2006-07 Ag Income Tax Update for Farm Families

Prepared by:
C. Robert Holcomb, EA, Regional Extension Educator
Gary A. Hachfeld, Regional Extension Educators
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Introduction:

For the 2006 and 2007 tax year, there are a number of items that will be of interest to farm families. Those items are outlined in this information piece. Some major changes have resulted from the passage of the Small Business Work Opportunity Act of 2007, signed into law on May 25, 2007.

Note: this information piece is offered as educational information only and not intended to be legal or financial advice. For questions specific to your farm business, consult with your tax preparer.

Federal Minimum Wage Increase:

An increase in the federal minimum wage becomes effective 60 days after the date of enactment and will take place in increments over a three year period. Each yearly increase is 70 cents per hour. The first increase takes effect on July 24, 2007 with the minimum wage of $5.85 per hour. The next increase is to $6.55 per hour in July 2008 and the last increase is to $7.25 per hour in July 2009.

Standard Deduction & Personal Exemption:

The Federal standard deduction amounts for 2006 & 2007 are as follows:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married Filing Joint (MFJ)</td>
<td>$10,300</td>
<td>$10,700</td>
</tr>
<tr>
<td>Single</td>
<td>$5,150</td>
<td>$5,350</td>
</tr>
<tr>
<td>Head of Household (HOH)</td>
<td>$7,550</td>
<td>$7,850</td>
</tr>
<tr>
<td>Married Filing Separate (MFS)</td>
<td>$5,150</td>
<td>$5,350</td>
</tr>
</tbody>
</table>

Personal exemptions will be $3,300 each for 2006 and $3,400 each for 2007. Personal exemptions for 2006 & 2007 phase out when adjusted gross income (AGI) is above the following amounts:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married Filing Jointly</td>
<td>$225,750</td>
<td>$234,600</td>
</tr>
<tr>
<td>Single</td>
<td>$150,500</td>
<td>$156,400</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$188,150</td>
<td>$195,500</td>
</tr>
<tr>
<td>Married Filing Separately</td>
<td>$112,875</td>
<td>$117,300</td>
</tr>
</tbody>
</table>

Please note, an additional $1,000 is added for each exemption for individuals over the age of 65 and/or blind.

For the 2006 tax year, Minnesota has adopted the provisions of the Working Family Tax Relief Act of 2004. Minnesota married taxpayers who take the standard deduction are allowed to use the higher federal tax percentage rate to calculate their tax benefit. This provision is set to expire December 31, 2010.

Federal Child Tax Credit:

The child tax credit is still in force. You may qualify for a $1,000 credit for every child under the age of 17 at the end of the tax year.

Phase out of the child tax credit begins at $110,000 income for MFJ and $75,000 for S/HOH. The phase out lasts a bit longer at a $50 reduction in the credit for every $1,000 over the limit.
**Federal Mileage Deduction:**

Mileage deductions for the 2006 tax year are as follows:

- **Business Miles**: 44.5 cents/mile
- **Medical/Move Miles**: 18 cents/mile
- **Charitable Miles**: 14 cents/mile

Volunteer workers dealing with Katrina related activities are allowed a charitable contribution deduction of 32 cents per mile if they bear the cost themselves.

Mileage deduction rates for 2007 are currently established as follows: business – 48.5 cents/mile, medical/moving – 20 cents/mile, and charity work – 14 cents/mile.

**Annual Exclusion for Gifts:**

The annual exclusion for gifts is $12,000 per donor/per recipient/ per year for 2006 (will be $12,000 in 2007).

For married couples gifting, they can elect to treat all gifts made as made one-half by each spouse. The amount gifted can then be doubled to $24,000. However, if one spouse owns the asset being given as if belonging to both spouse, the donor spouse technically needs to complete IRS Form 709 if the fair market value of the gift is in excess of the annual exclusion amount of $12,000.

This can be a complicated issue so check with your tax preparer.

