Crow Shields & Bailey, PC Volume 8 • Issue 3 Winter 2007

CSB NEWS

CLIENT SPOTLIGHT ON...

OLLINGER CONSTRUCTION

Ollinger Construction, Inc. has been serving the Gulf Coast area since 1952. Lex Allain purchased the company from the founder, Tom P. Ollinger, in 2006. Construction experience includes a wide range of projects that can be previewed on their website at, www.ollingerconstruction.com. Also, check out the renovations at the Saenger Theater that earned them the 2006 Building Alabama Award. Backed by an exceptionally qualified and loyal staff of project managers, superintendents, and experienced craftsmen, Ollinger continues to earn repeat business from satisfied clients. Call them at 251-476-6784 or fax them at 251-471-6670 for additional information.

CSB is proud to serve quality clients such as Ollinger. We currently provide reviewed financial statements, corporate tax returns and contractor license renewals in addition to tax planning and consulting for Ollinger.

Left to Right: Lex Allain (President), Dana Bekurs (Bookkeeper) and Joe Kelley (Vice President)

Contributors to the Newsletter

JOHN SHIELDS

KENNY CROW

DEBORAH MARTINSEN

IN THIS ISSUE

VISION STATEMENT

Our firm's objective is to maximize our clients' wealth. We strive to be the premier accounting and consulting firm in our area by offering a complete range of quality services to our clients. We will employ only the best people and ensure outstanding training and long-term career opportunities.

OUR TEAM MEMBERS

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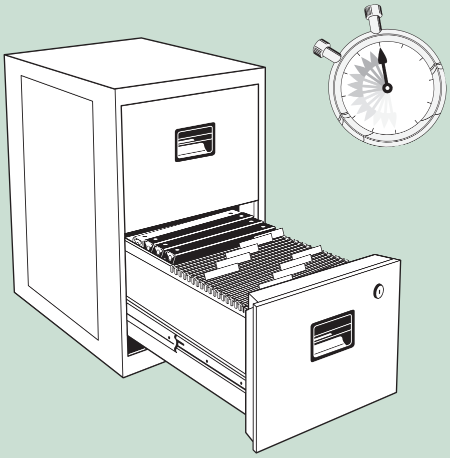
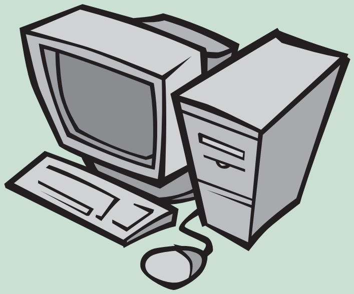
www.csbcpa.com

IT'S THAT TIME OF YEAR



As the end of the year approaches, it's time to start gathering your 2007 tax information so you'll be ready when your tax organizer arrives from CSB. Also, if your income or expenses are significantly different than they were in 2006, you may want to do some tax planning before year-end. Our tax team would be happy to project your 2007 tax situation and recommend tax savings strategies. If you would like to schedule a tax planning appointment, please give us a call.



NEED TO SEND US A LARGE FILE?

CSB has a secure FTP site that clients may use to upload large files, such as QuickBooks files, scanned income tax information, or any other files that are too large to transmit via email. If you would like to use this service, please contact Deborah Martinsen for your personalized user name and password.

ASK THE TAX MAN...

Dear Tax Man,

My son is a good boy, but has trouble getting motivated. After one semester of college, he dropped out and came back home to live. Over a year has gone by and he's still got no college plans. Worse yet, he also has no job.

Now he wants to cash in his college savings that we scrimped and saved over the years, buy a motorcycle and see the country.

Tax Man, I just don't know about this child. What's a poor mother to do?

Signed,
Frazzled Mama

Dear Frazzled,

Hmmm, that's a tough situation you've got there, Mama. All I can tell you is to hang in there, and this too will pass. To be honest with you, I really don't know much about raising kids. There're just too many variables.

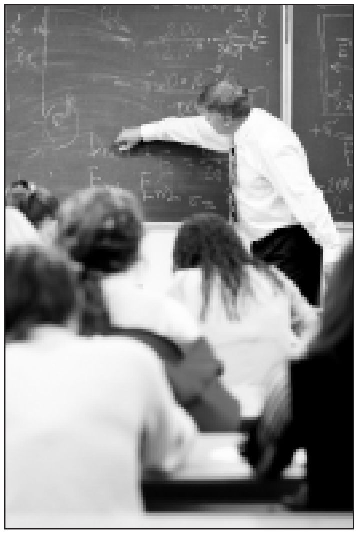
But as luck would have it, my dear, I'm imminently qualified on another child-related matter, that being the much maligned and oft'-misunderstood provision in the Internal Revenue Code known as the "Kiddie Tax".

What? Let me explain.

A few years back, Congress added the Kiddie-Tax provision to the tax law, which provided that children under age 14 at the end of the tax year were taxed on their unearned income such as interest, dividends and capital gains, at their parents' marginal tax rate. The extra tax applied only if the unearned income exceeded a threshold amount.

In 2005, Congress increased the age at which children would be subject to the kiddie tax to those under age 18.

