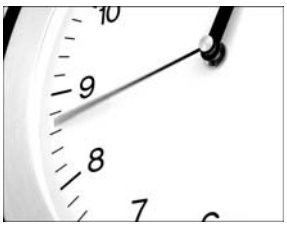
We would like to take this opportunity to thank you for your continued patronage and wish you and your family a very Happy New Year. We look forward to assisting you with the preparation of your returns this tax season.

Schedule an Office Appointment

Our on-line calendar will be available on or before January 10th for making appointments that will give you "at-a-glance" time-slot options, see www.shoemakecpa.com. Please phone our office if you do not have access to a computer or if you feel you need "Multiple Appointments" for your personal tax preparation. If you have a business, (schedule C) please advise the receptionist that you need two appointments. Clients with corporations should schedule a separate appointment prior to January 25, 2008.

Office Hours During Tax Season

Monday	7am to 8pm
Tuesday	7am to 8pm
Wednesday . .	7am to 8pm
Thursday . . .	7am to 8pm
Friday	7am to 7pm
Saturday	8am to 4pm



Email Nancy with Your Questions

It is difficult for Nancy to return every phone call – but please email all of your questions to Nancy at nshoemake@shoemakecpa.com. Please make sure you place your name in the subject area (so Nancy won't think it is spam). She receives an average of 20 emails per day (non tax time) and over 60 emails during the busy season.

We want to meet your needs as many important tax questions come up throughout the year. If you feel you need to see her in person, we can schedule a consultation appointment with Nancy however there is a charge for this service.

For simple questions that only take a few minutes, one of our staff will be happy to help you. We want to accommodate your needs and appreciate your understanding.

Tax Organizer Options

This year we have three options for you to complete an organizer.

1. Provide us with your email address and we will send you an e-organizer. Please note; this option is only for the computer-savvy – if in doubt please use another option.
2. Provide us with your email address and we will send you a "personalized organizer" based on your tax information from 2006. You can print this out and bring it to your appointment.
3. The website (www.shoemakecpa.com) has an organizer available for printing. If you do not have access to the internet, please call our office to have one mailed to you.

Worksheets: See page 6 on the Organizer for a list of additional deduction worksheets. You may download these from www.shoemakecpa.com or phone our office to mail copies.

Defray Your Costs: We strive to provide the most cost competitive CPA fees in the industry. Please help us defray costs by completing your organizer. It is to your advantage that we spend more time discussing your tax situation and equally important it will improve accuracy and speed in the final processing of your return.

Download: If you need additional copies of Organizers or Worksheets for family members please go to our website at www.shoemakecpa.com to download a pdf copy or phone us to mail you copies.

Please Bring Originals Documents

Tax Organizer/Deduction Worksheets W-2 and 1099(s) Per Diem Statements/Bank Statements 1099INT/Mutual Fund & Brokerage Statements 1099B/ Pension-IRA/ Withdrawal 1099RW/ Church donation statements Mortgage statements/ Property tax statements/ Year-end pay stubs/ K-1 schedule(s) Part/Estates/Trusts

No Need to Copy Your Documents – Please Bring Originals To Be Scanned

Signatures/Electronic Filing

Before we can electronically file your tax return, the IRS requires BOTH signatures on an IRS 8879 form. Unfortunately, the 8879 form is not ready to sign until your tax return is complete. You both can sign when you pickup your return or fax / mail it back to us with both signatures.

College/Working Dependents

Verify if your young adults have already filed their own tax returns, as Dependents may only be claimed on ONE tax return. We have numerous returns each year that are delayed and amended due to college age Dependents filing their own return prior to their parents. An Amendment Fee will be charged if the Dependent information is not accurate at the time of your appointment.

Kiddie Tax Changes Again!

Beginning with tax year 2008, children through age 18 and full-time students, age 19 to 23 will be subject to the Kiddie Tax Rules. However, if a child's earned income exceeds one-half of the child's support, the Kiddie Tax rules won't apply.

Deduction Worksheet List

Please take advantage of the worksheets below to aid you in all applicable deductions. You will need to provide the below applicable forms before we can finalize and complete your tax return.

Airline Flight Attendant	Installment Sale – Contract for Deed
Airline Mechanic	Massage Therapist
Airline Pilot	Moving Expenses
Artist, Performing	Medical Expenses
Artist, Visual & Designer	Medical Professional
Attorney	Non-Reimbursed Employee Expenses
Beauty & Barber	Non-Cash Contributions
Business Use of Home	Real Estate Income & Expense
Business Profit and Loss	Rental & Royalty
Clergy	Sale of Home
Construction Worker	Sales Representative
Consultant	Sale of Stocks, Bonds or Mutual Funds
Daycare Provider	Temporary Job
Educator & Teacher	Vehicle Mileage Record

Download worksheets www.shoemakecpa.com

Charitable Contribution Rules Tightened

Although Congress has been active in the past few years enacting laws to curtail overstated and unverified contributions, the tax code still contains incentives to encourage contributions to approved charitable organizations. However, your tax deductions must be itemized in order to deduct charitable contributions.