**Self-Employment Tax Items:**

Self employment tax remains a split calculation as follows: 12.4% for social security and 2.9% for Medicare.

The maximum amount you will pay Social Security tax on is $94,200 for 2006 and $97,500 for 2007. There currently is no cap on the Medicare portion.

Annual earning limits on Self-Employment/Social Security Tax have changed. For individuals who are less than their Full Retirement Age (FRA), there is a limit on income of $12,480 for 2006 ($12,960 for 2007). In the year the individual reaches FRA, the income limit is $33,240 for 2006 ($34,440 for 2007). Beginning the month the individual reaches their FRA, there is no limit on income. Note: the FRA requirements change based upon an individual’s birth date so check with your local Social Security office for these details or go to the following web site: www.socialsecurity.gov.

Self-Employment Tax on land and building rent received from an entity has also been an issue for farmers. Until 1995, the IRS has not paid much attention to the issue of land rent or building and facility rent received from an entity – that is, as a land or building owner receiving rent from a partnership or corporation they are a part of. That has changed however. The current ruling in the 8th Circuit Court System **ONLY** (includes Minnesota) states that if a land owner rents their land to a business entity they are a member of, the land rent paid to them is not subject to self-employment tax if the rental amount is fair and reasonable.

Rent paid by an entity for buildings and facilities owned by a participant in the entity is subject to the same rules as land rent.

**Be cautious with all self employment issues. Check with your tax preparer because the rules can change frequently. Deal with each individual situation separately.**

**Health Spending Accounts:**

The rules for Health Spending Accounts remain in effect. A Health Spending Account (HSA) is a tax-exempt custodial account that must be used in conjunction with a high-deductible health plan. The contributions are treated much like a traditional IRA.

In order to qualify for a Health Spending Account, you must be enrolled in a “High-Deductible Health Plan”. The minimum annual deductible amounts are $1,050 per individual and $2,100 for a family in 2006. These amounts are $1,100 and $2,200 for 2007 respectively. Maximum annual out-of-pocket expense amounts are $5,250 for an individual and $10,500 for a family in 2006. For 2007 the amounts are $5,500 and $11,000 respectively. Additional requirements include not having any other health insurance coverage, not being entitled to Medicare benefits, and you cannot be claimed as a dependent on someone else’s return.

Several key points on Health Spending Accounts include:
- contributions made by employer may be excluded from gross income,
- contributions remain in account from year to year,
- interest/earnings from account are tax free,
- distributions may be tax free if you pay qualified medical expenses, and
- portable – stays with you if you switch jobs or leave the work force.

The contribution limits for a Health Spending Account are:
- Single $2,700 ($3,400 if over age 55)
- Family $5,450 ($6,150 if over age 55)
Depreciation:

Section 179 expense deduction for 2006 was $108,000. As a result of the passage of the Small Business Work Opportunity Act of 2007, Section 179 depreciation provisions have changed. For 2007, the deduction limit and phase-out threshold amounts are increased to $125,000 and $500,000, respectively. These increased amounts are indexed for inflation after 2007 and before 2011. These changes are effective for tax years beginning after December 31, 2006.

The right to revoke or change the Section 179 expense election without IRS consent is extended for one year to tax year beginning before January 1, 2011. This is effective for tax years beginning after December 31, 2006.

The inclusion of off-the-shelf computer software as eligible for Section 179 expensing election is extended for one year. This is effective for tax years beginning after December 31, 2006, and before January 1, 2011.

Domestic Production Activities Deduction:

Domestic Production Activities Deduction provision is a tax deduction for employers with production activities within the United States. Agricultural production will qualify for this deduction. At the time of this writing, rules and regulations for this provision were not complete so check with your tax preparer to determine if you qualify. However, preliminary guidelines are listed here.

For tax years beginning 2006, the deduction equals the smallest of the following three amounts:

1. 3% of taxable income derived from qualified production activity.
2. 3% of table income for the tax year (adjusted gross income (AGI) for individuals estates, and trusts)
3. 50% of the form W-2 wages paid by the taxpayer during the calendar year that ends in the tax year.

