

NEWS RELEASE

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Choosing Standard Deduction Might Cut Tax Bill, AICPA Says; CPAs Offer Tax Tips about AMT and Tax Law Changes

Washington, DC (March 25, 2008) – It is conventional wisdom to itemize deductions on your tax return to save money, but sometimes that strategy is wrong, according to the American Institute of Certified Public Accountants. “Counterintuitive thinking can cut tax bills for many taxpayers,” said Tom Ochenschlager, vice president – taxation for the AICPA.

“Taxpayers often think they will pay less tax if they itemize, but they should calculate their tax bill using the standard deduction to see if that will save them more money,” Ochenschlager said. “This is especially true for taxpayers who have itemized deductions for many years.”

He cited as an example taxpayers who have paid down most of the interest on their home mortgages, which does not leave them a very large mortgage interest deduction. He said that because the standard deduction is indexed to inflation these taxpayers might save tax dollars by taking the standard deduction instead of itemizing. For 2007, the standard deduction is \$10,700 for married couples filing jointly and half that for single filers.

“If taxpayers do itemize, they should calculate whether they would save money if they took the sales tax deduction instead of the state and local income tax deduction,” Ochenschlager said. “Taxpayers who made a large purchase last year or those who have to pay the alternative minimum tax (AMT) could benefit from this strategy,” he said. “The sales tax on an expensive car, added to the sales tax allowance from the IRS sales tax table, could make a taxpayer’s total deduction greater than the state income tax deduction.” For taxpayers near the AMT threshold, he said, taking the lower deduction for either the sales tax or the state and local income tax might keep them from crossing the AMT threshold and result in a smaller tax bill.

Changes in the law that taxpayers should remember when preparing their 2007 return include the following, according to Ochsenschlager:

- New rules apply regarding income for a child under the age of 18. A child's unearned income (usually dividends and interest) in excess of \$1,700 will now be taxed at the parents' marginal tax rate. Previously, this rule applied only to children under the age of 14. Parents who have saved for college expenses could be surprised by the larger tax bite.
- Taxpayers now have to be able to show receipts and canceled checks to document all charitable deductions. It's another reason to make pledges to charitable organizations rather than making cash contributions.

Ochsenschlager said taxpayers should not overlook these credits, deductions and details when calculating their taxes:

- Claim as much as \$500 for the energy credit if you made eligible improvements to your home last year. Eligible improvements include insulation, replacement windows and certain energy-efficient furnaces and air conditioners. The company that installed the items can help taxpayers determine if their changes qualify.
- Reduce your taxes by contributing to an Individual Retirement Account by April 15, if you are eligible. Generally taxpayers can deduct up to \$4,000 (\$5,000 for those 50 or older last year), if they were not eligible to participate in a retirement plan at work. Taxpayers who did participate in a retirement plan at work can still make contributions to an IRA, but the deduction begins to phase out at adjusted gross income over \$52,000 for single taxpayers and at adjusted gross income over \$83,000 for married taxpayers filing jointly. The same level of contributions (\$4,000 or \$5,000 if you are at least age 50) can be made to a Roth IRA regardless of whether you are a participant in your employer's qualified plan. The ability to make these contributions begins to phase out as your adjusted gross income exceeds \$156,000 (for joint returns) or \$99,000 for singles. There is no deduction available for contributions to the Roth IRA; however, qualified distributions from the Roth IRA, such as those beginning after age 55 ½, are tax free.
- Make sure you didn't overpay the Social Security tax you owed if you changed jobs and you earned more than \$97,500 in 2007. If your employers over withheld your Social Security tax, you can claim a credit for the excess amount on IRS Form 1040.
- Don't forget to take carryovers from your 2006 return. For example, capital losses or charitable contributions greater than what could be used on the 2006 return can be carried over and deducted on the 2007 return.

- Double-check to be sure your children's Social Security numbers are accurate in order to get the dependent exemption, which translates into a \$3,400 deduction for each qualifying child. The Social Security numbers must be listed at the top of the front page of the tax return.
- File your return electronically and then have the IRS deposit the refund directly to your bank account to get the refund quickly, sometimes within 10 days. Taxpayers can download the electronic filing software from the IRS website (www.irs.gov). Remember to sign the electronic return.

The American Institute of Certified Public Accountants (www.aicpa.org) is the national, professional association of CPAs, with more than 350,000 members, including CPAs in business and industry, public practice, government, and education; student affiliates; and international associates. It sets ethical standards for the profession and U.S. auditing standards for audits of private companies; federal, state and local governments; and non-profit organizations. It develops and grades the Uniform CPA Examination.

The AICPA is the sponsor of a national public-education effort called 360 Degrees of Financial Literacy (www.360financialliteracy.org), designed to improve the financial understanding of Americans at all age levels. A related campaign, Feed the Pig (www.feedthepig.org), co-sponsored with the Ad Council, is designed to help Americans ages 25 to 34 years old save for long-term financial security.

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