

Tax Tips for Tax Year 2007

(Issued January 2008)

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Tax Tip 1

WHAT'S NEW FOR 2007?

The following changes are discussed in more detail in Publication 17, *Your Federal Income Tax For Individuals*, and the Instructions for Form 1040.

Exemption Amount Increased. The amount you can deduct for each exemption has increased to \$3,400. You lose all or part of the benefit of your exemptions if your adjusted gross income is above a certain amount depending on your filing status.

Standard Deduction Amount Increased. The standard deduction for taxpayers who do not itemize deductions on Schedule A of Form 1040 is, in most cases, higher for 2007. The amount depends on your filing status, whether you are 65 or older or blind, and whether an exemption can be claimed for you by another taxpayer. The basic standard deduction amounts for 2007 are: Head of Household — \$7,850; Married Filing Jointly and Qualifying Widow(er)s — \$10,700; Married Filing Separately and Single — \$5,350.

Alternative minimum tax (AMT) exemption amount decreased. Last minute legislation increased the AMT exemption amount to \$44,350 for single taxpayers; \$66,250 if married filing jointly or a qualifying widow(er); and \$33,125 if married filing separately.

Foreign Earned Income. The maximum foreign earned income exclusion amount available on Form 2555 or Form 2555-EZ is \$85,700. The housing exclusion and/or deduction floor has increased to \$13,712.00 and the housing cap, other than for certain cities listed in the Instructions for Form 2555, has increased to \$25,710.00 if your qualifying period includes all of 2007.

Note: If you claim the foreign earned income exclusion or the foreign housing exclusion on Form 2555 or Form 2555-EZ, you must figure your tax using the Foreign Earned Income Tax Worksheet found on page 34 in the Instruction Booklet for Form 1040.

Tax Tip 2

FILING REQUIREMENTS

If you are a U.S. citizen or resident alien, the rules for filing income, estate, and gift tax returns and for paying estimated tax are generally the same whether you are in the United States or abroad.

Your income, filing status, and age determine whether you must file a U.S. income tax return. Generally, you must file a return if your gross income from worldwide sources (excluding U.S. social security benefits) is at least:

If your filing status is...	AND at the end of 2007 you were...	THEN file if your gross income was at least...
Single	under 65	\$ 8,750
	65 or older	\$10,050
Married Filing Jointly	under 65 (both spouses)	\$17,500
	65 or older (one spouse)	\$18,550
	65 or older (both spouses)	\$19,600
Married Filing Separately	any age	\$ 3,400
Head of Household	under 65	\$11,250
	65 or older	\$12,550
Qualifying Widow(er) with dependent child	under 65	\$14,100
	65 or older	\$15,150

Please refer to the Instructions for Form 1040 for further information.

Tax Tip 3

TAX ASSISTANCE

The Internal Revenue Service provides tax assistance through a regional office located at the U.S. Embassy in Paris, France.

Phone: +33 (0)1 43 12 25 55
Monday- Friday, 9:00 am-12:00 pm and 1:30 pm- 3:30 pm
Closed French and American holidays

Fax: +33 (0)1 43 12 23 03

Email: irs.paris@irs.gov

Mail: U.S. Embassy – Internal Revenue Service
2, Avenue Gabriel, Room B-110
75382 Paris Cedex 08
France

Walk-In Assistance: U.S. Embassy
2, Avenue Gabriel
75008 Paris
France
Monday-Friday, 9:00 am-12:00 pm
Closed French and American holidays

Tax assistance can also be obtained by contacting the main international customer service center in Philadelphia.

Phone: +1 (215) 516-2000
6:00 am - 11:00 pm Eastern Standard Time

Fax: +1 (215) 516-2555

Email: www.irs.gov/help/page/0..id=133197.00.html

Tax Tip 4

ELECTRONIC FILING

More and more Americans are choosing e-file, which lets them electronically file a tax return or get a filing extension without sending any paper to the Internal Revenue Service.

