

ALERT

NEW TAX LAWS PROVIDE MORTGAGE & AMT RELIEF

After a fairly lackluster year on Capitol Hill, Congress rushed to pass several highly anticipated tax bills before recessing for the holiday break. Here's a look at the key laws and how they may affect you:

MORTGAGE RELIEF

Congress spent much of 2007 trying to hammer out legislation that would offer help to homeowners caught in the sub-prime mortgage crisis. The Mortgage Forgiveness Debt Relief Act of 2007, signed into law by President Bush on December 20, 2007, creates a three-year exception (from January 1, 2007, through December 31, 2009) to current law so that affected homeowners won't have to pay federal income taxes for debt forgiveness on their troubled loans. This provides relief to homeowners who receive debt forgiveness in a foreclosure or in a mortgage workout, under which the terms of the mortgage are changed, resulting in a lower mortgage balance.

The law specifically applies to mortgages on a principal residence, and not to vacation or secondary homes. The law also doesn't apply to taxpayers in Chapter 11 bankruptcy.

Moreover, the new law extends through December 31, 2010, a provision enacted in 2006 that allows taxpayers to take an itemized deduction for premiums paid or accrued on qualified mortgage insurance. The law applies only to contracts entered into after December 31, 2006, and before January 1, 2011.

Another provision of the mortgage act extends the time period that a recently widowed person can use the joint-return filers' \$500,000 home sale gain exclusion to cover sales occurring up to two years after the spouse's death. Plus, the act clarifies the low-income housing credit and the definition of a cooperative housing corporation.

AMT PATCH

The alternative minimum tax (AMT) continues to be a bugaboo for Congress. They understand the need to overhaul the system, but can't seem to find the key to simplifying it. With time running out, Congress finally approved a "patch" that includes 2007 AMT exemption amounts that are significantly higher than they would have been without the act but only slightly higher than the 2006 amounts. Under the Tax Increase Prevention Act of 2007, signed into law by President Bush on December 26, 2007, the 2007 amounts are:

- \$44,350 for singles and heads of households,
- \$66,250 for married filing jointly, and
- \$33,125 for married filing separately.

The IRS and Treasury Department estimated that, without the patch, roughly 25 million taxpayers would have paid on average \$2,000 more in taxes for 2007. Once again, this issue will need to be addressed for 2008 because the increased exemption is only for 2007.

The new law provides additional AMT relief by allowing more nonrefundable personal credits, such as the dependent care, Hope and Lifetime Learning credits, to be used to reduce AMT liability. (Many other popular credits, such as the child and adoption credits, were already eligible.)

As a result of the changes, the IRS is asking taxpayers filing certain forms to wait to file until February 11, 2008. Affected forms include Form 8863, Education Credits; Form 5695, Residential Energy Credits; and Form 8396, Mortgage Interest Credit. Several other AMT-related forms, however, aren't affected.

It's also important to note that the 2007 tax materials that you'll likely receive from the IRS in early January were printed before the new tax laws were passed.

ENERGY ISSUES

On December 19, 2007, the president signed into law a new energy bill. The Energy Independence and Security Act of 2007 raises fuel economy standards for automobiles and sets standards for improving the efficiency of home appliances. Provisions that were NOT included in the bill, but which may be resurrected in 2008, include extensions of the residential energy efficiency credits and research credit. In addition, future legislation may extend and enhance the alternative motor vehicle credit.

OTHER ITEMS OF NOTE

Technical corrections were also made to nine major tax laws dating back to 1998. Perhaps the most notable is a clarification of the definition of the AMT refundable credit. The change allows taxpayers to better take advantage of long-term unused credits.

Moreover, under a special tax law signed by President Bush on December 19, victims and family members affected by the April 2007 Virginia Tech massacre may exclude from their gross income any payments they receive from a special memorial fund set up on their behalf after the tragedy.

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