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2007 YEAR-END TAX PLANNING

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This month House Ways and Means Chairman Charles Rangel (D, NY) proposed legislation to "fix" the AMT (Alternative Minimum Tax) and prevent it from affecting 21 million more taxpayers than in 2006. His proposal as written is unlikely to pass but it begins the annual last minute effort to grant AMT relief by restoring the exemption that dropped from 2006. Unless Congress passes some form of AMT relief, the exemption will drop for joint married taxpayers from $62,550 in 2006 to $45,000 in 2007. For singles it will drop from $42,500 to $33,750. For married taxpayers subject to AMT that could mean at least a $4,500 increase in AMT tax in 2007 ($2,275 for singles).

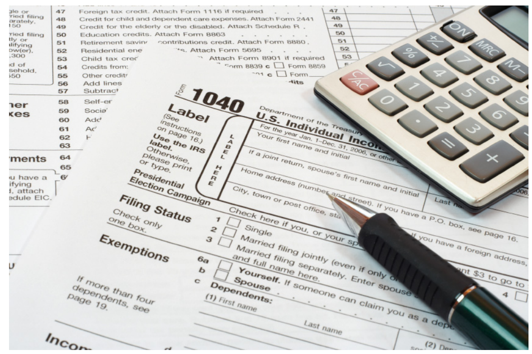
Current reports out of Washington suggest there is a bi-partisan effort to pass AMT relief, but at this late date it is uncertain at best. How does one plan with this 2007 AMT uncertainty? And will you be subject to AMT in 2008 as well? These questions are difficult to answer as each year there seems to be a last minute relief provision which makes any prognosis cloudy.

AMT - Cause and Planning

AMT is a parallel tax system that disallows personal exemptions and certain itemized deductions such as state, local income, and real estate taxes. The resulting AMT taxable income is taxed at either 26% or 28%. You pay the greater of regular tax or AMT tax.

Planning for AMT is difficult for two reasons: the law keeps changing year to year, and there are very few things one can do to avoid it if you are subject to it. If you will be subject to AMT in 2007, but not likely to be caught by it in 2008, then you should consider delaying deductions that are disallowed for AMT until 2008. For example, consider delaying payment of the second half of your 2007 real estate taxes until 2008. One common mistake we find with clients is the deduction of the interest paid on a home equity loan; if you are subject to AMT, use of a home equity loan for purposes other than home improvement loses its tax advantage.

Another area impacted by AMT is the year when stock options are exercised. For non qualified options (the usual type for our clients) it may be beneficial to trigger option income in a year you are already subject to AMT as additional income may reduce the AMT portion of your liability.



Year End Tax Planning Tips

In years past, we have found the following techniques to benefit our clients. Since these recommendations are not suitable for all situations, please talk to your Vantage Relationship Manager or tax professional before implementing.

Tax Harvesting – Selling Loss Investments to Offset Gain Investments

Usually people try to sell stocks and securities at a gain and pay the resulting capital gains tax. However, we always review with our clients the wisdom of looking at loss securities and selling them to create offsetting losses to neutralize any tax bite. If you want to continue to own these loss stocks (they might recover), you can sell them and buy them back after waiting 30 days to prevent the "wash sale" rules.

Use the "Catch Up" Provision to Increase Your 401(k) Contribution

For taxpayers who are at least 50 at the end of this year, you are allowed an additional $5,000 pre-tax "Catch-Up" contribution to your 401(k) plan. Normally the limit is $15,500, but for taxpayers over 50 that amount increases to $20,500. You may want to consider changing your contribution before year-end, to maximize your deduction.

Gift Appreciated Securities to your 18 year old or college student by year end

Congress passed a new "Kiddie Tax" which we reported on earlier this year. Currently any unearned income and gains of a child up through 17 is taxed at the parent's higher tax rates after a modest threshold amount. Beginning in 2008, the "Kiddie Tax" has been extended to 18 year olds and all full time college students through age 23. If parents have long term appreciated securities that they will use to fund college or use to benefit their 18 year old, then they should consider gifting up to $12,000 per spouse ($24,000 for a couple) to their children this year and have them sell the stock in 2007. In this way the child's lower tax rate (capital gains is 5% for the 10-15% brackets) will apply.

Make Charitable Deductions Directly From Your IRA if you are over 70 ½

Congress is allowing for two years (2006, 2007) the ability to give charities gifts up to $100,000 per year directly from your IRA without first paying the tax on the distribution. If you have not reached 70 ½, you should alert your parents of this tax benefit. There is currently a proposal before Congress to extend this provision into 2008.

Contribute Appreciated Stock to Charities Instead of Cash

Many of our clients are unaware of the benefits of giving appreciated long term gain assets to charity instead of cash. If you donate appreciated stock, you are allowed the same charitable deduction of fair market value, but you do not have to pay the capital gains tax. In addition, the church can sell the stock and realize the gross proceeds without tax. Thus, it allows you to give more to the charity at less cost. So if you have stock that you would sell at a long term gain, consider using it to fulfill your charitable intent this year.

New Changes for 2008

FICA Base Increases to $102,000

The 6.2% FICA social security tax base has increased to $102,000 for 2008 (up from $97,500 in 2007). The Medicare tax of 1.45% remains and is uncapped.

Increased IRA limits

The maximum contributions to traditional and Roth IRA's has been increased to $5,000. Taxpayers who reach 50 in 2008 can contribute an additional $1,000.

Reduction in Capital Gains Rates for Low Income Filers

For those taxpayers in the 10% or 15% tax brackets, the capital gains tax drops from 5% to 0% through 2010.

Reduction in Dividend Tax Rate for Low Income Filers

Similarly dividends for those in the 10% or 15% tax brackets will be taxed at 0% through 2010.

If you would like more information on these items and other tax planning ideas, please contact your Relationship Manager.