

TAX SAVING TIPS FOR 2007

Opening Slide 1:

TAX SAVING TIPS FOR 2007

In order to excel at most things in life, you need to practice consistently. Practice makes perfect. The same philosophy holds true for managing your taxes.

If you only think about taxes when April 15th rolls around, you're not going to be very successful at managing your tax bill. To minimize your taxes, you need to know the rules of the game and take advantage of year-round tax-planning opportunities.

The good news is that it's not too late. In the next hour or so, I will give you information on tax law changes and tips that will help you prepare your tax return and may help minimize your 2007 tax bill.

Slide 2: Recent Tax Law Changes

Let's get started. Over the past few years, Congress has tinkered with the tax code, reducing tax rates, adding new credits and increasing phase-out limits. In 2006, numerous new provisions were introduced in areas including retirement plans, the "kiddie tax" and charitable giving. These changes may affect your 2007 return.

I'm going to begin by giving you an overview of these tax changes. Once we cover the new information, we'll move on to the basics of filing and the major categories for tax planning.

Slide 3: Retirement Provisions Made Permanent

The Pension Protection Act of 2006 made permanent some retirement savings incentives that were scheduled to expire after 2010. For example, increased contribution limits to Individual Retirement Accounts, or IRAs, would have reverted to their 2001 level and the ability to make catch-up contributions as you near retirement would have ended.

The Pension Protection Act also made the Retirement Saver's Credit permanent. This credit, worth up to \$1,000, is an incentive for taxpayers with modest incomes to save for retirement. The Retirement Saver's Credit had been set to expire December 31, 2006.

Slide 4: Charitable Giving

In 2007, taxpayers age 70½ and over may donate up to \$100,000 per taxpayer to charitable organizations directly from their IRAs without triggering income tax on the distribution. No charitable deduction can be claimed on these distributions. Since the IRA distribution is not included as taxable income, your adjusted gross income, or AGI, is reduced. Lowering AGI may result in a smaller tax bill on Social Security benefits and may open up other tax breaks that are tied to AGI. This provision is also beneficial to taxpayers who don't itemize their deductions because they can't deduct charitable donations on their returns. Keep in mind that this provision will expire after 2007.

The rules for deducting monetary charitable contributions have been tightened beginning in 2007, donors must have documentation of a monetary gift of any amount in order to take the deduction. Cancelled checks, credit card statements or receipts from the charity will satisfy this documentation requirement.

Rules have also changed on the donation of clothing or other household goods. In order to get a deduction for such gifts, they must be in “good” used condition or better. Since no criteria have been released on determining what “good” means, be sure to get a receipt from the charity and take pictures of the items to substantiate their condition. An exception to this rule exists for donating a single item appraised at more than \$500. In that case, you can take a deduction if you include a qualified appraisal with your tax return.

Slide 5: 529 Plan Benefits Made Permanent

529 Plans give parents and other family members a tax-advantaged way to save for college expenses. While there is no tax deduction available on contributions to the plan, the money in the plan grows tax-free and no tax is due on withdrawals if the distribution is used to pay for qualified higher education expenses. Before the Pension Protection Act of 2006, the tax-free withdrawal provision of 529 Plans was set to expire at the end of 2010. Parents who opened 529 Plans for young children before 2006 can rest assured that tax-free distributions from 529 Plans are now a permanent part of the tax code.

Slide 6: Changing “Kiddie Tax” Rules

Parents may transfer income-producing investments to a child to benefit from the child’s lower rate. Under “kiddie tax” rules, a child who can be claimed as a dependent is not taxed on \$850 or less of gross income, with the second \$850 of investment income taxed at the child’s rate. Any investment income over \$1,700, however, is taxed at the parent’s highest marginal tax rate. For 2007, the “kiddie tax” applies only if your child was under age 18 on January 1, 2008. [The age at which all unearned income over the threshold amount would be taxed at the parent’s rate used to be under age 14.] Beginning in 2008, the “kiddie tax” will apply to many children under age 24.

Slide 7: IRA Conversions – Now and in the Future

Taxpayers with AGIs of \$100,000 or less can convert traditional IRAs to Roth IRAs and pay the income tax on the portion of the IRA that was funded with pre-tax dollars.