And now, beginning in the year 2008 for calendar year individuals, the new law expands the application of the Kiddie Tax again. This time it can apply all the way through age 23 under certain circumstances.



Under the new rules, a child who is not filing a joint return with a spouse will have his or her "unearned income" in excess of the threshold amount ($1,700 for 2007), taxed at the parents' tax rate if: 1) The child either has not attained age 18 by the close of the tax year (same as under current law); OR 2) The child is age 18 by the close of the tax year AND the child's earned income does not exceed one-half the child's support; OR 3) The child is age 19 through 23 by the close of the tax year AND the child is a full-time student AND the child's earned income does not exceed one-half of the child's support.

Now I know that's confusing. After all, it was dreamed up by pin-headed bureaucrats whose main purpose in life is to confiscate your hard-earned money. But alas, it keeps me employed. The bottom line, Mama, is that beginning in 2008 many college students will no longer be able to sell off their appreciated investment accounts set up by their parents to cover tuition and pay tax at the student's lower tax rates. So it may not be such a bad idea for your son to sell his assets in 2007 if he is at least age 18.

Don't get me wrong. I'm not condoning your son's purchase of the motor scooter. I'm just saying that liquidating the investments this year, particularly if he decides to go back to school, might result in a lower tax bill than waiting until 2008 or later.

Frazzled, despite my hesitancy to pass judgment on your parenting methods, I do feel obliged to make an observation. Even though the IRS labels your son a "Kiddie" and you refer to him as a "boy," maybe you should try treating him like a man. That should clear up his "motivation" problem in a hurry. Good luck!

Sincerely,

Tax Man

CSB CARES

HABITAT FOR HUMANITY IN MOBILE COUNTY

BY JOHN R. SHIELDS

I got involved with Habitat about three years ago when my friend Pete Burns asked me to serve on the Board of Directors. At that time, Habitat was building just a few houses a year. That all changed after Hurricane Katrina hit in August of 2005. This year, the Mobile affiliate of Habitat will build over 75 houses!

Habitat houses are purchased by the homeowner families. Three factors make Habitat houses affordable to low-income people:

- Houses are sold at no profit, with no interest charged on the mortgage
- Homeowners and volunteers build the houses under trained supervision
- Individuals, corporations, faith groups and others provide financial support

Homeowner families are chosen according to their need, their ability to repay the mortgage, and their willingness to work in partnership with Habitat. Habitat does not give away houses – homeowners must work for them!

Prospective homeowners fill out applications for home ownership several times a year. When I see these applications describing the deplorable living conditions in which some of these people exist, it makes me quite thankful for what I have. And it is very gratifying to see a family move into a Habitat house and have a chance at a decent quality of life.

My duties as a Board member mainly consist of attending monthly meetings and keeping track of the finances. But I've gotten to participate in several "builds" and help with house construction. Recently I also attended my first "dedication" for several houses in our Irvington neighborhood. This was an emotional event for these families and for Habitat staff and volunteers. It gave me a chance to meet eleven Habitat families and share their elation in becoming new home owners.

John (left) and fellow board member Daryl Atchison making some precise measurements at a Habitat homesite.

If you would like more information on donating your time or money to Habitat, please contact me. Or you may visit our website at www.habitatmobile.org.

John (middle) prepares to address new homeowners at a house dedication. Looking on are Brenda Carson-Lawless, Executive Director of Habitat (far right) and Dr. Richard Cagle (second from right).

TEAM MEMBER NEWS AND BRAGGIN' RIGHTS

Tim and Gretchen Adams welcomed baby Mitchell Thomas on November 8. He weighed 8 pounds and 5 ounces. Congratulations to the Adams family!

Michael Bailey, son of Joey and Connie Bailey, was awarded Outstanding Freshman Male at McGill Toolen High and was also on the President's List. Michael's twin sister, Mary Catherine, was on the Honor Roll of Excellence. Michael and Mary Catherine were also both selected as Ambassadors for McGill Toolen.

Scott Bailey's St. Ignatius junior football team made it to the CYO Toy Bowl championship for the second year.

Josh Cosker and Beth Dennis announced their engagement. They plan to marry on June 28, 2008.

CSB welcomes new accountant Amanda Covert. Amanda received a BS in Accounting from the University of Alabama and a Masters of Accountancy from the University of Alabama at Birmingham. Additionally, Amanda and Marshall Wilbanks were engaged over the Thanksgiving holiday.

Kenny Crow, son of Kenny and Marty, made the President's List at the University of Alabama.

Louise Crow, daughter of Kenny and Marty Crow, was elected President of Kappa Delta sorority at the University of Alabama.

Ashley Gonzalez, son of Lisa & Mike Gonzalez graduated from Jacksonville State University on December 14th with a Bachelor of Science degree in Business Administration, with a major in Marketing and a minor in Merchandising.

Blaine Hennis, son of Deborah Martinsen, graduated from the University of Alabama on December 15 with a Bachelor of Science degree in Consumer and Industrial Marketing.

Our Director of First Impressions, Sandra Preslar, retired on December 14.

YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

Once again it's time for year-end tax planning. As in the past, we continue to stress the time-honored strategies that will ensure that your income is taxed at the lowest possible rate, and that will postpone your taxes by deferring taxable income and accelerating deductions. However, we have seen a series of tax changes in the last twelve months that present new tax planning opportunities for 2007. For example, Congress passed two tax bills, the ***Small Business and Work Opportunity Tax Act of 2007*** and the ***Tax Relief and Health Care Act of 2006***, which: extended the sunset dates for many critically-important tax breaks through 2007, expanded the *kiddie* tax on unearned income, created a new refundable AMT credit, established a new deduction for certain home mortgage insurance premiums, and increased Health Savings Account (HSA) deductions.

We are sending you this letter to bring you up-to-date on new tax planning opportunities provided by these new developments, and to remind you of *traditional* year-end tax planning strategies. **Please keep in mind** that many of the new law changes **are first effective in 2007.** Consequently, we **highlight prominently** in each segment the applicable effective date of any new law provisions.

Caution! You should not adopt any tax planning strategy offered in this letter without first computing the impact of the strategy on your overall tax liability for 2007 and 2008, including your alternative minimum tax (AMT) liability. Therefore, **we suggest that you call our firm before implementing any tax planning technique discussed in this letter.** You cannot properly evaluate a particular planning strategy without calculating your overall tax with and without that strategy.

Beware of Expiring Tax Breaks! At the time we completed this letter, Congress had *not* extended several popular tax breaks **beyond 2007**, including: the $250 deduction for teacher's classroom expenses, the deduction for state and local sales taxes, the deduction for higher education expenses, the election to treat tax-exempt combat pay as earned income for earned income tax credit purposes, the new deduction for qualified home mortgage insurance premiums, the $500 credit for energy-efficient home improvements, the ability to make qualified tax-free payments from IRAs to charities, and the expanded deduction for conservation easements. ***Planning Alert!*** Although there are currently proposals before Congress to extend many of these tax benefits, 2007 will be the last year that you can take advantage of these provisions if Congress does not act. Please call our firm if you need a status report.

Alternative Minimum Tax Alert! The *temporarily increased* AMT exemption thresholds and the ability to use certain nonrefundable personal credits (including the dependent care, elderly and disabled, HOPE, Lifetime Learning, and D.C. home buyer credits) against AMT **expired at the end of 2006**. The IRS has reported that almost 4 million taxpayers paid AMT in 2006, and that the number will rise to roughly 25 million in 2007, if Congress **does not** extend these AMT relief provisions through 2007! Therefore, Congress is currently working on legislation to extend these two important AMT provisions. ***Tax Tip.*** The items that commonly trigger AMT for individual taxpayers include: high state and local taxes, an unusually large number of dependents, large medical expenses, or the exercise of an incentive stock option. If you anticipate having significant amounts of any of these items, contact us before year-end so that we can help you minimize your AMT for 2007.

Please Note! This letter contains ideas for Federal income tax planning only. State income tax issues are not addressed.

RECENT LEGISLATION

On December 20, 2006, President Bush signed the ***Tax Relief and Health Care Act of 2006*** and on May 25, 2007, he signed the ***Small Business and Work Opportunity Tax Act of 2007.*** The new legislation not only extended many critically important expiring tax provisions, but also created several new tax breaks and expanded others. However, the new law also expanded the reach of the Kiddie Tax beginning in 2008. The following highlights *selected* provisions that we believe will have the greatest impact on *individual* taxpayers.

"Kiddie Tax" Expanded. Historically, children under age 14 at the end of the tax year were taxed on their unearned income (e.g., interest, dividends and capital gains) at their parents' marginal tax rate if the unearned income exceeded a *threshold* *amount.* In 2005, Congress increased the age at which children would be subject to the *kiddie* tax to those under age 18. Generally, **after 2007**, the new law expands the application of the kiddie tax again, and increases its complexity. Fortunately, this change **will not be effective** for calendar year individuals **until 2008**. Under the new rules, a child who *is not filing a joint return with a spouse* will have his or her "unearned income" in excess of the *threshold amount* ($1,700 for 2007), taxed at the *parents' tax rate* if: **1)**The child either *has not attained age 18* by the *close of the tax year* (same as under current law); OR **2)**The child *is age 18* by the *close of the tax year* AND the child's earned income does not exceed one-half the child's support; OR **3)**The child is *age 19 through 23* by the *close of the tax year* AND the child is a full-time student AND the child's earned income does not exceed one-half of the child's support. ***Tax Tip.*** Beginning in 2008, many college students will no longer be able to sell off their appreciated investment accounts set up by their parents to cover tuition and pay tax at the student's lower tax rates. If you have this situation, consider having the student sell these assets **in 2007** if he or she is at least age 18. Alternatively, you should consider taking out student loans until the year the student is no longer subject to the expanded kiddie tax. Also, since a child's *earned income* is not taxed at the parents' rate, another planning option is for you to employ your child in your business and pay your child *reasonable* compensation. Your child's earnings won't be subject to the kiddie tax and will generate a deduction for the family business.

