Inflation Adjustments for 2007

Personal exemptions and standard deductions rise, tax brackets are widened and more than three dozen individual and business tax provisions are adjusted to keep pace with inflation. A complete rundown of these changes can be found at 2007 Inflation Adjustments Widen Tax Brackets, Change Tax Benefits.

Popular items adjusted include the following:

- The value of each personal and dependency exemption is $3,400, up $100 from 2006. Most taxpayers can take personal exemptions for themselves and an additional exemption for each eligible dependent. An individual who qualifies as someone else's dependent cannot claim a personal exemption, and personal and dependency exemptions are phased out for higher-income taxpayers.
- The standard deduction is $10,700 for married couples filing a joint return and qualifying widow(er)s, a $400 increase over 2006; $5,350 for singles and married individuals filing separate returns, up $200; and $7,850 for heads of household, up $300. Higher amounts apply to blind people and senior citizens. The standard deduction is often reduced for a taxpayer who qualifies as someone else's dependent. Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions, and state and local taxes.
- The maximum earned income tax credit is $4,716 for taxpayers with two or more qualifying children, $2,853 for those with one child and $428 for people with no children. Last year's maximums were $4,536, $2,747 and $412, respectively. Available to low and moderate income workers and working families, the EITC helps taxpayers whose incomes are below certain income thresholds, which in 2007 rise to $39,783 for those with two or more children, $35,241 for people with one child and $14,590 for those with no children. One in six taxpayers claim the EITC, which unlike most tax breaks, is refundable, meaning that people can get it even if they owe no tax and even if no tax is taken out of their paychecks.

Other Changes

Taxpayers can exclude up to $2 million of debt forgiven on their principal residence. The limit is $1 million for a married person filing a separate return. This provision applies to debt forgiven in 2007, 2008 or 2009. Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure qualify for this relief.

Employees working for employers who failed to withhold Social Security and Medicare taxes should use new **Form 8919** (**www.irs.gov/pub/irs-pdf/f8919.pdf**) to report and pay their share of these taxes. This includes section 530 employees — that is, people who work for employers claiming relief from federal payroll taxes under section 530 of the Revenue Act of 1978. It also includes employees who are treated as independent contractors but who have received a determination letter from the IRS which states they are employees.

Workers who believe they are misclassified as independent contractors can file Form SS-8 with the IRS and request a determination of their worker classification. For employees, the Social Security tax rate is 6.2 percent and the Medicare tax rate is 1.45 percent. Normally, employers withhold these taxes from workers' pay, match these amounts and turn over the combined amounts to the IRS. Workers, properly classified as independent contractors, should not use Form 8919 but instead, continue to use **Schedule SE** (**www.irs.gov/pub/irs-pdf/f1040sse.pdf**). IRS **Publication 1779** (**www.irs.gov/pub/irs-pdf/p1779.pdf**)has further details on employee versus independent contractor status.

A retired public safety officer can exclude from income up to $3,000 in distributions from an eligible government retirement plan used to pay the premiums on accident and health insurance or long-term care insurance. Distributions must be made directly from the plan to the insurance provider. Retired law enforcement officers, firefighters, chaplains and members of rescue squads or ambulance crews qualify for this provision. Claim the exclusion on Form 1040 Line 16 or Form 1040A Line 12.

There's no telephone tax refund for 2007, but it's not too late to request this one-time refund on a 2006 return. Most telephone customers, including most cell-phone users, qualify for the refund. Eligible telephone customers who filed a 2006 tax return but overlooked this special excise tax refund can file an amended return using **Form 1040X** (**www.irs.gov/pub/irs-pdf/f1040x.pdf**). Those who never filed for tax year 2006 can request it when they file their 2006 return. Phone customers who don't need to file a regular income-tax return, including many low-income people and senior citizens, can use a special short form, **Form 1040EZ-T** (**www.irs.gov/pub/irs-pdf/f1040ezt.pdf**), to request the refund.

Compensated work therapy payments received by some veterans, unable to work, are now tax-free. Because these are tax-free veterans' benefits, recipients will no longer receive Forms 1099, reporting these payments, from the Department of Veterans Affairs. Disabled veterans who paid tax on these benefits in 2004, 2005 and 2006 can claim a refund by filing an amended return using Form 1040X. For details, please see the 2007 news release **IR-2007-198** (**www.irs.gov/newsroom/article/0,,id=176442,00.html**).

Filing Date Is April 15, 2008

TAX TIP 2008-05: Choose The Simplest Federal Tax Form For Your Needs

The three forms used for filing individual federal income tax returns are Form 1040EZ, Form 1040A and Form 1040. If you are filing a federal income tax return on paper, use the simplest form you can. Using the simplest allowable form will reduce the chance of an error that may cost you money or delay the processing of your return.

1040EZ You may qualify to use Form 1040EZ, the simplest form, if:

- Your taxable income is below $100,000
- Your filing status is Single or Married Filing Jointly
- You (and spouse) are under age 65 and not blind
- You are not claiming any dependents
- Your interest income is $1,500 or less

1040A You may be able to use Form 1040A if:

- Your taxable income is below $100,000
- You have capital gain distributions
- You claim certain tax credits
- You claim deductions for IRA contributions, student loan interest, educator expenses or higher education tuition and fees

1040 If you cannot use either a 1040EZ or 1040A, you probably need to use Form 1040. You must file form 1040 if:

- Your taxable income is $100,000 or more
- You claim itemized deductions
- You are reporting self-employment income
- You are reporting income from sale of property

Choosing the correct tax form could mean money in your pocket. Check your tax instructions carefully. Publication 17, Your Federal Income Tax, is a helpful guide to preparing your federal tax forms. It is available on the IRS Web site at IRS.gov or by calling 800-TAX-FORM (800-829-3676).

Remember that for the genuine IRS Web site be sure to use .gov. Don't be confused by internet sites that end in .com, .net, .org or other designations instead of .gov. The address of the official IRS governmental Web site is www.irs.gov.

TAX TIP 2008-03: Choose Your Correct Filing Status

Your federal tax filing status is based on your marital and family situation. It is an important factor in determining whether you must file a return, your standard deduction and your correct amount of tax.

Your marital status on the last day of the year determines your status for the entire year. If more than one filing status applies to you, you may choose the one that gives you the lowest tax obligation.

There are five filing status options:

1. **Single.** Generally, if you are unmarried, divorced or legally separated according to your state law, your filing status is Single.
2. **Married Filing Jointly.** If you are married, you and your spouse may file a joint return. If your spouse died during the year and you did not remarry, you may still file a joint return with that spouse for the year of death.
3. **Married Filing Separately.** Married taxpayers may elect to file separate returns.
4. **Head of Household.** You generally must be unmarried and you must have paid more than half the cost of maintaining a home for you and a qualifying person.
5. **Qualifying Widow(er) with Dependent Child.** If your spouse died during 2005 or 2006, you have a qualifying child and meet certain other conditions; you may be able to choose this filing status.

For more information about filing status see publication 501, Exemptions, Standard Deduction, and Filing Information available on the IRS website at IRS.gov or by calling 800-TAXFORM (800-829-3676).