Since 2001, the number of e-filed returns has almost doubled and over the past decade the number of e-filers has increased four-fold.

Year	Returns	Total E-file	Percent E-file
2001	131.0 million	40.2 million	30.7%
2002	131.7 million	46.9 million	35.6%
2003	131.6 million	52.9 million	40.2%
2004	132.2 million	61.5 million	46.5%
2005	134.0 million	68.5 million	51.1%
2006	136.1 million	73.3 million	53.8%

You may e-file your return using one of the following methods:

- **Tax Professional** by consulting your tax preparer or finding a preparer listed as an “Authorized IRS e-file Provider” at www.irs.gov .
- **Personal Computer** by purchasing commercially available software from a retailer, downloading software from an Internet site and preparing your return offline, or preparing and filing your return online.
- **Free file** by preparing your taxes online at www.irs.gov without cost beginning in mid-January 2008 if you earned \$54,000 or less in 2007.

Tax Tip 5

DIRECT DEPOSIT OF REFUND

You have more options and flexibility for receiving your 2007 U.S. income tax refund. Now you can:

- **Direct deposit your refund into one checking or savings account**

Whether you file electronically or on paper, direct deposit gives you faster access to your refund than a paper check. To request direct deposit of your refund into one account, report your bank's or financial institution's nine-digit routing number and your account number on the direct deposit line of your tax return. If you do not have or are unsure of these numbers, contact your bank or financial institution.

A word of caution — some financial institutions do not allow a joint refund to be deposited into an individual account. Check with your bank or financial institution to make sure your direct deposit will be accepted.

- **Split your refund with direct deposits into two or three checking or savings accounts**

With split refunds, you have a convenient option for managing your money — sending some of your refund to an account for immediate use and some for future savings. Use Form 8888, *Direct Deposit of Refund to More Than One Account*, to divide your refund among two or three different accounts.

Note: If you fail to request direct deposit on your return, you will receive your refund as a paper check in the mail.

Tax Tip 6

POSTMARKS

Federal tax returns, claims for refund, and other documents mailed to the Internal Revenue Service are treated as filed on the date of the domestic or foreign postmark.

However, **payments are not considered as made until the date of actual receipt rather than the postmark date.** This includes payments submitted with tax returns. Accordingly, you should take this into consideration when mailing a payment to the Internal Revenue Service in order to avoid late payment penalties and interest charges.

Tax Tip 7

CAPITAL GAINS AND LOSSES

Capital gains and losses are classified as either long-term or short-term depending on how long you held your capital asset. If you hold the asset for more than one year before you dispose of it, your capital gain or loss is considered to be long-term. If you hold the asset for less than one year, your capital gain or loss is considered to be short-term. The distinction between long-term and short-term capital gains and losses is important in determining your taxation.

If you have a net capital gain, that gain may be taxed at a lower tax rate. The term "net capital gain" means the amount by which your net long-term capital gain for the year is more than your net short-term capital loss. The highest tax rate on a net capital gain is generally 15%, or 5% in some cases, depending on your overall tax bracket. If you have a taxable capital gain, you may be required to make estimated tax payments on Form 1040-ES.

If your capital losses exceed your capital gains, the amount of the excess loss that can be claimed is limited to \$3,000, or \$1,500 if you are married filing separately. If your net capital loss is more than this limit, you can carry the loss forward to later years by using the Capital Loss Carryover Worksheet in Publication 550.

Capital gains and losses are reported on Schedule D of Form 1040 and then transferred to Form 1040.

Note: Foreign capital gains and losses. If you are a U.S. citizen who sells property located outside the United States, you must report all gains and losses from the sale of such property on your tax return unless it is exempt by U.S. law. This is true whether you reside inside or outside the United States and regardless of whether you receive a Form 1099 from the payer.