New Pro-Taxpayer Changes To Health Savings Accounts (HSAs). Qualifying contributions to health savings accounts (HSAs) are fully deductible whether or not you itemize deductions, and distributions for qualifying medical expenses are tax free. To qualify for an HSA, you must be covered by a qualifying "high deductible health plan" (HDHP). For 2007, if you have "family" coverage, your HDHP must have a minimum annual deductible of $2,200 ($1,100 for self only coverage). **For years beginning after 2006**, the new legislation makes several changes increasing the HSA deduction. Prior to the new law, the maximum deductible contribution to your HSA was the **lesser** of: **1)** your annual deductible under your HDHP, or **2)** a statutory dollar cap. **Starting in 2007**, the deductible contribution to an HSA will no longer be limited by the amount of your HDHP's deductible. Therefore, for 2007, your maximum contribution to an HSA is $2,850 ($3,650 if 55 or older) for self-only coverage, and $5,650 ($6,450 if 55 or older) for family coverage, even if your HDHP deductible is less. Also, prior to this change, the contribution limitation was calculated on a monthly basis if the HSA was established after January 1st, or if the HSA owner became covered under an HDHP after January 1st. **Starting in 2007**, if you are covered by a qualifying high deductible health plan by December 1st, you may elect to contribute up to the maximum contribution limitation for the year (e.g., $5,650 for family coverage in 2007) rather than pro-rating the contribution. ***Caution!*** If you elect to make the maximum contribution under this new rule even though you are not covered under a HDHP on the first day of each month during the year, you will be subject to a 10% recapture tax on the additional contribution amount if you do not remain covered by a HDHP throughout the following year.

New Home Mortgage Insurance Premium Deduction For 2007. The new legislation allows *qualified* mortgage insurance premiums to be treated as deductible *home mortgage interest* (as an itemized deduction) if paid in 2007 (i.e., **this deduction is only available for 2007 unless Congress extends it**). Generally, home mortgage insurance premiums qualify for this deduction only if the mortgage insurance contract **is issued after 2006**. This deduction is reduced once your 2007 adjusted gross income (AGI) exceeds $100,000 (and is eliminated once your AGI exceeds $109,000). ***Planning Alert!*** Insurance premiums with regard to home equity loans will generally not qualify.

TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES

Planning With Capital Gains And Losses

Year-End Considerations For Capital Assets. Timing your year-end sales of stocks, bonds, or other securities may save you taxes. After fully evaluating the economic factors, the following are several year-end tax planning ideas for sales of capital assets. ***Caution!*** Always consider the economics of a sale or exchange **first!**

- **Taking Capital Losses to the Extent of Capital Gains Plus $3,000.** If you have already recognized capital gains in 2007, you should consider selling securities (that have declined in value) n**o later than December 31, 2007**. These losses will be deductible on your 2007 return to the extent of your recognized capital gains, plus $3,000. ***Tax Tip.*** These losses may have the added benefit of reducing your income to a level that you qualify for other tax breaks (e.g., the child credit, the HOPE credit, and IRA contributions). ***Planning Alert!*** If within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the wash sale rules.

- **Making the Most of Capital Losses.** If your stock sales to date have created a *net* capital loss exceeding $3,000, consider selling enough appreciated securities **by December 31, 2007**, to decrease the net capital loss to $3,000. Stocks that you think have reached their peak would be good candidates. All else being equal, you should sell the short-term gain (held 12 months or less) securities first. This will allow your *net* capital loss (in excess of $3,000) to absorb your short-term capital gain, while preserving your favorable long-term capital gain treatment for later years.

Stock "Traders" May Save Taxes By Electing "Mark-to-Market." If you are a "trader" (instead of an "investor") in stocks, the "mark-to-market" election could possibly save you taxes. Generally, you may qualify as a "trader" if you have frequent purchases and sales of stock, you hold the stock for short-term gain (rather than long-term appreciation and dividends), and you have a high volume of stock transactions for the year. As a trader, you can elect (for tax purposes) to mark your stock down or up to market at year end. This election will convert what would generally be short-term capital gains and losses, into "ordinary" gains and losses. ***Tax Tip.*** If you make a timely "mark-to-market" election, you can deduct your stock losses as "ordinary losses," instead of being limited by the $3,000 ceiling on net capital losses. ***Planning Alert!*** You must make this election by the due date (without regard to extensions) of your prior year's tax return. Even though it is too late to make the election for 2007, you may wish to make the election by April 15, 2008 so you will be able to deduct any losses as ordinary losses for 2008 and future years. Please call us if you think this election might save you taxes and we will be glad to fill you in on the details.

Postponing Taxable Income

It is generally a good idea to defer as much income into 2008 as possible if you believe that your marginal tax rate for 2008 will be equal to or less than your 2007 marginal tax rate. Deferring income into 2008 could also increase various credits and deductions for 2007 that are being phased out as your adjusted gross income increases. If you believe that deferring taxable income into 2008 will save you taxes, consider the following strategies.