However, starting in 2010, all taxpayers, regardless of income, may convert regular IRAs to Roths. What’s more, taxpayers choosing this option in 2010 can elect to spread the recognition of this IRA income over the next two years -- 2011 and 2012. Once the conversion is complete, funds in the Roth IRA will grow on a tax-deferred basis and withdrawals may be tax-free as well.

Slide 8: Tax Breaks for Energy Efficiency

Being kind to the environment might get you a tax credit for 2007. Keep in mind that a credit is more valuable than a deduction because it reduces your tax bill dollar for dollar.

If you purchased a hybrid or alternative fuel vehicle in 2007, you may be eligible for a credit. Be sure to check with the IRS for a list of qualified vehicles and allowable credits.

Uncle Sam might also give you a break if you made energy-efficient improvements to your home. If you installed new exterior windows, skylights, outside doors, high-efficiency furnaces, central air conditioning or insulated walls or ceilings in 2007, you may qualify for a credit of up to \$500. An additional credit of up to \$2,000 is available on the purchase of qualified solar panels or solar water heating systems put into use in 2007. This credit is available for principal residences as well as second homes. The residential energy credits are claimed on Form 5695.

Slide 9: Temporarily Extended Tax Breaks

For 2007 only, you have the option to deduct sales taxes on your return rather than state and local taxes, an attractive alternative for those who live in states with low or no state income tax. The deduction for higher education expenses is worth up to \$4,000 for 2007. Any teachers in the classroom will be happy to learn that the out-of-pocket classroom expense deduction was also reinstated. For 2007, the deduction is worth up to \$250. Keep in mind, these tax breaks will expire after 2007 without further action from Congress.

Now I'd like to draw your attention to some tax filing basics.

Slide 10: FILING BASICS

Before you begin your tax return, it helps to get organized and have a well thought out plan. We'll start by taking a quick look at the basics, beginning with determining your filing status.

Many people think that the amount of income tax they pay is determined by the amount of their taxable income. The truth is that people with exactly the same amount of taxable income can end up with different tax bills, depending on their filing status. Each filing status has its own tax brackets, and your filing status also affects how other tax rules, such as the standard deduction, IRA contribution limits, and tax credits and deductions, apply to you.

Slide 11: Filing Status

There are five categories of filing status: married filing jointly; married filing separately; single; head of household and qualifying widow(er). The primary factor impacting your filing status is whether you are married or not. If you are married, you and your spouse must decide whether to file jointly or separately. In most cases, you'll pay lower taxes if you file jointly and you can take advantage of tax credits and benefits that aren't available to couples who file separately.

Separate returns can be advantageous in some situations, such as when one spouse has high unreimbursed medical expenses or many miscellaneous itemized deductions. In some cases, you may be able to deduct a higher percentage of these expenses by filing

separately. The only way to be sure is to compute your taxes both ways. You should also give serious thought to filing separately if you suspect your spouse of tax fraud.

If you are not married, you can use the single filing status or the head-of-household filing status. Heads of household pay a significantly lower tax rate than singles, but to qualify, you must meet the requirement for supporting at least one other dependent.

If you are a qualifying widow(er), you may use the joint tax rates for two years following the year of death of your spouse, as long as (1) you have a qualifying dependent, (2) you provide more than half the cost of keeping up a home for you and your dependent and (3) you did not remarry.

Slide 12: 2007 Tax Rates

The tax rates remain the same as last year. The six tax brackets are 10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent. The tax rates are scheduled to remain the same until 2011, when the higher pre-2001 tax rates will return.

Slide 13: Standard Deduction

Now let's talk about the standard deduction, the basic deduction all taxpayers can take. Every year, the Internal Revenue Service adjusts the standard deduction to account for inflation. For 2007, the standard deduction is \$5,350 for single filers or married couples filing separately. The standard deduction jumps to \$10,700 for married couples filing

jointly and for qualifying widow(er)s, and to \$7,850 for head-of-household filers. The standard deduction is higher for blind taxpayers and those age 65 or older.

Slide 14: Standard Deduction

Taxpayers 65 and older and/or blind get an additional standard deduction amount that is added to the standard deduction. The slide indicates the amounts.