Tax Tip 8

CHILD TAX CREDIT & ADDITIONAL CHILD TAX CREDIT

For 2007, the child tax credit stands at \$1,000 for each qualifying child and the minimum earned income amount used to figure the additional child tax credit has increased to \$11,750. If you were a member of the U.S. Armed Forces who served in a combat zone, your nontaxable combat pay counts as earned income when figuring this credit limit.

You may be eligible for a child tax credit if you have a qualifying child who is (1) under age 17 at the end of 2007 and (2) a citizen or resident of the United States.

However, you must reduce your child tax credit if your modified adjusted gross income (AGI) is above \$110,000 for joint filers, \$55,000 for married taxpayers filing separately, and \$75,000 for single or head of household taxpayers.

Please refer to the Instructions for Form 1040, Form 8901, Form 8812, and Publication 972 for further information.

Tax Tip 9

RENTAL INCOME AND LOSSES

You must include in income all amounts you receive as rent. Rental income and expenses are entered on Schedule E and net rental income or loss is then carried to the income section of Form 1040.

Most individuals count their rental income as income when it is actually or constructively received, and deduct their expenses as they are paid. Some examples of expenses that may be deducted from your total rental income are depreciation, repairs, and operating expenses. You can recover some or all of your original investment in the rental property (including furnishings) and the cost of capital improvements through depreciation using Form 4562.

Rental losses are subject to various limits under the passive activity and at-risk rules, and excess or non-deductible losses may be carried forward to the following tax year.

Note that the sale of rental property does not qualify for the preferential tax treatment given to the sale of a main home.

Tax Tip 10

INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)

Traditional IRA and Roth IRA Contributions. If you are below the age of 50 in 2007, you may contribute as much as \$4,000 or your taxable compensation for the year to your traditional or Roth IRA for 2007. If you are age 50 or older in 2007, the maximum contribution is \$5,000 or your taxable compensation for the year.

However, if your modified Adjusted Gross Income (AGI) is above a certain amount based on your filing status, your deduction for contributions made to a traditional IRA and/or your ability to contribute to a Roth IRA may be reduced or eliminated. Please see Publication 590 for further information.

Note: For 2008, if you are below the age of 50, you may contribute as much as \$5,000 or your taxable compensation for the year and as much as \$6,000 or your taxable compensation for the year if you are age 50 or older.

Tax Tip 11

FOREIGN EARNED INCOME EXCLUSION

In 2007, if you had a tax home in a foreign country and you met either the bona fide residence test or the physical presence test, you may be able to claim a foreign earned income exclusion of up to \$85,700 and a housing exclusion or deduction for certain reasonable qualified foreign housing costs. U.S. government employees do not qualify for either the foreign earned income exclusion or the housing exclusion with respect to their government salaries.

For 2007, the housing exclusion and/or deduction floor increased to \$13,712.00 and the general limit on excluding or deducting certain reasonable housing expenses increased to \$25,710 (or \$70.44 per day if the qualifying period is less than 365 days), though the limits for certain cities may be higher. See page five of the Instructions for Form 2555 for further information.

The foreign earned income exclusion is claimed on either Form 2555 or Form 2555-EZ, and the foreign housing exclusion or deduction is claimed on Form 2555. Use Form 2555 if you are self-employed and/or claim the foreign housing exclusion or deduction. Use Form 2555-EZ if are a salaried employee and you do not claim the foreign housing exclusion.

Note: Beginning in 2006, if you claim the foreign earned income exclusion and/or the housing exclusion or deduction, you must now determine the tax on your non-excluded income using the tax rates that would have applied had you not claimed the exclusions by completing the Foreign Earned Income Tax Worksheet in the Instructions for Form 1040.

Tax Tip 12

FOREIGN TAX CREDIT

If you paid or accrued foreign income taxes on income which is not eligible to be, or cannot fully be, excluded on Form 2555 or Form 2555-EZ, you generally may choose to claim such taxes as a credit against your U.S. income tax using Form 1116 or to deduct them from your adjusted gross income as an itemized deduction on Schedule A.