However, the deduction will increase to 6% for taxable years beginning in 2007, 2008 and 2009, and to 9% for taxable years beginning after 2009.

Taxation of Government Program Payments:

There are a number of government programs that farmers participate in. Generally, payments are made to farmers participating in those programs. Each program payment can have a slightly different tax procedure. The various programs and the appropriate tax procedure are outlined below.

Direct Payments: These payments are guaranteed to the farmer. The payment is split into two payments. One-half of the payment is advanced at the time of program participation sign-up. The second half of the total payment is made in the fall the covered commodity crop is harvested.

The payment income is taxable in the year received. Depending upon when the farmer signs up for the program, the payments may be received in the same year or they may be received in two different years. The farmer has the option of choosing for tax planning purposes.

Counter-Cyclical Payments: These payments are not guaranteed to the farmer and must be “earned” based upon market price and bushels of crop sold nationally. The payments can be made to farmers at three different times over the course of a 12 month period. If earned, there are two advanced and one final payment made. These payments are taxable in the year received. The farmer does have the option of foregoing the advanced payments, if earned, until the end of the 12 month period. These payments could then be received in the same year or two different years, depending upon the tax strategy of the farmer.

Loan Deficiency Payments (LDP): LDP payments apply to covered commodity crops that have not yet been placed under CCC loan. When the Posted County Price (PCP) is above the local cash price, an LDP can be earned by the farmer. Because the PCP changes daily, the farmer will receive a different LDP rate depending upon the date selected.

LDP payments are considered ordinary income and are taxable in the year received.

Market Gain on CCC Loans: Market gain applies only to those bushels of covered commodity crop placed under CCC loan. The farmer has a choice of tax reporting of the CCC loan proceeds. They can elect either the loan method or the income method of tax reporting. The method selected will dictate the tax procedure.

Under the loan method, no income is reported when securing the CCC loan. If the loan is “bought back” at less than the loan principal and/or interest amount, there is market gain. For tax reporting, the farmer would report the loan interest and principal forgiven (gain) which is listed on IRS Form 1099. This gain would be added to the sale income of the grain to equal the total income amount for tax purposes. Caution: do not include the loan amount as income in addition to the gain and sale income. This would result in over reporting of income.
Under the income method, the farmer would report the loan amount as income. If the loan is “bought back” at less than the loan principal and/or interest amount, there is market gain. For tax reporting, the farmer would report the difference between the grain sale price and the grain basis (PCP), as gain. The loan income plus the gain would be the total for tax reporting purposes.

**Caution:** do not include the total grain sale amount in the total income amount for the transaction. Doing so will result in over reporting of income and an increase in tax liability.

**NOTE:** Back in 2002, the law changed regarding the selection of either the loan or income method for tax reporting. Farmers can change their election of methods for tax reporting on CCC loans. A change from the income method to the loan method requires the completion of and filing with their tax return, IRS Form 3115. This change is considered a change in accounting method and has automatic approval from the IRS Commissioner.

Farmers can also change from the loan method to the income method. This change is called an I.R.C § 77 election and requires filing the election with the tax return.

Each method is somewhat different but both are allowed under the new tax law. These changes can be made year by year but all covered commodity crops in any given year must be treated the same. That is, if the farmer has selected the income method for tax reporting, all CCC loan crops in the same year are subject to that reporting method.

Because all crops in the same year are subject to the same tax reporting election, there is a potential tax planning problem with this issue. Assume a farmer puts 2004 corn under CCC loan on May 31, 2005. The loan will mature in January 2006. Assume further that the same farmer will place under CCC loan the 2005 corn crop in the fall of 2005. If the farmer changes the tax reporting method to accommodate the fall 2005 loan, the 2004 corn loan taken on May 31 must be changed as well. Be sure to consult your tax preparer if you find yourself in this situation.

