Shipman & Goodwin LLP

Legislative Update

January 2008

YEAR-END TAX LEGISLATION PASSED BY CONGRESS:

Alternative Minimum Tax Relief

In December, Congress passed the Tax Increase Prevention Act of 2007, which included a temporary "fix" for the alternative minimum tax ("AMT") in the form of an increased AMT exemption amount for the 2007 tax year. Absent this legislation, the AMT would have impacted a larger number of taxpayers as the exemption amounts were scheduled to revert to the lower exemptions in effect prior to 2001.

As a result of this so-called "AMT Patch," the AMT exemption amounts for 2007 are as follows:

Single Taxpayers and Heads of Household:	$44,350
Married Filing Jointly:	$66,250
Married Filing Separately:	$33,125

These exemption amounts are effective for 2007 only. Any increases in the AMT exemption for future tax years must be passed by Congress at a later date.

Recent IRS press releases have warned that taxpayers who file tax forms impacted by the AMT may have to delay filing their income tax returns until the IRS reprograms the forms to reflect the AMT legislation. The impacted forms include: Form 8396, Mortgage Interest Credit, Schedule 2, Form 1040AM, Child and Dependent Care Expenses, Form 8863, Education Credits and Form 5695, Residential Energy Credits. The IRS has targeted early February as the date by which these changes should be complete.

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Relief for Tax on Mortgage Debt Forgiveness;
Extension of Surviving Spouse's Home Sale Exclusion

In separate December legislation, Congress passed an enhanced exclusion for gain on the sale of a primary residence by surviving spouses. The Mortgage Forgiveness Debt Relief Act of 2007 primarily provides tax relief to taxpayers involved with mortgage workouts by excluding from the taxpayer's income up to $2 million of mortgage debt forgiven by a lender (for example, when a house in foreclosure sells for less than the mortgage balance and the lender forgives the mortgage balance in excess of the sales price). This relief applies to qualifying mortgage indebtedness discharged on or after January 1, 2007 and before January 1, 2010.

The Act also extends the time period during which a surviving spouse may use the $500,000 combined home sale gain exclusion available for joint filers to up to two years after the date of death of the deceased spouse. Prior to this legislation, the $500,000 exclusion was only available if a surviving spouse's residence was sold before the end of the taxable year in which the spouse died. Surviving spouses who sold residential real estate after that date were entitled only to the single individual $250,000 exclusion.

Federal Gift Tax Annual Exclusion

The maximum annual gift tax exclusion remains at $12,000 per donee for 2008.

QUESTIONS OR ASSISTANCE?

If you have any questions about this legislative tax update, please contact Danielle Ferrucci at (860) 251-5105.