- Married (filing jointly or separately) - \$1,050
- Single or head of household - \$1,300

An individual who is both over 65 and blind may take two additional standard deductions. Married taxpayers filing jointly, both of whom are over age 65 and blind, would be able to claim four additional standard deduction amounts.

Slide 15: Itemizing Deductions

An alternative to claiming the standard deduction is itemizing your deductions. To determine the best strategy for you, total all of your deductions. If your total itemized deductions are greater than the standard deduction, by all means, itemize. It will save you money. High income taxpayers need to know that their allowable itemized deductions may be reduced if Adjusted Gross Income, or AGI, is over \$156,400 for single, head of household, and married taxpayers filing jointly, or \$78,200 for married couples filing separately. Once AGI reaches these levels, itemized deductions are reduced.

The good news is that the deduction limit is being phased out so the amount you will lose is less than last year. For years beginning after 2009, the itemized deduction limit will be fully repealed.

Here's another tip: If you find you're getting close to exceeding the standard deduction limit, try bunching your tax breaks every other year. This allows you to claim the standard deduction one year, but itemize the next. For example, instead of writing a \$500 check every December to your favorite charity, write one \$1,000 check every other year.

Slide 16: Personal Exemption

In addition to the standard or itemized deductions, you can also subtract personal exemptions from your adjusted gross income to arrive at taxable income. In addition to personal exemptions for you and your spouse, you can claim a personal exemption for each dependent. The amount you can deduct for each exemption increases from \$3,300 in 2006 to \$3,400 in 2007. However, you will lose part of the benefit of your exemptions if your AGI is above a certain amount. For 2007, if your adjusted gross income exceeds the maximum phase-out amount, your exemption amount is \$1,133. As this slide shows, the amount at which the phase-out begins depends on your filing status. Again, this exemption reduction is being phased out. In 2010, there will be no phase-out of exemptions.

TIMING STRATEGIES

Slide 17: Timing Strategies

Timing is critical for taxpayers.

One of the easiest ways to lower your tax bill is to defer income into the next year and accelerate deductions into the current year. This is a good strategy if you expect your taxable income to be about the same or lower next year. So for example, if you're an employee and expecting a bonus, you might try to convince your boss to defer payment until January, 2008. To postpone investment income, think about investing in certificates of deposit and Treasury bills that don't mature until next year.

Deferring income is easier for self-employed business owners using cash basis accounting. Simply delay your year-end billing so that payments won't reach you until after the first of the year.

The flip side of deferring income is accelerating deductions, and there are a number of ways you can do this. Make charitable contributions or estimated state income tax payments in December instead of January. Pay your January mortgage bill in December and you increase your mortgage interest deduction for 2007. You can also pay your first quarter 2008 property taxes on or before December 31 and claim a deduction for the current year.

Deferring income and accelerating deductions generally are excellent strategies, but you need to take your personal circumstances into consideration. If you think your tax rate will be higher next year, perhaps because you expect a raise or your spouse plans to

return to work, reversing this strategy may be more appropriate. Also be aware that accelerating deductions too aggressively could subject you to the Alternative Minimum Tax, which I'll cover in more detail later on. You should consult with a CPA if you think you might be affected.

Another timing strategy calls for bunching deductions. Some deductions are allowed only to the extent they exceed a minimum amount tied to your adjusted gross income. Only those unreimbursed medical expenses, for example, in excess of 7.5 percent of your adjusted gross income are eligible for a deduction. Similarly, only miscellaneous deductions, such as unreimbursed employee business expenses, that surpass 2 percent of your AGI can be claimed as a deduction. If you're close to these limits, think about bunching as many deductible costs as you can into this tax year.

MOVING AHEAD

Slide 18: Tax Strategies for Life

Now that we have the basics behind us, it's time to get started. As we move forward, I'm going to group my comments in several categories we can all relate to – family, education, home, investments and retirement. Then for those of you who are small business owners, we'll cover some strategies you can use to lower your business tax bill. And we'll wrap things up with a few tips that will give you a jump start on preparing your tax return.

Slide 19: Family Strategies

Let's start with some tax breaks you may be eligible for if you are raising a family. You parents out there want to be sure to take advantage of every tax-saving opportunity available to you – the child credit, the adoption credit, the dependent care credit and the earned income credit. And as I said earlier, a credit is the best tax break you can get. Deductions reduce the amount of taxable income on which you must pay taxes, but tax credits reduce, dollar for dollar, the taxes you actually owe.

