



Fact Sheet

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Highlights of 2007 Tax Changes: Law Raises AMT Exemption, Filers of Five Forms Must Wait Until Feb. 11

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AMT exemptions rise. Filing is delayed for some taxpayers. Several popular deductions reappear on IRS forms. Tax relief is available to struggling homeowners whose mortgage debt is forgiven. Retirement savings incentives expand. A new deduction is available for some mortgage insurance premiums. And new recordkeeping rules apply to cash donations to charity.

These are among the changes taxpayers will find when they fill out their 2007 tax returns. More information about the changes, summarized below, can be found on IRS.gov and in various IRS documents, including the [Instructions for Form 1040](#).

AMT Exemption Increased for One Year

For tax-year 2007, Congress raised the alternative minimum tax exemption to \$66,250 for a married couple filing a joint return, up from \$62,550 in 2006. The exemption rises to \$33,125 for a married person filing separately, up from \$31,275, and it rises to \$44,350 for singles and heads of household, up from \$42,500. Under current law, these exemption amounts will drop to \$45,000, \$22,500 and \$33,750, respectively, in 2008. [Form 6251](#) and the [AMT Calculator](#), which is being updated and will be available later in January, provide more information.

While the vast majority of taxpayers can file as usual, about 13.5 million taxpayers who file any of five tax forms affected by recent tax law changes related to the AMT will have to wait until Feb. 11, 2008, to file their returns. IRS.gov has [more information](#) on this important subject, including a list of affected forms and [questions and answers](#).

Extender Tax Breaks Reappear on IRS Forms

Several popular tax breaks, renewed too late to be included on 2006 forms, once again appear as separate items on various 2007 IRS forms. As a result, unlike last year, eligible taxpayers will no longer have to follow special instructions in order to claim the deduction for state and local sales taxes, the educator expense deduction and the tuition and fees deduction.

Those who itemize, rather than taking the standard deduction, can choose to claim state and local sales taxes on Form 1040 [Schedule A](#), Line 5.

The educator expense deduction is reported on [Form 1040](#), Line 23 or [Form 1040A](#), Line 16.

Taxpayers who choose to claim the tuition and fees deduction must fill out and attach new [Form 8917](#). The resulting deduction is reported on Form 1040 Line 34 or Form 1040A Line 19. Note that many who qualify for the tuition and fees deduction may reap greater tax savings by instead claiming the Hope credit or the lifetime learning credit for a particular student. Figure these credits on [Form 8863](#). [Publication 970](#) has details on these and other education-related tax benefits.

Contribution Limits Rise for IRAs and Other Retirement Plans

This filing season, more people can make tax-deductible contributions to a traditional IRA. The deduction is phased out for singles and heads of household who are covered by a workplace retirement plan, with incomes between \$52,000 and \$62,000, compared to \$50,000 to \$60,000 last year. The phase-out range is \$83,000 to \$103,000, up from \$75,000 to \$85,000 last year, if the spouse making the IRA contribution is covered by a workplace retirement plan. Where an IRA contributor, not covered by a workplace retirement plan, is married to someone who is covered, the deduction is phased out if the couple's income is between \$156,000 and \$166,000, up from \$150,000 to \$160,000 in 2006. The phase-out range remains \$0 to \$10,000 for a married individual filing a separate return who is covered by a retirement plan at work. Use the worksheet in the [line instructions for Form 1040 Line 32](#) or [Form 1040A Line 17](#) to figure the IRA deduction.

For 2007 and 2008, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b) and most 457 plans rises \$500, to \$15,500. The catch-up contribution limit for those aged 50 to 70-½ remains at \$5,000. For SIMPLE plans, the limit is also up \$500, to \$10,500, and the catch-up limit remains \$2,500.

This year for the first time income limits for the saver's credit are adjusted for inflation. The saver's credit supplements other tax benefits available to low- and moderate income taxpayers who save for retirement. Begun in 2002 as a temporary provision, the saver's credit is now a permanent part of the tax code. Use [Form 8880](#) to claim the credit.

Mortgage Insurance Premiums May be Deductible

Some borrowers may be able to deduct mortgage insurance premiums paid on mortgages taken out or refinanced during 2007. A borrower who prepays premiums for later years may deduct only the premiums that relate to 2007, except for prepayments for guarantees made by the Department of Veterans Affairs or the Rural Housing Service. Only mortgage insurance contracts issued during 2007, 2008, 2009 or 2010 qualify for this new itemized deduction. Proceeds of the mortgage, secured by a first or second home, must be used exclusively to buy, build or improve these homes, or alternatively, to refinance a mortgage, secured by the home and used for these purposes. Home-equity loans used for other purposes are not eligible. The deduction for mortgage insurance premiums is phased out for taxpayers with adjusted gross incomes

exceeding \$100,000 (\$50,000, if married filing separately). Claim this deduction on [Schedule A](#), Line 13. Further details are in [Publication 936](#).

New Rules for Giving to Charity

To deduct any charitable donation of money, taxpayers must have a bank record or a written communication from the recipient showing the name of the organization and the date and amount of the contribution. Though taxpayers are already required to keep records to support their contribution deductions, this new provision is designed to provide greater certainty, both to taxpayers and the government, in determining what may be deducted as a charitable contribution. See [Publication 526](#).

Standard Mileage Rates Adjusted for 2007

The standard mileage rate for business use of a car, van, pick-up or panel truck is 48.5 cents a mile, up 4 cents from 2006.

The standard mileage rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is 20 cents a mile, up 2 cents over last year.

The standard mileage rate for using a car to provide services to charitable organizations is set by law and remains at 14 cents a mile.

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

Employees working for employers who failed to withhold Social Security and Medicare taxes should use new [Form 8919](#) 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](#). IRS [Publication 1779](#) 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](#). 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](#), 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](#). See news release [IR-2007-198](#) for details.

Related Information:

- [Form 1040 \(PDF\)](#), [Instructions for Form 1040 \(PDF Version\)](#)
- [Form 1040A \(PDF\)](#), [Instructions for Form 1040A \(PDF Version\)](#)
- Alternative Minimum Tax (AMT) – [How it Affects Filing Season 2008](#)
- [AMT and Filing Season 2008: Q&A](#)
- [AMT Assistant](#) – Online Calculator for Individuals
- [Form 6251 \(PDF\)](#), Alternative Minimum Tax - Individuals
- [Form 8917 \(PDF\)](#), Tuition and Fees
- [Form 8863 \(PDF\)](#), Education Credits
- [Publication 970](#), Tax Benefits for Education ([Pub. 970 PDF Version](#))
- [Form 8880 \(PDF\)](#), Credit for Qualified Retirement Savings Contributions
- [Publication 936](#), Home Interest Deduction; ([Pub. 936 PDF Version](#))
- [Publication 526](#), Charitable Contributions; ([Pub. 526 PDF Version](#))
- [Form 8919 \(PDF\)](#), Uncollected Social Security Tax and Medicare Tax on Wages; [Form 1040 Schedule SE](#), Self-Employment Tax
- [Publication 1779 \(PDF\)](#), Independent Contractor or Employee