Self-Employed Business Income. If you are self-employed and use the cash method of accounting, consider delaying year-end billings to defer income until 2008. ***Planning Alert!*** If you have already received the check in 2007, deferring the deposit does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

Required Distributions From Retirement Plans. If you want to postpone the distributions (and therefore the taxation) of amounts in your traditional IRA or in a qualified retirement plan as long as possible, there are many technical steps you need to consider. ***Planning Alert!*** The rules for maximizing the tax deferral possibilities for IRAs and qualified plan accounts are complicated. We will gladly review your beneficiary designations and offer planning suggestions. However, here are some actions **you may need to take before the end of 2007:**

Attaining Age 70½ During 2007. If you reach age 70½ at any time during 2007, you must begin distributions from a traditional IRA account no later than April 1, 2008. A 50% penalty applies to the excess of the required minimum distribution over the amount actually distributed. If you wait until 2008 to make the first distribution, then two distributions must be made for 2008 (one by April 1, 2008 for the 2007 year, and one by December 31, 2008 for the 2008 year). If you are in this situation, please call our firm and we will help you determine whether it will be to your tax advantage to defer the required distribution for 2007 until 2008, or make the 2007 distribution **on or before December 31, 2007.**

Rollovers By Surviving Spouses. If an individual over age 70½ died during 2007 and the beneficiary of the decedent's IRA or qualified plan is the surviving spouse, and the surviving spouse is over 59½, the surviving spouse should consider rolling the decedent's qualified plan or IRA amount into an IRA in his or her name **on or before December 31, 2007**. This could substantially reduce the amount of the required minimum distribution for 2008 where the decedent was at least 70½. ***Planning Alert!*** If the surviving spouse is not yet 59½, leaving the IRA or qualified plan amount in the name of the decedent may be the best option if the surviving spouse needs to withdraw amounts from the retirement account before age 59½. If the account is transferred into the spouse's name, and the spouse receives a distribution before reaching age 59½, the distribution could be subject to a 10% early distribution penalty. ***Tax Tip.*** Please call us if you are facing this situation, and we will help you take the most tax-wise steps.

Transfers To Non-Spouse Beneficiaries. Many qualified retirement plans require the distribution of amounts in an employee's account within a certain period after the employee's death. Prior to 2007, upon the death of a plan participant, only a surviving spouse beneficiary could defer tax on the distribution by rolling the distribution into an IRA. **Effective for distributions after**

2006, if a plan participant dies, a recent law change allows a tax-deferred *trustee-to-trustee* transfer from a qualified retirement plan (e.g., a 401(k) plan, a profit-sharing plan) to an IRA for the benefit of a *non-spouse* beneficiary. If the transfer occurs within the time limits discussed below, this new rule will generally allow the non-spouse beneficiary to distribute and pay tax on the amount transferred to the IRA over the beneficiary's life expectancy. ***New IRS Guidance!*** The IRS recently released new guidance which includes the following clarifications of this provision: **1)** to qualify, the transferee-IRA must be named in a manner that makes it clear that it is an "inherited IRA" (e.g., "Tom Smith as beneficiary of John Smith, deceased"), and **2)** to ensure that the "inherited IRA" will be entitled to pay its account balance over the non-spouse beneficiary's life expectancy (instead of possibly a much shorter period), the direct trustee-to-trustee transfer generally should occur *prior to the end of the year following the year of the employee's death.* ***Planning Alert!*** If the employee died in 2006, you may need to complete the direct trustee-to-trustee transfer to the IRA **by the end of 2007** to maximize the payout period. ***Caution!*** Even after this law change, a nonspouse beneficiary of a decedent's plan may not receive a check from the plan and then roll the amount over to an IRA. To prevent the taxation of the distribution, the check must be written directly from the qualified plan trustee to the trustee of a properly named IRA as described above.

Tax-Free IRA Payments To Charities. Effective for 2006 and 2007, if you have reached age 70 1/2, you may have your IRA trustee contribute up to $100,000 each year (2007 and 2008) from your IRA directly to a qualified charity and exclude the distribution from your income. Although you **do not** get a charitable contribution deduction, this distribution to a charity counts toward any "minimum required distribution" that you would otherwise be required to take during the year of the contribution. ***New IRS Guidance!*** The IRS recently provided us with the following clarifications of this provision: **1)** you must have reached age 70 1/2 *before* the date of the transfer, **2)** married individuals filing jointly may *each* transfer up to $100,000 from each spouse's own IRA if each has reached age 70 1/2, **3)** a beneficiary of an *inherited IRA* who has reached age 70 1/2 will qualify, **4)** the IRA check must be made out *directly to the charity* (not to the beneficiary), although the beneficiary may deliver the check to the charity. ***Tax Tip.*** Having your IRA make the charitable contribution may be beneficial if you do not itemize your deductions (i.e., you use the standard deduction), or if your itemized deductions will be reduced because your income exceeds certain thresholds. ***Planning Alert!*** If you have reached age 70 1/2, you should compare various options before disbursing IRA funds to a charity. Other charitable contribution options, such as contributing appreciated securities to charity, could be more beneficial. We will gladly help you decide which charitable contribution option is best for you.