Slide 20: Family Strategies: Child Credit

For 2007, the child credit is worth \$1,000 for each qualifying child who is under age 17 at the end of the calendar year and who qualifies as a dependent. That means if you have three children, the child credit can potentially cut your tax bill by \$3,000. Keep in mind that the \$1,000 credit remains in effect through 2010 when it will decrease to \$500 per qualifying child. So if your children are younger, you may qualify for the \$1,000 credit for several more years – unless your income exceeds the phase-out levels.

For 2007, the child credit begins to phase out when modified AGI reaches \$110,000 for married couples filing jointly, \$55,000 for married taxpayers filing separately, and \$75,000 for single filers, heads of households, and qualified widow(er)s. The credit is reduced by \$50 for each \$1,000, or fraction thereof, of AGI above these thresholds.

Slide 21: Family Strategies: Adoption Credit

There is good news for people who are planning to adopt a child. Two tax benefits offset the escalating expenses of adopting an eligible child. In 2007, the maximum adoption

credit is \$11,390. Parents who work for companies with an adoption assistance program can receive up to an \$11,390 reimbursement from their employer for adoption expenses without paying taxes on that benefit. This benefit phases out for modified AGIs above \$170,820 and is eliminated when modified AGI exceeds \$210,820. When you adopt a child with special needs, you are allowed to claim these benefits regardless of actual expenses paid or incurred in the year the adoption becomes final.

Slide 22: Family Strategies: Dependent Care Credit

Working parents know how expensive child care can be. So does Uncle Sam. The dependent care tax credit aims to ease some of the burden. Basically, the credit works like this: If, in order to work, you pay someone to care for a dependent under 13 whom you also claim as a dependent, you may be eligible for a tax credit of between 20 and 35 percent of your qualifying expenses. For 2007, the dollar limit on the expenses toward which you can apply the credit percentage is \$3,000 for the care of one individual and \$6,000 for two or more. The percentage of the expenses you can take as a credit depends on your AGI. These dollar limits must be reduced by the amount of any dependent care benefits provided by your employer that you exclude from your income.

Take note that the dependent care tax break isn't restricted to child-related care costs. If you pay someone to look after an incapacitated dependent of any age or a spouse who is physically or mentally incapable of self-care, you may be eligible for this tax break.

Slide 23: Family Strategies: Earned Income Credit

There's one more credit I want to touch on. Although the earned income credit doesn't apply only to families with children, eligible low-wage taxpayers with children get the largest benefit. The earned income credit is subtracted directly from the amount of tax you owe. Even if you do not owe any tax to the IRS on your tax return, you might still get some money back.

On 2007 returns, the maximum credit can be as much as \$4,716 for workers supporting two or more qualifying children. A worker with one qualifying child can get a credit worth up to \$2,853. For an eligible worker with no children, the credit drops to \$428. The credit is phased out as AGI increases. Keep in mind also that taxpayers with investment income of more than \$2,900 are not eligible for the credit.

Slide 24: Family Strategies: Shifting Income

Now let's talk about some of the other ways parents can save on taxes. As I said earlier, shifting income to a child in a lower tax bracket was a popular strategy. With the "kiddie tax" being expanded to include kids under age 18 through 2007, it's less advantageous than it used to be. However, it may still have a place in your overall tax plan.

Remember, in 2007, a child can still earn investment income up to \$850 tax free. The next \$850 is taxed at the child's rate, which for dividends and capital gains, can be as low as 5 percent. Any investment income over \$1,700 will be taxed at your own top rate. It won't pay to shift a significant amount of income to a child under age 18, but transferring a few income-producing assets to a child might still lower your overall tax bill.

And keep in mind, shifting income to your child will also reduce the adjusted gross income on your personal return, which may mean that you'll lose less of your itemized deductions and personal exemptions. Lowering your AGI may also make you eligible for other tax benefits.

As a planning note for 2008, keep in mind that the "kiddie tax" has been expanded to include dependent children under age 19 and dependent full-time students from ages 18 to 24.

Also, be sure to consider the gift tax when shifting assets. For 2007, you can give a child, or anyone else, for that matter, up to \$12,000 without being subject to the gift tax.