Clothing & Household Items – Although there are stricter rules, the fair market value of used clothing and household items donated to a qualified charity can still be deducted, provided the items are in good condition. Make sure you get written documentation from the organization verifying the contribution.

Auto Donations – Although severely curtailed, a vehicle may still be contributed to charity, but the deduction is limited to what the charity actually obtains from the sale of the vehicle if the claimed value is in excess of $500. IRS Form 1098-C (or equivalent substitute statement) must be attached to your return showing what the charity received for the vehicle. However, if the charity actually keeps and uses the vehicle in its charitable function, or sells it at a low price to a needy family, you may be able to deduct the FMV of the vehicle.

Recordkeeping for Cash Donations – Beginning for the 2007 tax year, regardless of the amount of money contributed, the contribution must be backed up with either a bank record or written communication from the donee organization showing the (1) name of the donee organization, (2) date of the contribution, and (3) amount of the contribution. The recordkeeping requirements may not be satisfied by maintaining other written records. What this means is that unless the charitable organization provides a written communication, cash donations put into a "Christmas kettle," church collection plate, and pass-the-hat collections at youth sporting events will not be deductible. Donations by checks and debit or credit cards can be substantiated by bank records.

Tax Preparation Fee

The fee for your tax preparation is due upon completion and prior to E-filing or receiving your return. We accept personal or business checks, cash and all major credit cards. The tax preparation fee does not include auditing, review, or any other verification.

Extensions

If you want us to file an extension on your behalf please mail, email or fax us your request to do so listing your current address and phone number.

Making Changes After Your Taxes Are Completed

If you have additional information to be included in your tax return after we have finished your taxes, we can amend your tax return. There is an additional fee to do this as we must input the changes, reprint and reprocess your Tax Return. Amended return fees begin at $125. .

Property Tax Refund

If you think you are eligible for Minnesota refunds bring your Property Tax or CRP statements to your tax meeting and we can determine if you qualify. These are not part of your State or Federal tax returns.
There is an additional fee to process these forms, $25 if processed with your tax return and $50 if we receive your Property Tax or CRP statements AFTER your tax return is finished. Minnesota will mail your refund to you sometime after September 15th.

Congress Finally Passes AMT Patch for 2007

Just prior to breaking for the holidays, the House and the Senate finally passed a one-year AMT patch by increasing the AMT exemption amounts, thereby avoiding a huge tax increase for many taxpayers. The legislation also allows certain personal tax credits to be deducted for one more year.

Congress created the AMT in 1969 in response to concerns that very wealthy families were avoiding taxes by claiming extensive deductions. Congress was attempting to see to it that high-income taxpayers would pay at least a minimum tax. About 2,000 taxpayers were affected in that first year. The tax was not indexed for inflation, so as income increased, the number of taxpayers affected has slowly increased. In 2006, approximately 4 million taxpayers were affected by the AMT.

Congress has enacted several temporary fixes to the AMT in recent years to spare the middle-income taxpayers from this tax. They did this by increasing the AMT exemption. If this temporary patch had not been made for 2007, it is estimated that as many as 23 million taxpayers would have been affected by the AMT next year.

2007 AMT Exemption Amounts – "before phase-out"

- ✓ Unmarried Taxpayers - $44,350 "would have been $33,700"
- ✓ Married Filing Jointly - $66,250 "would have been $45,000"
- ✓ Married Filing Separately - $33,125 "would have been $22,500"

Reporting Sale of Stocks or Mutual Funds

Sale of stock or mutual funds is shown on page (3) of your Tax Organizer. It is essential that you have the necessary information to report the sale including the:

- ✓ Dates you purchased and sold it;
- ✓ Prices per share when you purchased and sold it;
- ✓ Number of shares sold

Please contact your broker if you do not have this information, as your taxes cannot be completed without it.

Mortgage Insurance Premiums

Beginning in 2007, premium paid for qualified mortgage insurance in connection with acquisition indebtedness on a qualified residence is treated as deductible mortgage interest. To be deductible, the premiums must have been paid in connection with acquisition debt for a mortgage insurance contract issued after Dec. 31, 2006. It must be for a qualified residence (first and second homes) and the premiums must have been paid or accrued after Dec. 31, 2006 and before Jan. 1, 2011.

The deductible amount of the premiums phases out ratably by 10% for each $1,000 (or fraction thereof) by which the taxpayer's AGI exceeds $100,000.

Qualified mortgage insurance means mortgage insurance provided by the VA, FHA, RHA and private mortgage insurance. Prepaid premiums for mortgage insurance, other than that provided by the VA or RHA, are not fully deductible in 2007 but must be amortized over the period to which they apply. The unamortized balance is not deductible if the mortgage is paid off before the end of its term.