However, if your only foreign source income is passive (interest, dividends, etc.) and is reported on a statement, such as a 1099, issued by a U.S. financial institution, you may be able to claim such a credit of up to \$300 (\$600 if married filing jointly) directly on Form 1040 without using Form 1116.

Tax Tip 13

PAYMENTS FOR 2007 & ESTIMATED TAX FOR 2008

Payments for 2007

Most international taxpayers who owe tax on their 2007 tax return, pay by check, money order, or credit card. You may not pay by cash.

Checks or money orders must be issued in U.S. Dollars and made payable to the "United States Treasury." Be sure to include the following information on your check or money order:

- (1) Your Social Security Number or Individual Taxpayer Identification Number (ITIN);
- (2) A designation that the payment is being made for the 2007 tax year and the tax return form being filed (e.g., Form 1040);
- (3) Your name, if not already listed on the instrument; and
- (4) Your daytime phone number.

Credit card payments may be made using any major credit card, including Visa, MasterCard, and American Express, through the following providers:

Official Payments Corporation
+1 (800) 272-9829 or
+1 (877) 754-4413
www.officialpayments.com

Link2Gov Corporation
+1 (888) 729-1040 or
+1 (888) 658-5465
www.pay1040.com

Estimated Tax for 2008

Estimated tax is used to pay tax on income that is not subject to any, or sufficient, withholding. In most cases, you must make estimated tax payments if you expect to owe at least \$1,000 in tax for 2008 (after subtracting your withholding and credits) and you expect your withholding and credits to be less than the smaller of:

1. 90% of the tax to be shown on your 2008 tax return; or
2. 100% of the tax shown on your 2007 tax return if such return covered all twelve months of the tax year.

Exception: U.S. citizens or resident aliens for all of 2007 do not have to pay estimated tax if they had no tax liability for the full twelve-month 2007 tax year.

For further information or to pay estimated tax for 2008 as a U.S. citizen or resident alien, please consult Form 1040-ES.

Tax Tip 14

LATE CHARGES, PENALTIES & INTEREST

If you do not file on time and owe tax, you will generally be assessed a late filing penalty of 5% of the tax owed for each month, or part of a month, that your return is late until the return is filed or a maximum 25% penalty is applied. If your return is over sixty days late, the minimum penalty for late filing is \$100 or 100% of the tax owed, whichever is smaller.

If you file on time but do not pay all amounts due on time, you will generally have to pay a late payment penalty of 0.5% of the tax owed for each month, or part of a month, that the tax remains unpaid from the due date, until the tax is paid in full or the maximum 25% penalty is applied. For individuals who file by the return due date, the 0.5% rate decreases to 0.25% for any month in which an installment agreement is in effect but increases to 1% if tax remains unpaid ten days after the Internal Revenue Service issues a notice of intent to levy.

Furthermore, if you do not pay all amounts due on time, interest is charged on any unpaid tax from the due date of the return until the date of payment. Interest charged on late payments changes quarterly and has ranged from a high of 9% to a low of 4% during the last several years. Beginning January 1, 2008, the interest rates will be:

- seven (7) percent for overpayments; and
- seven (7) percent for underpayments.

Tax Tip 15

EXTENSIONS TO FILE

Taxpayers generally must file a 2007 tax return by April 15, 2008.

U.S. citizens and residents with tax homes outside of the United States on April 15, 2008, however, are automatically granted a two-month extension to June 16, 2008 to file a tax return. Any tax due though must be paid by April 15, 2008 to avoid being charged penalties and interest.

To file a later return, taxpayers may request a filing extension to October 15, 2008 by filing Form 4868 before the normal return due date. Those taxpayers living abroad who need an extension to qualify for the bona fide residence test or physical presence test in order to be eligible for a foreign-earned income exclusion on Form 2555, however, should request a filing extension using Form 2350 by the normal due date of their return. With either extension, however, any tax due must be paid by April 15, 2008 to avoid being charged interest and penalties.

