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TAX SPOTLIGHT

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2007 tax planning ideas: A few opportunities for income tax, retirement, and business planning

Even as we put behind us the filing deadline for 2006 taxes, we are well into 2007 which brings with it a fresh set of tax planning and changes in the tax laws. Here are just a few opportunities for income tax, retirement and business planning.

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From an income tax perspective, the state Sales Tax Deduction continues through the end of 2007. The state Sales Tax Deduction allows taxpayers who itemize deductions to have the option of deducting their state and local income taxes or state and local sales taxes. It can be a benefit to choosing the sales tax deduction where you have a large taxable purchase in 2007. Restored in 2006, the tax deduction for qualified tuition post-secondary education can provide individuals with a deduction of up to $4,000 (and can be taken even if the taxpayer does not itemize deductions). This deduction has the further added benefit of potentially increasing a family's eligibility for college financial aid by reducing their adjusted gross income. Like many tax breaks, however, this deduction is not available to higher-income taxpayers.

• Individual planning. From an income tax perspective, the state Sales Tax Deduction continues through the end of 2007. The state Sales Tax Deduction allows taxpayers who itemize deductions to have the option of deducting their state and local income taxes or state and local sales taxes. It can be a benefit to choosing the sales tax deduction where you have a large taxable purchase in 2007. Restored in 2006, the tax deduction for qualified tuition post-secondary education can provide individuals with a deduction of up to $4,000 (and can be taken even if the taxpayer does not itemize deductions). This deduction has the further added benefit of potentially increasing a family's eligibility for college financial aid by reducing their adjusted gross income. Like many tax breaks, however, this deduction is not available to higher-income taxpayers.

The 15% tax rate on capital gains and qualified dividend income, which had been set to increase after 2008, will now remain in place through 2010. Alternative Minimum Tax ("AMT") continues to be a problem for individuals absent tax relief in 2007. The way the AMT rules are set up, adding a large capital gain to regular income can put a taxpayer into an AMT situation. Installment sales can therefore be helpful in stretching out capital gains from a sale. If your marginal tax rate is above the 28% highest AMT rate, it may make sense to look at ways to accelerate income into a year when you will be paying AMT anyway. If an AMT liability is incurred (such as due to the exercise of incentive stock options), you may be able to qualify for an AMT credit in future years.

• Retirement planning. Retirement can bring with it significant financial changes. Taxes should always be kept in mind in retirement planning. For example, delaying distributions from traditional IRA's (i.e., non-Roth) will delay taxes on those distributions. If you leave employment and are entitled to a lump sum distribution from an employer's plan, consideration should be given to rolling over that distribution to a traditional IRA so you can continue to grow the IRA funds tax deferred until withdrawal begins.

• Businesses. Corporations can deduct reasonable amounts of compensation paid to shareholder/employees of the company. However, compensation is subject to various payroll taxes such as FICA. On the other hand, dividends paid to shareholders (including distributions from a subchapter "S" corporation), while not tax deductible, are not treated as compensation and therefore not subject to those payroll taxes. Manufacturers, construction contractors and businesses involved in certain other US production activities can deduct 6% of their qualified production activities income in 2007 or, if less, 6% of their taxable income. The deduction percentage will continue to rise to 9% in 2010 and later years.

Maury Reiter is a cofounder and principal of the firm, the Managing Partner, chairs the Tax & Estates Department and is a member of the Real Estate Transactions Department. Reiter, a certified public accountant as well, has a broad-based business law practice including taxation, corporate and commercial law and estate planning and administration. He has developed a regional reputation in personal, corporate and partnership tax planning and in real estate tax planning.

Reiter handles tax, estate planning and administration matters for individuals, serves clients in business structure, financing, operation and tax planning and mergers and acquisitions. A specific area of Reiter's expertise is closely-held businesses in which tax considerations are often of primary concern, and he formulates and implements tax plans appropriate to their specific needs. ■