Taking Advantage Of Deductions

Accelerating Deductions Into 2007. If you are a cash method taxpayer, you can generally accelerate a 2008 deduction into 2007 by "paying" it in 2007. Accelerating an "above-the-line" deduction, such as the IRA deduction, qualified student loan interest deduction, qualified moving expenses, and deductible alimony into 2007 may allow you to reduce your Aadjusted gross income@ below the thresholds needed to qualify for many other tax benefits. Remember, itemized deductions do not reduce your "adjusted gross income" and, therefore, will not affect your 2007 deductions and credits that are reduced as your income increases. *Itemized deductions* include charitable contributions, state and local taxes, medical expenses, unreimbursed employee travel expenses, and home mortgage interest. ***Tax Tip.*** "Payment" typically occurs in 2007 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a third party credit card in 2007. ***Planning Alert!*** The IRS says that prepayments of expenses applicable to periods beyond 12 months will not be deductible in 2007.

"Bunching" Itemized Deductions. If your itemized deductions fail to exceed your standard deduction in most years, you are not receiving maximum benefit for your itemized deductions. You could possibly reduce your taxes over the long term by bunching the payment of your itemized deductions in alternate tax years. This may produce tax savings by allowing you to itemize deductions in the years when your expenses are bunched, and using the standard deduction in other years. ***Tax Tip.*** The easiest deductions to shift between tax years are charitable contributions, state and local taxes, and your January home mortgage interest payment. For 2007, the standard deduction is $10,700 on a joint return and $5,350 for single individuals. If you are blind or age 65, you get an additional standard deduction of $1,050 if you're married ($1,300 if single). ***Planning Alert!*** For 2007, most itemized deductions are reduced by 2% of your adjusted gross income in excess of $156,400 ($78,200 for married individuals filing separately). This 2% reduction drops to a 1% reduction in 2008 and is eliminated completely by 2010.

Charitable Contributions. If you are considering a significant 2007 contribution to a public charity (e.g., church, synagogue, or college), it will generally save you taxes if you contribute appreciated long-term capital gain property, rather than selling the property and contributing the cash proceeds to charity. By contributing capital gain property held more than one year (e.g., appreciated stock, real estate, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. ***Planning Alert!*** Whether made in cash or property, make sure you "pay" the charitable contribution in 2007. If made by check, a charitable contribution deduction is allowed for 2007 if the check is *mailed* **on or before December 31, 2007**, or the contribution is made by a credit card charge in 2007. However, if you give a note or a pledge to a charity, no deduction is allowed until you pay off the note or pledge.

Sales Taxes And State And Local Income Taxes. **For 2007**, you may "elect" to deduct "either" state and local income taxes or state and local sales taxes, as itemized deductions. ***Tax Tip.*** The deduction for state and local sales taxes may not be extended by Congress beyond 2007. Therefore, if you plan to deduct state and local sales taxes rather than state and local income taxes for 2007, consider **accelerating your planned purchases of big ticket items subject to the general sales tax into 2007 unless you are subject to the alternative minimum tax.**

If your state and local income taxes are greater than your sales taxes for 2007, you should consider paying any state or local income taxes that will be due for 2007 (after subtracting estimates and withholding) on or before December 31, 2007. This way, you will get the deduction a year earlier than if you wait and pay them with your 2008 income tax return. However, you should generally not pay these state and local income tax amounts early if you are subject to the alternative minimum tax. It's a good idea to sit down with us before year end so we can help you decide if it would be beneficial to accelerate state and local income tax or sales tax payments into 2007.

Watch Out For Expiring Education Expense Deduction! If you pay for *qualified* higher education tuition and fees for yourself, your spouse, or your dependents, you may qualify for an education expense deduction. For 2007, you are allowed this maximum $4,000 deduction only if your adjusted gross income ("AGI") does not exceed $130,000 on a joint return ($65,000 if single). If your AGI is between $130,000 and $160,000 ($65,000 and $80,000 if you're single) your maximum deduction drops to $2,000. ***Planning Alert!*** If you expect to take this deduction and your income is close to the $130,000 or $160,000 limits ($65,000 or $80,000 if you're single), we should discuss your situation and see if we can take steps to keep your income below those thresholds for 2007. If you exceed the $160,000 or $80,000 limitation by even $1, the entire deduction is lost. ***Planning Alert!*** **This deduction is scheduled to expire at the end of 2007**, and we are not assured that Congress will extend it. If this deduction is not extended beyond 2007, you should consider paying your spring, 2008 tuition **by December 31, 2007.**

Planning With Retirement Plans

Consider Contributing The Maximum Toward Your Retirement. As your income rises and your marginal tax rate increases, deductible retirement plan contributions generally become more valuable to you. Also, making your deductible contribution to the plan as early as possible generally increases your retirement benefits. As you evaluate how much you should contribute, consider the following:

- **IRA Contributions.** If you are married, even if your spouse has no earnings, for 2007 you can generally deduct up to a total of $8,000 ($10,000 if you're both at least age 50 by the end of the year) for contributions to your and your spouse's traditional IRAs. You and your spouse must have *combined earned income* at least equal to the total contributions. However, no more than $4,000 ($5,000 if you're at least age 50) may be contributed to either your or your spouse's separate IRA for 2007. For 2007, if you are an active participant in your employer's retirement plan, your IRA deduction is reduced ratably as your adjusted gross income increases from **$83,000 to $103,000** on a joint return (**$52,000 to $62,000** on a single return). However, if your spouse is an active participant in his or her employer's plan and you are not an active participant in a plan, your ability to contribute the full deductible amount to an IRA is reduced as your adjusted gross income on your joint return goes from **$156,000 to $166,000**. ***Planning Alert!*** Every dollar you contribute to a deductible IRA reduces your allowable contribution to a nondeductible Roth IRA. For 2007, your ability to contribute to a Roth IRA is phased out ratably as your adjusted gross income increases from **$156,000 to $166,000** on a joint return or from **$99,000 to $114,000** if you are single. Your ability to contribute to a Roth depends upon your earned income and your AGI. Whether or not you participate in a qualified retirement plan (other than an IRA) does not affect your Roth contribution.