**Alternative Minimum Tax (AMT) Issues:**

On the federal level, AMT rules remain in effect. Changes in calculating the Alternative Minimum Taxable Income (AMTI) have made the AMT an issue of more concern to farmers.

For individuals, the AMT exemption amounts have changed. If married and filing jointly or as a surviving spouse, the exemption is $58,000 for 2006 and $62,550 for 2007. If married filing separately, the exemption is $29,000 for 2006 and $31,275 for 2007. If filing single or as head of household, the exemption is $40,250 for 2006 and $42,500 for 2007.

In Minnesota beginning in 2005, there are a number of items subtracted when calculating the income for computing AMT. Those items include: federal active duty military pay received by residents for services performed outside of Minnesota, compensation received for state active duty service performed in Minnesota by National Guard members or Reservists, and certain costs incurred when donating all or part of a human organ.

AMT is a complex issue so check with your tax preparer.

**Deferred Contract Sales and Alternative Minimum Tax (AMT) Issues:**

Deferred contract sales are now allowed. A farmer can sell grain and livestock in one year, sign a deferred payment contract or an installment contract, and postpone payment and recognition of that gain into the following year. Tax on the gain will be calculated for both regular and AMT tax in the following year.

**Income Averaging:**

Income averaging has been reinstated, for farmers only. Farmers can elect an amount of their current farm income to divide equally among the previous three years. The amount applied to the previous three years is added to the previous year’s taxable income. Savings result if the previous year’s income was taxed at a lower tax rate than the current year.

This election applies to any income that is attributable to a farm business. Farm income includes items of income, deduction, gain and loss attributable to the individual’s farming business. This includes: 1) net Schedule F income, 2) an owner’s share of net income from an S corporation, partnership, or limited liability company, 3) wages received by an S corporation shareholder from the S corporation, and 4) gain from the sale of assets used in the farming business and reported on Form 4797 and/or Schedule D (Form 1040) but not gain from the sale of land or timber.

Farmers are allowed to use a negative farm income for calculations in the base year. However, this loss carried from the base year to other years in the calculation, must be removed from the base year calculation to prevent a double tax benefit.
In addition, the tax payer will lose a portion of the benefit of the income averaging if the calculation reduces the regular tax liability below that calculated using the Alternative Minimum Tax (AMT) method.

Again, check with your tax preparer regarding this issue.

**Capital Gains Tax Changes:**

Capital gain tax rates for land and stock sales are as follows:

- 10-15% federal tax bracket: capital gains rate of 5% (was 10% under previous law)
- 25% federal tax bracket or above: capital gains rate of 15% (was 20% under old law)

These rates went into affect for sales after May 5, 2003.

**Note:** the 5% rate will go to 0% for tax years 2008, 2009 and 2010 for taxpayers in the 10% and 15% federal tax bracket.

Capital Gains Tax rates for building depreciation recapture (Section 1250 property) are as follows:

- 10-15% federal tax bracket: capital gains rate of 10-15%
- 25% federal tax bracket or above: capital gains rate of 25% - maximum 28%

Capital Gains Tax rates for the sale of collectables:

- 10-15% federal tax bracket: capital gains rate of 10-15%
- 25% federal tax bracket or above: capital gains rate of 25% - maximum 28%

This is a critical issue and is complicated so check with your tax preparer for details.

**Disaster Payments and Crop Insurance Indemnity Payments:**

Any crop insurance proceeds you receive need to be included as income on your tax return. You generally include that income in the year received. Crop insurance includes the crop disaster payments received from the federal government as the result of destruction or damage to crops, or the inability to plant crops, because of drought, flood, or any other natural disaster.

You can postpone reporting crop insurance proceeds as income until the year following the year the damage occurred if you meet all the following conditions:

- You use the cash method of accounting.
- You receive the crop insurance proceeds in the same year the crops are damaged.
- You can show that under normal business practice you would have included income from the damaged crops in any tax year following the year the damage occurred.