If you're a sole proprietor, you can shift income by hiring your children to help in your business. In addition to providing valuable work experience for your child, this arrangement offers significant tax savings to the business. As long as the work your children do is legitimate and they receive reasonable wages, you can deduct their wages from your income and shift the money to your children in lower tax brackets. As an added bonus, if your son or daughter is under 18, you don't have to pay Social Security or Medicare taxes on the wages you pay. Because of the standard deduction, in 2007, the first \$5,350 earned by each child is not taxed. And since it's earned income, it is not subject to the "kiddie tax." The child can earn an additional \$4,000 tax deferred if the child contributes to a traditional IRA.

Slide 25: Education Strategies

Since, in most cases, education accounts for the greatest cost associated with raising kids, you'll want to listen carefully to learn all you can about the credits and deductions for education expenses. Keep in mind, however, that these education benefits are available to college students of every age.

Slide 26: Education Strategies: Tax Credits

Two popular tax credits – the Hope Credit and the Lifetime Learning Credit – can help defray education expenses for you and your children. And because they are credits, rather than deductions, they take a bigger bite out of your tax bill.

The Hope Scholarship Credit – worth up to a maximum of \$1,650 per qualifying student – can be claimed in each of the first two years of college for each student. For the 2007 tax year, this education credit is gradually reduced if your modified AGI exceeds \$47,000 for single filers and \$94,000 for joint returns. Once a single filer's AGI reaches \$57,000, the credit is eliminated. For joint filers, the cap is \$114,000.

Slide 27: Education Strategies: Tax Credits

Another credit you may qualify for is the Lifetime Learning Credit, which provides a credit of up to \$2,000 per year. As its name suggests, the Lifetime Learning Credit can be used by anyone for undergraduate, graduate and professional degree courses. It is

subject to the same phase-out rules as the Hope Scholarship Credit. You may not claim both credits for the same student's expenses for the same tax year.

Slide 28: Education Strategies: Student Loan Deduction

If you're paying off student loans, you'll be happy to know that the rules for deducting student loan interest recently became more liberal. Taxpayers can deduct up to \$2,500 of the interest paid on a student loan, regardless of how long it takes to repay the loan. And you don't have to itemize in order to take this deduction.

For the 2007 tax year, the deduction is phased out for single taxpayers with AGIs between \$55,000 and \$70,000. For married couples filing jointly, the phase-out kicks in at AGI of \$110,000 and ends at \$140,000.

Slide 29: Education Strategies: Higher Education Tuition Deduction

As I mentioned earlier, Congress reinstated the higher education tuition deduction for 2007. A deduction of \$4,000 is available to single taxpayers with AGIs lower than \$65,000 and married couples with AGIs lower than \$130,000. A \$2,000 deduction is available to single taxpayers with AGIs of \$80,000 or less and married filing jointly with AGIs of up to \$160,000 or less. And like the student loan deduction, you don't have to itemize to claim this deduction.

Keep in mind that this deduction is for higher education qualifying tuition and related expenses only, and you cannot claim the deduction and the Hope or Lifetime credits for

the same student. Be sure to take advantage of the higher education deduction this year if you can. It disappears after 2007.

HOME

Now let's turn our attention to the tax benefits of owning a home, because as a homeowner, there are many tax-saving opportunities available to you.

Slide 30: Homeowner Strategies: Deductions

In most cases, you can deduct all of the interest you pay on any loan secured by your home. Interest is deductible on up to \$1 million of home acquisition loans. These are loans used to buy, build, or substantially improve your principal residence or second home and secured by that same residence.

Interest on a home equity loan or line of credit of up to \$100,000 is also deductible. As long as the home equity loan is secured by your home, it doesn't matter how you spend the proceeds. Home improvements, college tuition, debt consolidation or an exotic vacation – it's up to you. Just be sure you have a plan to pay it back. You will need to itemize your deductions on Schedule A in order to take the mortgage interest deduction.

The IRS defines points as any extra charges paid by a home buyer at closing in order to obtain a mortgage. In effect, points are prepaid interest. Points paid to secure a loan for the purchase or improvement of a principal residence are usually fully deductible in the

year you paid them. Points paid to refinance your home mortgage must be deducted ratably over the term of the loan.