- **Workers At Least Age $70^1/_2$.** If you are age $70^1/_2$ or older, you cannot make a contribution to a traditional IRA. ***Tax Tip.*** If you are working, age $70^1/_2$ or older, have a spouse under age $70^1/_2$, and otherwise qualify, you can make a deductible IRA contribution to a separate traditional IRA for your spouse (not to exceed your compensation) even where the spouse has no earned income. In addition, if you otherwise qualify, you may contribute to a Roth IRA even if you are 70½.

- **Consider Contributing To Your Company's 401(k) Plan.** If you are covered by your company's 401(k) plan, you should consider putting as much of your compensation into the plan as allowable. The maximum amount (employee portion) for 2007 is $15,500 ($20,500 if you're at least age 50 by the end of 2007). This is particularly appealing if your employer offers to match your contributions.

Converting From *Traditional* To *Roth* IRA. Currently, whether you file joint or single, you are not allowed to convert (rollover) your traditional IRA into a Roth IRA unless your modified adjusted gross income is $100,000 or less. In addition, if you are married, you must file a joint return with your spouse. ***Tax Tip.*** If you have little or no taxable income for 2007, you may be able to save taxes in the long-run by converting all or a portion of your regular IRA to a Roth. This is particularly true if the amount included in your income from the conversion does not increase your Federal or state tax liability. If you are not taxed upon the conversion, this strategy, in essence, will convert taxable retirement income into tax-free retirement income. If you want the conversion to be effective for 2007, you must transfer the amount from the regular IRA to the Roth IRA **no later than December 31, 2007** (you do not have until the due date of your 2007 tax return).

Planning With Credits And Other Items

Hybrid Vehicle Credit. In 2005, Congress gave us several new credits for certain energy-efficient expenditures, including the purchase of qualifying *hybrid vehicles*. The amount of the hybrid vehicle credit varies with the fuel efficiency of the vehicle and, according to recent IRS releases, the credit can be as low as $250 (e.g., the 2007 GMC Sierra 2WD hybrid pickup truck), and as high as $3,000 (e.g., the 2008 Ford Escape Hybrid 2-Wheel Drive). ***Planning Alert!*** Once a specific auto manufacturer's sales of hybrid vehicles reach 60,000, the credits for hybrid vehicles purchased from that manufacturer are reduced. To date, Toyota (including Lexus) is the only manufacturer that has exceeded this 60,000 vehicle threshold. Therefore, the credit for any Toyota or Lexus hybrid vehicle was reduced **1) by 50%** if purchased after September 30, 2006, **2) by 75%** if purchased after March 31, 2007, **and 3)** is eliminated altogether, if purchased **after September 30, 2007**. ***Tax Tip.*** No manufacture's hybrid vehicle credit is scheduled for reduction (other than Toyota) for qualifying vehicles purchased **on or before December 31, 2007**. However, based on second quarter 2007 sales, the Honda hybrid sales will be entitled to a *full* credit for purchases **only through December 31, 2007**. It appears that the credit for Honda hybrid purchases **after December 31, 2007 and before July 1, 2008**, will be reduced by 50%. Before buying a hybrid vehicle, be sure to check with the manufacturer to determine the amount of the credit available for that vehicle. ***Planning Alert!*** This hybrid auto tax credit does not reduce your alternative minimum tax (AMT). If you are considering the purchase of a hybrid automobile, please call our office. We will help you determine whether the AMT will reduce or eliminate the tax benefit from the credit.

Child Tax Credit. You may be entitled to a $1,000 child tax credit even if the credit exceeds your Federal income tax liability. You are entitled to this *refundable* credit to the extent of 15% of your earned income in excess of $11,750. ***Tax Tip.*** For 2007, if you have one qualifying child, you need earned income of at least $18,417 to qualify for the full $1,000 refundable credit.

Adoption Tax Credit. If you are considering adopting a child, the adoption tax credit may substantially reduce your tax bill. For 2007, you may be entitled to an adoption tax credit for qualifying adoption expenses of up to $11,390 per child. However, the adoption credit is phased-out as your modified adjusted gross income increases from $170,820 to $210,820. ***Tax Tip.*** If you finalize the adoption of a "special needs child" **by December 31, 2007**, you may receive the full adoption tax credit of $11,390 even if this is more than your adoption expenses. This credit for the excess of $11,390 over your actual expenses is allowed only in the year the adoption is finalized.