Generally, farmers are able to establish their practice of reporting crop income in a following taxable year by reference to their prior year’s sale records.

In order for a payment to constitute insurance for the destruction of or damage to crops, the insured must suffer actual physical loss. Agreements with the insurance companies that provide for payments without regard to actual losses by the insured, such as payments in the event that county average yield is less than a specified amount, are not payments for the destruction of or damage to crops. Such payments do not qualify for deferral under I.R.C. 451(d). Also payments made for a decline in the price of the commodity, rather than a physical loss, do not qualify for deferral.

The key point of this discussion is that insurance payments that are based upon total revenue or a combination of yield and price do NOT qualify for income deferral even if the normal marketing cycle would place that income in the following tax year.

**Dividend Income Tax Procedures:**

Effective January 1, 2003 through December 31, 2008, dividend income will be taxed at capital gain rates.

The AMT calculation applies and the rates are the same as regular rates.

The new rule does not apply to dividends that are really interest or income from REITs. There is a 60 day holding period requirement. Dividends no longer offset investment interest unless election to have the income taxed at regular rates is made.

**Farm Family Tax & Retirement Provisions:**

**Individual Retirement Accounts (IRA):**

The maximum contribution you may make to an Individual Retirement Account (IRA) is $4,000 for 2006 and 2007. If the taxpayer is age 50 or older, the maximum amount is $5,000 for 2006 and 2007.

Education IRAs have been improved. The maximum contribution is $2,000 for 2006. The contribution limit phase out for single individuals at $95,000 - $110,000
and for married filing jointly at $190,000 and $220,000. Contributions are treated as made in the calendar year if made by April 15 of the following year. Qualified expenses are expanded to include tuition, fees, academic tutoring, books, supplies, room and board, and computers and other equipment necessary in connection with the enrollment or attendance at a public, private or religious school.

Education IRA’s can be used at nearly any school that provides elementary or secondary education (K-12) or institution or college of higher education.

The Hope Tax Credit is a non-refundable credit that reduces the taxes paid by parents of certain post high school students. The allowable credit is up to $1,650 per eligible student. The credit can be claimed by a taxpayer for expenses incurred on behalf of the taxpayer, the taxpayer's spouse, or a dependent claimed on the tax return. To be eligible for a Hope Credit, the student must be enrolled in a degree, certificate, or other program leading to recognized educational credentialing. The student must be at least a half-time student and never have been convicted of a felony consisting of the possession or distribution of a controlled substance.

The student must be in the first two years of study to be eligible for this credit. The Hope credit is phased out at given levels depending upon your tax status. Check with your tax preparer.

The Lifetime Learning Credit provides a non-refundable credit against federal income taxes equal to 20 percent of qualified tuition fees incurred during a tax year up to $10,000 of eligible expenses.

The credit can be claimed on behalf of the taxpayer, the taxpayer's spouse or any dependent. The maximum credit per tax return (not per student) is $2,000. The credit is phased out for high-income tax payers, amounts the same as for the Hope Credit shown above.

The Lifetime Learning Credit can be claimed for an unlimited number of taxable years.

It can be claimed for any course of instruction at an eligible educational institution for the purpose of acquiring or improving job skills of the student.

Student loan interest is deductible on educational loans. Individuals who pay interest on qualified educational loans may claim a deduction for such interest expenses. The maximum deduction allowed is $2,500. The deduction is allowed on payments made on a qualified educational loan on which interest payments are required. There is currently no time limitation.

The deduction is an "above the line" deduction, which means that it will be a deduction on the front page of the Form 1040 and you do not have to itemize deductions to claim this credit.

This deduction is phased out depending upon your tax status. Check with your tax preparer.

