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Newsletter

2007 Mid Year

Pennsylvania Property Tax or Rent Rebate Program – Form PA-1000:

The deadline to apply for the rebate has been extended to December 31, 2007. This program has been expanded to give more older and disabled Pennsylvanians a rebate and increase the amount of the rebates. A new law increases the income limit from \$15,000 to \$35,000 for homeowners and boosts the maximum rebate for both homeowners and renters from \$500 to \$650. This program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older.

If we did not discuss this program with you when we prepared your tax return and if you think you may qualify, please give us a call.



Small Business and Work Opportunity Act of 2007:

The Small Business and Work Opportunity Act of 2007 expanded the definition of the so-called kiddie tax. Hoping to raise additional revenue, Congress increased the age of children subject to the kiddie tax from 17 to 18. But full-time college students also get caught. Now your under 24 year old son/daughter student is subject to the tax.

Here's how it works. Beginning in 2008, children's investment income under \$850 is not taxed. Investment income between \$850 and \$1,700 is taxed at the child's tax rate. Income over \$1,700 gets taxed at the parent's tax rate. This expanded provision does not apply to children whose income from work or earned income is over half their financial support.

Parents can minimize this tax by investing in a 529 college savings plan. Investments in these accounts are not subject to tax. If your child has investments consider cashing out and rolling proceeds into a 529 plan. Beware - there could be capital gains taxes on the former account in doing this.

If you contribute to a 529 plan be sure to let us know at tax time.



Alternative Minimum Tax (AMT):

The AMT continues to affect more individuals. The primary reason is, since enacted in 1969, it has not been indexed for inflation. The AMT set minimum rates of 26% or 28% depending on the amount of the taxpayer's alternative minimum income.

Over the coming years, a growing number of taxpayers will become liable for the AMT. It is estimated by 2010, if nothing changed, one in five taxpayers will have AMT tax liability.

Some of the more common provisions are:

- The AMT is a current year tax. It treats capital gains on a “year by year” basis. It does not consider prior year loss carryovers available on capital gains for regular tax purposes.
- The AMT treats income from “private activity” municipal bonds as taxable for AMT calculation purposes.
- AMT removes the deductibility of state and local taxes, creating a double tax for certain taxpayers. If you deduct your state estimated taxes, local tax and real estate taxes on your federal tax return, these are not allowed for AMT purposes.
- The cost of repealing the AMT is estimated to be between \$800 billion and \$1.5 trillion. Despite its complexity and unintended consequences, it is difficult to avoid the alternative minimum tax for married taxpayers filing jointly with income over \$58,000.



Minimum Wage:

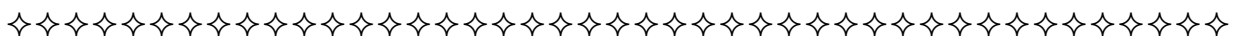
Pennsylvania’s minimum wage again increases as follows:

- July 1, 2007 \$7.15

Employers with ten or fewer full-time employees will implement the wage increase effective as follows:

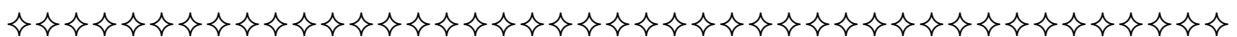
- July 1, 2007 \$6.65
- July 1, 2008 \$7.15

Unless Pennsylvania increases the minimum wage again, effective July of 2009 the Federal minimum wage will take affect at \$7.25 per hour.



Pension Protection Act of 2006 – Charitable Contributions:

Beginning in 2007 **ALL** cash gifts, regardless of amount, must be substantiated by written documentation. Self-created records, which previously could be used to document small donations, will not be accepted. Cancelled checks qualify as a receipt. Also, to substantiate a deduction for the fair market value of clothing and household items contributed to charities, a taxpayer **MUST** obtain a receipt from the charity.



Energy Tax Credits for Homeowners:

Tax credits are available for many types of home improvements, including adding insulation, replacing windows, and certain high efficiency heating and cooling equipment. The maximum amount of homeowner credit for all improvements combined is \$500 during the two-year period of the tax credit. This tax credit applies to improvements made from January 1, 2006 through

December 31, 2007. There are varying dollar limitations. Following are the home improvements that are eligible.

- Exterior windows: 10 percent of the total cost, up to \$200. Includes skylights and storm windows.
- Insulation, exterior doors, or pigmented metal roofs: 10 percent of the cost of the product (but not the installation), up to \$500. Includes seals to limit air infiltration, such as caulk, weather stripping, and foam sealants, as well as storm doors.
- Central air conditioner, heat pump, or water heater: up to \$300 towards the full purchase price, including installation costs.
- Furnace or boiler: up to \$150 towards the full purchase price, and/or \$50 for an efficient air-circulating fan in a furnace, including installation cost.

In order to be eligible for the tax credit, heating and cooling equipment must meet specified measures of energy efficiency. Refer to our insert with your 2006 tax return or call our office for the specifics of the energy efficiencies.



Emergency and Municipal Services Tax (EMS):

Governor Rendell has signed **SB-218** that will make changes to the current Emergency and Municipal Services Tax that is levied by municipalities and school districts. The bill will take effect in January 2008. The name of the tax will be changed to the Local Service Tax and \$1 will be deducted weekly throughout the year to cover the tax amount of \$52. Anyone that reasonably expects to make less than \$12,000 will be exempt from this tax and by completing a form will not have any monies deducted from their pay.



Tax Notices:

If you receive a notice from the Internal Revenue Service, PA Department of Revenue or Local Earned Income Tax Office, please bring it to our attention as soon as possible. Often times the notice can be resolved, if necessary, with a phone call. Do not assume the Internal Revenue Service, PA Department of Revenue or your Local Earned Income Tax Office is always correct.

We hope you and your families enjoy a fun summer!

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