Tax Tip 16

INSTALLMENT AGREEMENTS

For those who cannot satisfy all of their tax debt immediately, an installment agreement may be a reasonable option allowing you to gradually make payments on the tax you owe. Installment agreements authorize you to pay tax debt in smaller, more manageable amounts. To be eligible for an installment agreement, you must have filed tax returns and made estimated tax payments as required.

To set up an installment agreement when you owe:

- \$25,000 or less in combined tax, penalties, and interest, use the Online Payment Agreement (OPA) at www.irs.gov, call the number on the bill or notice you received, or complete Form 9465 and mail it to the address indicated on the bill you received.
- More than \$25,000 in combined tax, penalties, and interest, call the number on the bill or notice you received or complete Forms 9465 and 433F and mail them to the address indicated on the bill you received.

You will receive a written notification telling you whether your installment agreement request has been approved or whether it needs to be modified. Once approved, you will be subject to a \$105 fee (\$52 if payments will be made by electronic funds withdrawal or \$43 if your income is below a certain level.

A fee of \$45 is also charged for reinstating defaulted installment agreements or restructuring existing installment agreements regardless of your income level. If you already have an approved installment agreement from a previous tax debt and your financial situation has changed, we may be able to modify or restructure your installment agreement to include additional amounts owed into one agreement.

Tax Tip 17

IRS NOTICES

If you receive a notice from the Internal Revenue Service that you believe is incorrect, you should respond as soon as possible by calling the telephone number identified on the notice or by writing to the office that sent you the bill. Publication 594 contains guidance on how to respond to notices, but, generally speaking, you should explain carefully your position on the notice and include with your response a copy of such notice plus copies of any cancelled checks or other documents which may help explain your position. If you need more time to formulate a response to a notice or gather information, you should contact the IRS immediately to ask for additional time.

You may also call the customer service center in Philadelphia at +1 (215) 516-2000 or the Paris, France, office at +33 (0)1 43 12 25 55 to receive certain limited assistance regarding notices.

Tax Tip 18

UNRESOLVED TAX MATTERS

If you have tried to resolve a tax problem but it has not been resolved in a timely manner or if an IRS action is causing you a significant hardship, you should contact the International Taxpayer Advocate by:

Phone: +1 (877) 777-4778 or +1 (787) 622-8940

Fax: +1 (787) 622-8933

Mail: Internal Revenue Service
Attn: Taxpayer Advocate Office
San Patricio Office Building, Room 200
7 Tabonuco Street
Guaynabo, Puerto Rico 00966

For further information about the Taxpayer Advocate refer to Publication 1546 or go to www.irs.gov/advocate .

Tax Tip 19

INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS (ITINS)

If you are not eligible to receive a Social Security Number but need to file a tax return, you must apply for an Individual Taxpayer Identification Number (ITIN) with Form W-7. An ITIN is issued by the Internal Revenue Service and begins with the number "9." It may look like a Social Security number, but an ITIN is used only for federal income tax purposes and has no effect on your work or immigration status in the U.S.

The procedures for requesting an ITIN are very specific and generally require that your application include a completed and signed Form W-7, a photocopy of your passport which has been certified by a U.S. consular official, and some kind of additional documentation (e.g., tax return, contract, bank or brokerage statement, etc.) proving that you have U.S. income. Please read the Instructions for Form W-7 carefully before requesting an ITIN.

Remember that each person who files a U.S. tax return or is listed as a spousal or dependent exemption on such a return must have a valid Social Security Number or ITIN. Complying with this requirement will ensure prompt processing of the return and issuance of any refund.