Section 529 savings plans: tax law exempts earnings in Sec. 529 plans from federal income taxes. There are two types:

- prepaid tuition plans
- college savings plans

See your tax preparer for details specific to each plan and to your situation.
FEDERAL TAX RATES FOR 2006:

### TABLE 1: SECTION 1(a): MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES

<table>
<thead>
<tr>
<th>If Taxable Income Is</th>
<th>The Tax Is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $15,100</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $15,100 but not over $61,300</td>
<td>$1,510 plus 15% of the excess over $15,100</td>
</tr>
<tr>
<td>Over $61,300 but not over $123,700</td>
<td>$8,440 plus 25% of the excess over $61,300</td>
</tr>
<tr>
<td>Over $123,700 but not over $188,450</td>
<td>$24,040 plus 28% of the excess over $123,700</td>
</tr>
<tr>
<td>Over $188,450 but not over $326,450</td>
<td>$42,170 plus 33% of the excess over $188,450</td>
</tr>
<tr>
<td>Over $336,550</td>
<td>$91,043 plus 35% of the excess over $336,550</td>
</tr>
</tbody>
</table>

### TABLE 2: SECTION 1(b): HEADS OF HOUSEHOLDS

<table>
<thead>
<tr>
<th>If Taxable Income Is</th>
<th>The Tax Is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $10,750</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $10,750 but not over $41,050</td>
<td>$1,075 plus 15% of the excess over $10,750</td>
</tr>
<tr>
<td>Over $41,050 but not over $106,000</td>
<td>$5,620 plus 25% of the excess over $41,050</td>
</tr>
<tr>
<td>Over $106,000 but not over $171,650</td>
<td>$21,857.50 plus 28% of the excess over $106,000</td>
</tr>
<tr>
<td>Over $171,650 but not over $336,550</td>
<td>$40,239.50 plus 33% of the excess over $171,650</td>
</tr>
<tr>
<td>Over $336,550</td>
<td>$94,656.50 plus 35% of the excess over $336,550</td>
</tr>
</tbody>
</table>

### TABLE 3: SECTION 1(c): SINGLE INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS)

<table>
<thead>
<tr>
<th>If Taxable Income Is</th>
<th>The Tax Is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $7,550</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $7,550 but not over $30,650</td>
<td>$755 plus 15% of the excess over $7,550</td>
</tr>
<tr>
<td>Over $30,650 but not over $74,200</td>
<td>$4,220 plus 25% of the excess over $30,650</td>
</tr>
<tr>
<td>Over $74,200 but not over $154,800</td>
<td>$15,107.50 plus 28% of the excess over $74,200</td>
</tr>
<tr>
<td>Over $154,800 but not over $336,550</td>
<td>$37,575.50 plus 33% of the excess over $154,800</td>
</tr>
<tr>
<td>Over $336,550</td>
<td>$97,653 plus 35% of the excess over $336,550</td>
</tr>
</tbody>
</table>

### TABLE 4: SECTION 1(d): MARRIED INDIVIDUALS FILING SEPARATE RETURNS

<table>
<thead>
<tr>
<th>If Taxable Income Is</th>
<th>The Tax Is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $7,550</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $7,550 but not over $30,650</td>
<td>$755 plus 15% of the excess over $7,550</td>
</tr>
<tr>
<td>Over $30,650 but not over $61,850</td>
<td>$4,220 plus 25% of the excess over $30,650</td>
</tr>
<tr>
<td>Over $61,850 but not over $94,225</td>
<td>$12,020 plus 28% of the excess over $61,850</td>
</tr>
<tr>
<td>Over $94,225 but not over $168,275</td>
<td>$21,085 plus 33% of the excess over $94,225</td>
</tr>
<tr>
<td>Over $168,275</td>
<td>$45,521.50 plus 35% of the excess over $168,275</td>
</tr>
</tbody>
</table>
## MINNESOTA STATE TAX RATES FOR 2006:

