



pay very little ordinary tax. Inflation has caused many middle class individuals to now have AMT liabilities. In prior years, Congress had passed a temporary "patch" to reduce the number of people subject to AMT. No new "patch" has yet been passed for 2007, so many more people may be subject to the AMT in 2007.

**Twenty provisions are set to expire on December 31, 2007. Some of the more popular include:**

- Credit for certain non-business energy property
- Tax credit for research and experimentation expenses
- Deduction for certain expenses of elementary and secondary school teachers



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- Deduction of state and local general sales taxes
- 15 year depreciation for qualified leasehold and restaurant improvements
- Deduction for qualified tuition and related expenses
- IRA tax free distributions to charities

**Four provisions are set to expire on December 31, 2008, including:**

- Credit for residential energy efficient property
- Credit for construction of new energy efficient homes

#### California Wildfires

Effective October 21, 2007, Federal and California tax assistance may be available for taxpayers in the Presidential Disaster Areas of Los Angeles, Orange, Riverside, San Bernardino, San Diego, Ventura, and Santa Barbara counties. This assistance may include extensions of time to file returns, pay taxes, or complete certain transactions, such as tax deferred "1031" exchanges.

#### California Environmental Fee

The California Environmental Fee has been expanded to include many more employers. If you have 50 or more employees, you may now be subject to this tax.

#### Other Noteworthy Items

- Traditional and Roth IRA contribution limits increase: 2007: \$4,000. 2008: \$5,000. Taxpayers 50 and older add \$1,000 both years.
- Traditional and Roth 401(k) employee contribution limits remain the same: 2007 and 2008: \$15,500. Taxpayers 50 and older "catch-up" remains at \$5,000.
- Gift tax annual exclusion remains the same: 2007 and 2008: \$12,000. Lifetime exemption remains at \$1,000,000 both years.
- Estate tax exemption remains at \$2,000,000 for 2007 and 2008.
- Business mileage reimbursement rate increases: 2007: 48.5 cents per mile. 2008: 50.5 cents per mile.
- California, in addition to not conforming to several Federal tax provisions, will require Registered Domestic Partners to file "married" returns for 2007. This filing will be complicated because the Federal government does not allow "married" returns in these situations.

In a flash back to last year, Congress may yet change the tax law. The constant changes, complexities and uncertainty in the tax law make proper tax planning essential. Please do not hesitate to call us if you would like more information about how the changing tax laws affect you or your business.

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*The matters highlighted in this newsletter are presented in general terms and cannot be applied without consideration of all circumstances. NSBN will provide additional details upon request and will be pleased to discuss with our clients or their attorneys the possible effects of these matters in specific situations.*

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## Tax Law Update

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Tax law changes are as inevitable as the taxes themselves. 2007 is no exception to that rule. Although only one major tax act has so far been signed into law in 2007, many taxpayers are confused and frustrated by the numerous additional complexities created by prior tax provisions. Pending tax law changes also add an element of uncertainty to any tax planning for 2007, 2008 and beyond.

Some of the more important tax provisions are among the following:

#### Small Business and Work Opportunity Tax Act of 2007

The age at which a child may have to pay the "kiddie tax", under which a child's income may be taxed at the parents' tax rate, increases from under age 18 in 2007 to under age 19 (or under age 24 for students) in 2008.

The "Section 179" expensing limit for business property purchases increases to \$125,000 in 2007 and \$128,000 in 2008. California does not conform to the Act, so adjustments may be needed on the California tax returns.

#### Expiring Tax Provisions

The Alternative Minimum Tax, or AMT, was designed to be an additional tax on wealthy individuals who