Tax Tip 20

FOREIGN BANK ACCOUNTS

American citizens and residents with a financial interest in, or signatory or other authority over, any foreign financial accounts, including bank, securities, and other types of accounts, which exceed \$10,000 at any time during a calendar year must file Form TD F 90-22.1 with the Department of the Treasury before June 30th of the following year. Such interests should also be indicated in Part III of Schedule B of Form 1040.

A TD F 90-22.1 does not need to be filed, however, if assets are with a U.S. military banking facility operated by a U.S. financial institution or if the combined value of assets in any and all accounts is \$10,000 or less during the year.

TD F 90-22.1 should be sent (separately from any tax return) to: the United States Department of the Treasury, P.O. Box 32621, Detroit, MI 48232-0621.

Tax Tip 21

FORM W-9 AND FORM W-8BEN

American citizens and residents living overseas are often asked to complete Form W-9 by U.S. financial institutions and other withholding agents to overcome any presumptions of foreign status. Form W-9 is used to confirm that the payee is a U.S. person, his or her Social Security Number or Individual Taxpayer Identification Number is correct, and the payee is not subject to backup withholding due to the failure to report interest and dividend income. Failure to provide a Form W-9 when requested may lead to backup withholding or withholding at the 30% rate typically applied to foreign persons.

Similarly, foreign persons are often asked to complete Form W-8BEN to establish that they are not a U.S. person, are the beneficial owner of certain U.S. income, and claim a reduced rate of U.S. withholding as a resident of a foreign country with which the U.S. has an income tax treaty. Failure to provide a Form W-8BEN when requested may lead to withholding at a 30% rate.

Tax Tip 22

ESTATE AND GIFT TAX

Property owned at the time of death may be subject to federal estate tax, and property given during one's lifetime may be subject to federal gift tax. These taxes, if assessed, are in addition to individual income tax.

For 2007, gross estates of not more than \$2,000,000 and the first \$12,000 of gifts are not taxable. Estates and gifts exceeding these thresholds may be subject to estate and/or gift tax depending on the status of the decedent or donor (e.g., U.S. citizen vs. foreign national), location of the property, and what U.S. law and any estate and gift tax treaties between the U.S. and foreign countries provides.

For further information, please refer to Publication 950, Form 706, or Form 709.

Tax Tip 23

RECORDS RETENTION & COPIES OF RETURNS

Once your tax return is prepared, you should keep all receipts, cancelled checks or other proof of payment, and other records to support deductions or credits you claim on your return. The length of time you should keep these records can vary.

Keep items that support an item of income or deduction appearing on a return until the statute of limitations for the return expires, which is:

- Three years from the date you filed the return (or the return due date if you filed a return before the due date) for an assessment of tax, unless fraud or substantial underreporting of income is involved;
- Three years from the date you filed the return (or the return due date if you filed a return before the due date) for filing a claim for credit or refund; or
- Two years from the date you paid the tax, whichever is later.

Records relating to the basis in property should be retained until after you dispose of the property and report any gain or loss.

To request copies of income tax returns and income source information for the past three years, file Form 4506. There is no cost to obtain tax return transcripts or such income source information. To obtain copies of actual returns and attachments, however, there is a \$39 charge for each return requested.

Tax Tip 24

PAST DUE REFUNDS

If you filed your return and are expecting a refund, you can go to “Where's My Refund?” at <https://sa2.www4.irs.gov/irfof/lang/en/irfofgetstatus.jsp> to find out whether the Internal Revenue Service processed and sent your refund.

To determine the status of your refund, you will need to provide the following information as shown on your return:

- Social Security Number (or Individual Taxpayer Identification Number)
- Filing status, (Single, Married Filing Joint Return, Married Filing Separate Return, Head of Household, or Qualifying Widow(er))
- Exact refund amount shown on your return

If you have not received your check within twenty-eight days of the mailing date shown on “Where’s My Refund?”, you can begin a refund trace online. You can also change your mailing address online if “Where’s My Refund” indicates that your refund was returned as undeliverable.