Plan Now for 2010 Roth Conversions

Beginning in 2010, under the newly-enacted legislation, the income and marital status restrictions that limit the ability of a taxpayer to convert a traditional IRA to a Roth IRA have been removed, leading to interesting and advantageous tax and estate planning strategies. Under prior law, an individual was allowed to convert a traditional IRA into a Roth IRA if the taxpayer's adjusted gross income for the year was $100,000 or less. Beginning in 2010, the new legislation eliminates the $100,000 modified AGI limit on conversions of traditional IRAs to Roth IRAs, and permits married taxpayers filing a separate return to convert amounts in a traditional IRA into a Roth IRA.

Phone Appointment & Taxes-by-Mail

Many of our tax clients prefer phone appointments. We schedule phone appointments between 7:00 – 9:00am CST. 48 hours prior to your tax appointment please provide us with your paperwork.

We also currently service a large number of clients with Taxes-by-Mail. If you have recently moved or prefer not to schedule an office appointment we are happy to accommodate your needs. Mail us your tax information as indicated above and we will process your return without an office appointment. (Please make sure you include a phone number and email address for questions.)

In both cases you must have a completed Tax Organizer and Worksheets with signatures before we can proceed to process your tax returns.

Hybrid Vehicle Credit Update

The Internal Revenue Service has acknowledged the certification by Nissan North America, Inc. that its' 2008 Nissan Altima Hybrid vehicle meets the requirements of the Alternative Motor Vehicle Credit as a qualified hybrid motor vehicle. The credit amount for the hybrid vehicle certification of the 2008 Nissan Altima Hybrid is $2,350.

The credit for new qualified hybrid passenger automobiles or light trucks manufactured by Honda will begin to phase out on Jan. 1, 2008. For Honda hybrid vehicles bought on or after Jan. 1, 2008, and on or before June 30, 2007, the credit is 50% of the otherwise allowable credit amount. Taxpayers buying vehicles on or after July 1, 2008, and on or before Dec. 31, 2008, can only get 25% of the credit.

2007 Inflation Adjustments

Every year, many of the various tax limitations, deductions and allowances are adjusted due to inflation. The following are the more commonly-encountered values that apply to 2007:

- Personal & dependent exemption amount; $3,400
- Standard deduction: Joint Filers; $10,700, Single Filers; $5,350, Head of Household Filers; $7,850
- IRA contribution limit; $4000 ($5,000 if age 50 or over)
- IRA deduction phase-out AGI threshold; $52,000 for Single filers, $83,000 for Joint filers
- Spousal IRA deduction AGI phase out threshold; $156,000
- 401k and 403b plan contribution limit $15,500 ($20,500 if age 50 or over)
- Simple plan contribution limit $10,500 ($13,000 if age 50 or over)
- Maximum earnings subject to Social Security tax; $97,500
- Standard mileage rate business; 48.5 cents, medical/moving 20 cents, charitable 14 cents

Airline Crew Per Diem

We strongly recommend using the service of Pro-diem Inc. to calculate your travel expenses, especially if you have international travel. They will provide you a better return for your travel expenses. Go to www.pro-diem.com or phone them at 888-776-3436. This service has a nominal fee and will more than make up this expense which is tax deductible. Please take advantage of this service and benefit by maximizing allowable deductions that you are due.

Capital Gains Deal Extended Through 2010

Originally set to expire after 2008, the capital gains rates have been extended through 2010. In addition, the "zero" tax rates now apply to 2008 through 2010 instead of just 2008. As part of the 2003 tax package, Congress reduced the preferential tax rates on capital gains from 10% and 20% to 5% and 15% respectively, with the lower rates applying to taxpayers in the 15% and under tax brackets. The 5% rate will drop to 0%, beginning in 2008. These lower rates apply to both the regular tax and alternative minimum tax (AMT).

Capital gains rates apply to profits from the sale or exchange of capital assets held longer than one year or that have been inherited. Capital assets include corporate stocks, bonds, unimproved real property, rental property and taxable gain from the sale of a home. They do not apply to the portion of gain attributable to depreciation, which is generally taxed at a higher rate.

With the long-term capital gains rates dropping to zero in 2008, and continuing through 2010, there is no tax on your long-term capital gains to the extent your regular tax rate is less than 25%. Depending on your situation, it may be appropriate to put off some of your sales that will result in gains until 2008. Remember the gain itself adds to your income, impacts income-based limitations, and possibly pushes you into a higher regular tax bracket, so it is a balancing act to take advantage of this zero rate. Of course, you can also use losses to offset the gains, and contrary to conventional strategy, you should only have enough losses to keep the gain within the zero tax rate.

The taxation of "qualified" dividends at long-term capital gains rates is also extended through 2010.

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