After the home mortgage interest deduction, the next most important tax break for homeowners is the deduction for real estate taxes. You can deduct the taxes paid on all your real estate. Your deduction is not limited to only two principal residences, as it is with the home mortgage interest deduction.

Slide 31: Homeowner Strategies: Selling Your Home

You're in for another valuable tax break when it's time to sell your principal residence. If you meet certain requirements, you can have a significant profit on the sale of your principal residence without having to pay tax on the gain. Here are the rules. When you sell your home, you can exclude from income up to \$250,000 in gains, \$500,000 for joint filers, provided that you have both owned and used your home as a principal residence for at least two of the five years preceding the sale. The full tax break is available only once every two years.

However, be aware that you may be eligible to claim a reduced exclusion if you were required to sell your home due to a change in place of employment, health issues or other unforeseen circumstances before meeting the two-year principal residence rule.

INVESTMENT STRATEGIES

Strategy and timing are as important as skill in investing, particularly with regard to taxes. There are a number of tax-smart investment strategies you may want to consider, especially in light of recent legislation that lowered the tax rate on dividends and capital gains.

Slide 32: Investment Strategies: Dividends

Dividend income received by an individual shareholder from a domestic or qualified foreign company is taxed at a top rate of 15 percent and at just 5 percent for taxpayers in the 10 percent and 15 percent tax brackets. For taxpayers in the 10- and 15-percent brackets, the 5-percent rate will apply through 2007 and will fall to zero for 2008 through 2010.

But be careful. To receive a dividend that qualifies for the lower tax rate, you must buy the stock at least one day before the ex-dividend date and hold that stock for at least 60 more days. The ex-dividend date is the last date on which shareholders of record are entitled to receive the upcoming dividend. Essentially, what this means is that if you owned shares for only a short time around the ex-dividend date, your dividend income will be taxed as ordinary income and not eligible for the 15 percent rate.

Here's another caveat: not all income payments that are called dividends are qualified dividends in the true "taxed at 15 percent" sense. For example, the money you earn on savings accounts, certificates of deposit and money market funds is sometimes referred to as dividends, but is really interest and is taxed as ordinary income.

You might be wondering whether you should invest more heavily in stocks that pay high dividends. The answer is yes – and no. Surely, stocks that pay a high dividend are more attractive now, but that doesn't mean they are going to perform better than stocks that don't pay dividends. And here's something else to consider. If you're holding stocks that don't pay dividends, there is no tax bill until you sell those stocks at a gain. In contrast, the tax on dividends applies in the year the dividend is paid.

In any case, you should never let tax considerations drive your investment decisions. Be sure that your overall financial objectives guide your investment strategies.

Slide 33: Investment Strategies: Capital Gains Tax

The maximum tax rate on net long-term capital gains is also 15 percent. If you're in the 10 percent or 15 percent tax bracket, your net long-term capital gains will be taxed at only 5 percent. The 5-percent rate will fall to zero for 2008 through 2010. Keep in mind that to qualify for long-term tax treatment, an asset must be held for more than one year before it is sold. The net long-term capital gains tax rate from the sales of collectibles remains at 28 percent.

Slide 34: Investment Strategies: Offset Capital Gains with Losses

When it comes to investment decisions, knowing when to make a move is critical.

This is an excellent time of year to review your portfolio and determine whether you should initiate any investment moves. You may have some gains to report on your 2007 tax return. If that's the case, consider whether it makes good investment sense to take some losses to offset capital gains. Net capital losses are fully deductible against capital gains. If your capital losses exceed your capital gains, you can deduct up to \$3,000 in net capital losses against ordinary income. That figure is \$1,500 if married filing separately. Excess losses may be carried forward to subsequent years.

Keep in mind that an investment sold at a loss need not be gone forever. If you believe it was a good long-term investment, you can buy it back. Just be sure to wait 31 days, otherwise you'll get caught up in the wash sale rule. This rule disallows losses on securities sold if substantially identical securities are bought within 30 days before or after the loss sale.

RETIREMENT

We all know that contributing to a retirement plan is a key step in working toward a secure retirement, but did you know it can lower your current income tax bill as well?

