

UPDATE

2007 TAX SUPPLEMENT

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Alternative Minimum Tax: The Tax Increase Prevention Act of 2007 (H.R. 3996) was signed into law in December 2007. The Act amends Internal Revenue Section 55(d) by changing the 2007 Alternative Minimum Tax exemption amounts to the following: \$66,250 (was scheduled to be \$45,000) for married taxpayers (filing jointly) and surviving spouses; \$44,350 (was scheduled to be \$33,750) for single or head of household taxpayers; and, \$33,125 (was scheduled to be \$22,500) for married taxpayers (filing separately). The law applies to taxable years beginning after 31 December 2006.

Compensated Work Therapy: The IRS has agreed with a U.S. Tax Court ruling that

payments under the Department of Veterans Affairs (VA) Compensated Work Therapy (CWT) program are: (1) not taxable; and, (2) disabled veterans who paid tax on these benefits in 2004, 2005, or 2006 may claim a tax refund. Disabled veterans who paid tax on these benefits in 2004, 2005, or 2006 can claim a refund by filing an amended return using IRS Form 1040X.

Mortgage Forgiveness Debt Relief: On 20 October 2007, President Bush signed into law the Mortgage Forgiveness Debt Relief Act of 2007 (H.R. 3648). The law amends IRC § 108(a) to exclude from a taxpayer's gross income all amounts attributable to a discharge of acquisition indebtedness

incurred to acquire a principal residence prior to 1 January 2010. The excluded amount will reduce (but not below zero) the taxpayer's basis in their principal residence and is limited to \$2,000,000 (\$1,000,000 for a single taxpayer). The gross income exclusion will not apply to: (1) gain allocable to a nonqualified use of the residence (not a principal residence); (2) the discharge of a loan on account of services performed for the lender; (3) any factor not directly related to a decline in the value of the personal residence; or (4) any factor not directly related to the financial condition of the taxpayer. The law only applies to discharges of indebtedness on or after 1 January 2007. ↕