Penalty For Under-Withholding Or Under-Estimating. One way to avoid a penalty for failing to pay or withhold sufficient income taxes for a tax year is to pay 100% of your prior year's tax liability in quarterly estimated payments or through income tax withholding. ***Planning Alert!*** If your 2006 AGI was over $150,000, you must pay in 110% of your 2006 tax liability to qualify for this safe harbor in 2007. ***Tax Tip.*** If you have not paid sufficient estimates to avoid an underpayment penalty for 2007, you may have additional amounts withheld from your wages, year-end bonuses, or IRA distributions **on or before December 31, 2007**. Any withholding for 2007 is deemed paid equally on each quarterly installment date for estimated tax purposes, even if the withholding occurs in December.

FINAL COMMENTS

Please call us if you are interested in a tax topic that we did not discuss. Tax law constantly changes due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes and we will be glad to discuss any current tax developments and planning ideas with you. **Please contact us before implementing any planning ideas discussed in this letter, or if you need more information.**
Note: The information contained in this material represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

Circular 230 Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of **1)** avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions, or **2)** promoting, marketing, or recommending to another party any transaction or matter addressed herein.

TAX TIDBITS

SOCIAL SECURITY TAXES INCREASE AGAIN IN 2008

Beginning January 1, 2008 the amount of wages subject to FICA tax at 6.2% (12.4% if self employed) increases to $102,000. The FICA-medicare tax of 1.45% (2.9% if self employed) continues to apply to all wages.

SOCIAL SECURITY EARNINGS LIMIT

There is a limit on how much you can earn and not affect your Social Security benefits, if you are under normal retirement age. That limit for 2008 is $13,560. Earn more than this and your benefits are cut $1 for every $2 earned above the limit.

STANDARD MILEAGE RATES (CENTS PER MILE)

	2008	2007
Business	50.5	48.5
Charitable	14	14
Medical	19	20
Moving	19	20

RETIREMENT PLAN LIMITS

RETIREMENT PLAN LIMITS	2008	2007
IRA	$5,000	$4,000
IRA, age 50 or more at 12/31	6,000	5,000
401(k), 403(b) employee	15,500	15,500
401(k), 403(b) catch-up	5,000	5,000
Defined contribution limit	46,000	45,000

ESTATE TAX LIFETIME EXEMPTION

2002	1,000,000
2003	1,000,000
2004-05	1,500,000
2006-08	2,000,000
2009	3,500,000
2010	Repealed (this is the year to die!)
2011	1,000,000

STANDARD DEDUCTIONS (2007)

Married filing joint	$10,700
Surviving Spouse	10,700
HOH	7,850
Single	5,350
Married filing separately	5,350
Add for blindness/65	1,050 – 1,300
Dependent	850

TAX TABLES

2007 Married Filing Joint and Surviving Spouses
Taxable Income

Over	But Not Over	Pay	+	% on Excess	of the amount over --
$0	$15,650	$0		10%	$0
15,650	63,700	1,565.00		15%	15,650
63,700	128,500	8,772.50		25%	63,700
128,500	195,850	24,972.50		28%	128,500
195,850	349,700	43,830.50		33%	195,850
349,700	-----------	94,601.00		35%	349,700

2007 Single
Taxable Income

Over	But Not Over	Pay	+	% on Excess	of the amount over --
$0--	$7,825	$0		10%	$0
7,825	31,850	782.50		15%	7,825
31,850	77,100	4,386.25		25%	31,850
77,100	160,850	15,698.75		28%	77,100
160,850	349,700	39,148.75		33%	160,850
349,700	-----------	101,469.25		35%	349,700

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Holiday Message

By Kenny Crow

The holiday season is upon us. I just finished Thanksgiving dinner at my sister's house with approximately fifty in attendance. As the family grows, it reminds me of the many blessings that God gives us. I hope your holiday was enjoyable as well.

When I wrote this message last year, I mentioned that the empty nest was going to afford me the opportunity to know the person I married twenty-two years ago again. Little did I know just how true this would be. My wife, Marty, was diagnosed with breast cancer in January. I spent the first eight months of the year in a new role as caregiver and didn't stray too far away from the hut unless I was at the office. Marty has completed her treatment and is doing remarkable and her prognosis is excellent.

I mention this only to give thanks to so many people who were there with dinner, a kind word and a boat full of prayers. I am convinced that the power of prayer lifted her through this ordeal. She was a tower of strength throughout and never once asked, "Why me?" Going through this process certainly gives me a different perspective on life. It has not been the most fun year of my life but it has been so rewarding in many ways that I can't explain. Thanks again to all of you who burned those candles and kept Marty in your thoughts and prayers.

The firm continues to grow and prosper with many blessings from above. We added our fifth partner this year in Gray McDermott. He is a great fit with his knowledge of the tax law and his tremendous work ethic. We hired several new team members and we are excited about their futures here at CSB. We also welcomed some future legacies as Kristi and Tim had baby boys (Jonah and Mitchell), Jill had a girl (Ilsa) and Maura is expecting this month.

Our business is only as good as our client base. Many of our clients have achieved tremendous success over the last few years. We are hopeful that we will continue to grow to meet the increased demand from our clients as they prosper. There is much in the way of positive business news for Mobile these days. The city has been on the brink of a real boom for several years. We are truly optimistic that we may witness that reality in the years to come.

Here's a toast that you have a wonderful holiday season and that you reach new heights in your business and personal lives in 2008.