Slide 35: Retirement Strategies: Employer-Sponsored Plans

Pre-tax contributions to an employer-sponsored savings plan reduce the amount of taxable wages you report on your tax return, making qualified retirement plans an excellent way to cut your tax bill. If you have a 401(k) and you haven't arranged to contribute the maximum, try to increase your contributions before year end. This is

especially important if your employer makes matching contributions – which, in effect, represent free money.

For 2007, if you're under 50, your maximum contribution to a 401(k) plan is \$15,500. Taxpayers who are age 50 or older can make an additional “catch-up” contribution of \$5,000 in 2007.

In 2006, some employers began offering a new “Roth 401(k)” option. Employees with plans that allow this option may designate some or all of their 401(k) contributions as Roth 401(k) contributions. Although these contributions will not reduce the employees' taxable incomes, the balances grow untaxed and no income tax will be levied on qualified distributions.

Slide 36: IRAs

The top annual contribution for traditional and Roth IRAs is \$4,000 for 2007, provided you have earned income to cover the contribution. If you're age 50 or older, you can make an extra \$1,000 “catch up” contribution for 2007. In 2008, the basic IRA contribution amount will rise to \$5,000. The “catch-up” contribution limit remains unchanged at \$1,000.

Deductible contributions to a traditional IRA reduce your adjusted gross income. A full deduction to a traditional IRA is available, regardless of your income, if neither you nor your spouse is an active participant in an employer-sponsored retirement plan. If you or

your spouse participate in a retirement plan at work, your AGI may limit the IRA deduction. For joint filers, who are both active participants in employer-sponsored plans, the deduction phase-out ranges from \$83,000 to \$103,000. For single filers, the deduction phases out for incomes between \$52,000 and \$62,000; for married taxpayers filing separately, no deduction is available once income surpasses \$10,000. If you don't participate in an employer-sponsored plan, but your spouse does, the deduction for your contribution is phased out as your joint AGI rises from \$156,000 to \$166,000.

With a Roth IRA, contributions are not deductible, but investment earnings accumulate on a tax-deferred basis and may be withdrawn tax-free, as long as you meet certain requirements. Eligibility to contribute to a Roth IRA is phased out as AGI rises from \$99,000 to \$114,000 for single filers and \$156,000 to \$166,000 for joint filers, and \$0 to \$10,000 for married taxpayers filing separately.

You have until the filing deadline of April 15, 2008, to open and contribute to an IRA for 2007. But why wait? The sooner you contribute, the longer your money grows tax-deferred or tax-free.

BUSINESS STRATEGIES

I'd like to take a few minutes now to address those of you in the audience who are self-employed or small business owners.

Slide 37: Business Strategies: Structure

The structure of your business determines how your business income is taxed. If you are planning to start a business, consider your options carefully to determine whether a C Corporation, S Corporation, partnership, limited liability company or sole proprietorship is best for you. While small businesses often start out as sole proprietorships or partnerships, many owners eventually explore the transition to another entity. If you're already in business, it makes sense to periodically review your business structure to determine if it's still the best option for you.

Slide 38: Business Strategies: Expensing Deduction

Typically, when a business buys property that has a useful life of more than one year, the cost must be depreciated over the life of the asset. But under Section 179 expensing, you can immediately elect to deduct 100 percent of the cost of up to \$125,000 in new and used personal property put into service before the end of 2007. The portion of the cost not eligible for first year expensing is recovered by depreciation. The Section 179 allowance is phased out on a dollar-for-dollar basis when qualifying assets costing over \$500,000 are placed in service during 2007. Also, the expensing deduction may not exceed net income from all your active businesses.

You should also know that the cost of computer software, which previously had to be depreciated, generally over 36 months, is now eligible for the expensing deduction.

Slide 39: Additional Business Strategies

If you're self-employed, in 2007, you can deduct 100 percent of amounts paid for health insurance for yourself, your spouse and your dependents. The amount is taken as an individual deduction from gross income to arrive at AGI. You can also deduct one half of your self-employment tax. Several of the strategies we've already discussed today apply to small businesses as well. I'm referring to deferring income and accelerating expenses, and to contributing to a retirement plan. But there are several other strategies you want to be aware of.

Do you have some debts you haven't been able to collect? A business bad debt is deductible by a cash-basis taxpayer only if an actual cash loss was incurred or if the amount deducted was included as income.

