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PERSONAL FINANCE

Don't wait until tax time to trim your 2007 bill

Some purchases and types of giving offer advantages that will disappear with the year.

By Kathy M. Kristof
Times Staff Writer

Want to save on your 2007 taxes? Quick, buy a water heater!

At this time of year tax experts usually suggest a few moves that, if you make them by New Year's Eve, will save you some money when you file your '07 tax return. But this year's recommendations are a little quirky, thanks to a passel of recent and pending changes in the tax law.

"The tax code has gotten really wacky," said **Barbara Kogen, a Beverly Hills tax accountant.** "You get all these little short-term provisions, and you have to be on top of them."

For instance, a 2005 law designed to promote energy conservation ushered in a half-dozen tax credits for buying energy-efficient materials and equipment for your household. But the law authorized these credits for only two years, which means they expire when the ball drops on 2007.

Consequently, if you're planning to buy a new air conditioner or water heater, waiting until January could cost you as much as \$300 in tax credits. A tax credit is particularly valuable because it reduces your tax by the amount of the credit. A deduction is less valuable because it just reduces that amount of income that's subject to tax.

Do you need to act fast to take advantage of tax breaks that might expire at the stroke of midnight Dec. 31? If you're a homeowner, teacher or generous retiree or have kids in college, you just might. Here's a look at what's expiring and what some experts suggest you do about it.

Energy Credits

If you're making improvements to your home to boost energy efficiency, you may qualify for one or more tax credits. Specifically, you can get:

- Up to \$500 for adding insulation materials, new doors or roofs with pigmented coating.
- Up to \$200 for replacing exterior windows and skylights.
- \$300 for buying a qualifying water heater or heat pump.
- \$300 for buying a qualifying air conditioner.
- \$150 for buying a qualifying furnace or boiler.
- \$50 for adding a qualifying furnace fan.

A vendor should know whether its product qualifies for the credit. But don't buy anything you wouldn't get otherwise.

"It has to make economic sense," Kogen said. "The tax tail shouldn't wag the dog."

Educator Expenses

This deduction is aimed at defraying the costs that teachers incur by spending their own money to equip their classrooms. It allows educators to deduct as much as \$250 spent this year. The break is slated to expire in 2008. So teachers who were planning

to buy something for their classrooms in the future might want to move it up to this year.

Hybrid Vehicle Credits

One of the most complex tax breaks ever written applies to hybrid vehicles. It's based on the vehicle's estimated fuel savings over its lifetime compared with an index, which means the credit varies by make, model and year. In addition, after a manufacturer sells 60,000 cars eligible for the credit, the value of the credit ratchets down and then expires completely after a year.

That means you can't get a tax credit at all for buying a hybrid Toyota because too many people popped for Priuses in previous years. And you have only a few weeks to get a full credit for buying a Honda hybrid. For example, if you buy a Honda Accord Hybrid AT this month, you get a \$1,300 credit on your 2007 return. Buy it in January and the credit drops to \$650. Buy in July and the credit is worth just \$325. In 2009, the credit is gone.

But if you've got your eye on a Chevy, Mercury, Nissan, Mazda or Ford hybrid, you have time. The phase-out hasn't hit these manufacturers yet.

The Expanding Childhood

The government has been tinkering with the so-called kiddie tax too. It used to be that any child younger than 14 who had more than a certain amount of investment income would have to pay taxes at his or her parents' higher rates. But the kiddie tax age is moving up. For your 2007 taxes, you need to worry about potential kiddie taxes for any children who are younger than 18.

In 2008, your college student is going to be at risk too.

The advice from the experts: If you are giving your college student money for school, you might want to give him or her appreciated long-term stock holdings now so he or she can sell them before the end of the month. Why? The child would get the benefit of his or her capital gains rate, which is likely to be 5%, this year. In January, the gain would be taxed at your 15% rate.

Donated IRA Funds

Another funky break that expires New Year's Eve allows those who are age 70 1/2 to donate as much as \$100,000 directly from an individual retirement account to a public charity. The donation itself isn't tax deductible when made this way, but the withdrawal from the IRA isn't taxable the way it normally would be.

Deductible tuition

The deduction for higher education expenses also expires at year-end, although it's popular enough that there's serious talk that Congress still might extend the tax break, said Mark Luscombe, principal tax analyst with CCH Inc., a Riverwoods, Ill., tax research and information firm.

Until that extension comes through, you might want to pay for any eligible spring 2008 tuition by the end of 2007.

Individual taxpayers who earn less than \$65,000, and couples who earn less than \$130,000, can deduct as much as \$4,000 in qualified tuition and related expenses paid for the taxpayer — or the taxpayer's spouse or dependents.

The maximum deduction starts phasing out after those income thresholds are exceeded. Partial deductions are available to individuals with income up to \$80,000 and couples with income up to \$160,000.

Pass The Kettle

Warning: A change in the tax law makes it more difficult to deduct charitable contributions made in cash. Unless you get a receipt, you aren't allowed to deduct the \$20 bill you gave a sidewalk Christmas bell ringer.

"Unless they hand you a receipt, you might want to pass by the kettles this holiday season," Luscombe said. "Or just write them a check."

Nix Some Age-Old Advice

What about prepaying property and state income taxes or making an extra mortgage payment this year? That's the sort of year-end advice you might have gotten in years past, but few experts suggest it now. The reason: The alternative minimum tax, which hits people who would have relatively high tax bills if not for certain types of tax-

saving moves, could apply to far more people in 2007.

Congress has talked about a temporary fix that would save 20 million Americans from the tax, but hasn't passed such a measure yet because legislators don't want to boost the federal deficit.

As a result, Kogen isn't telling clients to act this year to avoid the alternative minimum tax.

"You just don't know whether you're going to trigger the AMT," she said.