<table>
<thead>
<tr>
<th></th>
<th>Tax Rate</th>
<th>5.35%</th>
<th>7.05%</th>
<th>7.85%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$0 - $20,510</td>
<td>$20,511 - $67,360</td>
<td>$67,361 +</td>
<td></td>
</tr>
<tr>
<td>Head of Household</td>
<td>$0 - $25,250</td>
<td>$25,251 - $101,450</td>
<td>$101,451 +</td>
<td></td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$0 - $29,980</td>
<td>$29,981 - $119,100</td>
<td>$119,101 +</td>
<td></td>
</tr>
<tr>
<td>Married Filing Separate</td>
<td>$0 - $14,990</td>
<td>$14,991 - $59,550</td>
<td>$59,551 +</td>
<td></td>
</tr>
</tbody>
</table>

## OTHER INFORMATION:

### Form 706—U.S. Estate (and Generation-Skipping Transfer) Tax Return:
- **Estate Tax Applicable Exclusion Amount:** 2005: $1,500,000, 2006: $2,000,000, 2007: $2,000,000
- **Special-use valuation reduction limit:** 2005: $850,000, 2006: $900,000, 2007: $940,000
- **Generation-skipping transfer Exemption (GST):** 2005: $1,500,000, 2006: $2,000,000, 2007: $2,000,000
- **Estate value qualifying for 2% interest for installment payments:** 2005: $1,170,000, 2006: $1,200,000, 2007: $1,250,000

### Form 709—U.S. Gift (and Generation-Skipping Transfer) Tax Return:
- **Gift Tax Applicable Exclusion Amount:** 2005: $1,000,000, 2006: $1,000,000, 2007: $1,000,000
- **Annual exclusion for gifts:** 2005: $11,000, 2006: $12,000, 2007: $12,000

### Form 1040—U.S. Individual Income Tax Return Standard Deductions:
- **Joint or qualifying widow(er):** 2005: $10,000, 2006: $10,300, 2007: $10,700
- **Single:** 2005: $5,000, 2006: $5,150, 2007: $5,350
- **Married filing separately:** 2005: $5,000, 2006: $5,150, 2007: $5,350
- **Additional for elderly/blind—married:** 2005: $1,000, 2006: $1,000, 2007: $1,050
- **Additional for elderly/blind—unmarried or head of household:** 2005: $1,250, 2006: $1,250, 2007: $1,300
- **Taxpayer claimed as dependent (or $250 + earned income not exceeding standard deduction or $300 in 2006):** 2005: $800, 2006: $850, 2007: $850

### Beginning of Itemized Deduction Phase-out Range Based on AGI:
- **Joint, single, head of household:** 2005: $145,950, 2006: $150,500, 2007: $156,400
- **Married filing separately:** 2005: $72,975, 2006: $75,250, 2007: $78,200

### Exemption deductions:
- **Personal and dependent:** 2005: $3,200, 2006: $3,300, 2007: $3,400
- **Estate:** 2005: $600, 2006: $600, 2007: $600
- **Simple trust:** 2005: $300, 2006: $300, 2007: $300
- **Complex trust:** 2005: $100, 2006: $100, 2007: $100
Form 4562—Depreciation & Amortization:
Section 179 Deduction: $105,000 $108,000 $112,000
Phase-out begins at new investment of: $420,000 $430,000 $450,000

Form 6251—Alternative Minimum Tax—Individuals AMT Exemption Amount:
Married, filing joint return: $58,000 $58,000 $62,550
Single, qualifying widow(er), head of household: $40,250 $40,250 $42,500
Married, filing separately: $29,000 $29,000 $31,275
Kiddie tax: $5,850 $6,050 $6,300

Earnings Ceiling for Social Security:
Below full retirement age (FRA): $12,000 $12,480 $12,960
Monthly maximum earnings before FRA for full benefits: $2,650 $2,770 $2,870
Above full retirement age: Unlimited Unlimited Unlimited
Earnings Required to Earn One Quarter of Social Security Coverage: $920 $970 $1,000

Publication References:
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College Station, TX
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Practitioners Publishing Company
Fort Worth, TX
www.quickfinder.com

Minnesota Department of Revenue
Tax Year 2006 Individual Income Tax Manual
St. Paul, MN.
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CCH Editorial Staff Publication
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