Be sure to make the most of your deductible expenses. Business-related auto expenses, travel, meals and entertainment costs, and interest expenses are all deductible. Just be sure to keep good records.

FINAL YEAR-END TIPS

Before I close, I'd just like to touch on two timely year-end strategies – charitable contributions and flexible spending accounts.

Slide 40: Year-End Tips: Charitable Deductions

For most people, making charitable contributions is synonymous with writing a check. I'd like to propose that you look at some other means of sharing your good fortune.

Donating appreciated assets that qualify for the long-term capital gains treatment can actually do more to cut your tax bill. When you give appreciated long-term securities to a nonprofit, you deduct the full market value of the asset at the time of the donation and you avoid paying capital gains tax on the appreciation. Now, even though the capital gains tax is only 15 percent, zero tax beats 15 percent any day and you get the benefit of a deduction. But don't wait until the last minute. You'll need to allow time for processing these transactions.

Here's another suggestion. Clean out your closets and basements. A tax deduction is allowed for clothing and household items at fair market value as long as they are in "good" condition, as I mentioned earlier. And again, an exception to this law exists when donating a single item appraised at more than \$500, as long as a qualified appraisal is included with your tax return. In any case, be sure to ask the charity for a receipt. You may also want to take pictures of the items to substantiate that the property was in good condition. The better the documentation, the more secure your deduction.

Keep in mind, too, that volunteering to help others may also bring tax deductions. There is no deduction for the value of the services you provide to a charity, but you can deduct some costs associated with volunteering. Deductible expenses include your out-of-pocket costs for transportation, lodging and meals when you travel in connection with charitable work, as long as there is no significant element of personal pleasure or vacation. You can also take a deduction of 14 cents per mile plus parking fees and tolls or the actual vehicle operating costs related to your philanthropic driving. Other

charitable deductions include the cost of supplies such as stamps, stationery and the like that your charitable work requires.

Slide 41: Year-End Tips: Flexible Spending Accounts

This is the time of year when employees must specify how much they will contribute to their medical and child care flexible spending accounts. Flexible spending accounts are a great way to reduce your taxable income while planning for medical or child care expenses you will face in the coming year.

Once you decide how much you want to contribute, your employer deposits the money in your accounts pre-tax, so you don't pay taxes on the dollars you contribute. The major drawback to flexible spending plans is the use-it-or-lose-it feature. The IRS says any amounts unused at the end of the year can be carried over for two-and-a-half months and used to pay for expenses during that time. After that, any unused funds will be forfeited. So if you're already in a plan, check your balance. If there are still funds, you might want to schedule dental cleaning, buy a pair of prescription sunglasses or even stock up on certain over-the-counter medications, which can be paid for with flexible spending account money.

Slide 42: Year-End Tips: Avoid AMT

Finally, in addition to income tax, more and more taxpayers are finding themselves subject to the alternative minimum tax, known as the AMT. The AMT was designed years ago to ensure equitable taxes are paid by high-earning taxpayers. As the AMT is

not indexed for inflation, more and more taxpayers are finding themselves affected. Some of the items that can trigger the AMT include a higher than average number of dependency exemptions, large deductions for state and local income taxes, higher real estate taxes, high miscellaneous itemized deductions and medical expenses. Exercising incentive stock options can also subject you to this costly tax.

Slide 43: Year-End Tips: AMT Exemption Amounts

Late in 2007, Congress passed a one-year patch for AMT relief in the form of an expanded exemption. As you can see on this slide, for 2007, AMT exemption amounts are \$44,350 for single filers, \$66,250 for married taxpayers filing jointly, and \$33,125 for married taxpayers filing separately. Keep in mind that these expanded exemption amounts are in place for 2007 only and will revert to lower levels in 2008 without further Congressional action.

Unfortunately, the AMT defies most traditional tax planning strategies. Consult with your CPA for specifics on how the AMT may affect you.

CLOSING

Slide 44: Key Takeaways

I know that was a lot to cover. But, my key takeaways for you are these: One, follow the advice of your CPA and plan for tax savings year round and, two, put all your energy into a strong finish as you take advantage of year-end strategies for saving tax dollars. Keep

in mind, too, that your CPA can be a valuable partner in helping to keep your tax bill to a minimum. Thank you.