February 2007

MMCO 2007 Tax Update

Social Security 2007

The Social Security Administration has announced the rates and wage bases for 2007 are as follows:

FICA rate: 6.20%

Medicare rate: 1.45%

Self employment tax combined rate: 15.3%

Wage base for Social Security: $97,500

Wage base for Medicare: No Limit

2007 Mileage

Business Use

48.5 cents a mile.

Medical transportation and Moving Expense

20 cents a mile.

Charitable expenses

14 cents a mile.

***Note that parking fees and tolls are deductible in addition to your mileage.**

2007 Retirement Contributions

The following plan limits apply beginning January 1, 2007:

IRA Accounts -The contribution limit remains at $4,000 with a catch-up amount for anyone who is age 50 by the end of the year of an additional $1,000.

Elective Deferrals 401(k) and 403(b) Plans -The new contribution limit is $15,500, up from $15,000 last year, with the catch-up amount remaining at $5,000 for anyone who is age 50 by the end of the year. Remember that a 401(k) plan can now include a Roth 401(k) provision. Contributions to a Roth 401(k) are included in your gross wages, but withdrawals from the plan are not taxable.

SEP Plans -Contributions are limited to 25% of compensation, with a maximum contribution of $45,000, up from $44,000 for 2006.

SIMPLE Plans - Contribution limits to SIMPLE plans have increased by $500 to $10,500. However, the catch-up amount remains unchanged at $2,500.

Defined Contribution Plans - The contribution limit on profit sharing and money purchase plans, including Keogh (self-employed) plans is 100% of compensation up to $45,000, increased from $44,000 in 2006.

Defined Benefit Plans - The limit on the annual benefit is $180,000, up from $175,000 in 2006.

Catch-up contributions for anyone 50 or older may be made regardless of whether an employee has reached their otherwise applicable limits. An employer is permitted, although not required, to make matching contributions with respect to the catch-up contributions.

HSA

A health savings account (HSA) is a tax-exempt trust or custodial account established to pay qualified medical expenses of the beneficiary. An HSA can only be established by an individual who has qualifying high-deductible health coverage. Contributions to an HSA may be made by or on behalf of any eligible individual and are deductible “above the line”. Therefore individuals can benefit whether they itemize deductions or not. The deduction is limited by law and by the amount of the deductible on their qualifying plan.

Contributions may also be made by a corporation for an employee, a partnership for a partner and by an S Corporation for a shareholder-employee. Earnings are exempt from tax and distributions from the HSA to pay qualified medical expenses are not taxable. While HSA plans offer a flexible option for providing health care coverage, the rules can be complex. Please call us if you would like additional information on these plans.

Education Plans

We receive many telephone calls regarding the differences between Coverdell Education Savings Accounts (CSEAs) and Qualified Tuition Programs (529 Plans). We have summarized some of the differences between these savings plans below. If you are considering one of these plans, please call our office as each plan's requirements are unique.

CSEA	529 Plan
Contribution limited to $2,000 per year, per beneficiary	Can put in higher contribution (may require gift tax returns)
Can contribute for child under 18	No age requirement
Contribution phased out based on income	No income limitations
Income grows tax free	Income grows tax free
Flexible investments	Limited selection of investments
Can buy computer and related items	Can pay college tuition and board only
Can change beneficiaries	Can change beneficiaries
Can be used for grades K through 12	Can be used for college only
No state tax deduction	May get state tax deduction (in Connecticut state tax deduction for CHET)

Tax Relief and Health Care Act of 2006

On December 20, 2006, the President signed the Tax Relief and Heath Care Act of 2006, extending several tax breaks that were scheduled to expire and introducing some new deductions. Some of the highlights are as follows:

Home Mortgage Insurance Premiums

Home mortgage insurance premiums paid during 2007 in connection with your acquisition indebtedness for a qualified residence are deductible as qualified residence interest. The deduction begins to be phased out for taxpayers with adjusted gross income over $100,000, or $50,000 for married taxpayers filing separate returns. This new law applies to mortgage insurance provided by the Veterans Administration, the Federal Housing Administration or the Rental Housing Association, as well as private mortgage insurance. The insurance must be both paid and properly allocated to 2007 and the mortgage contract must be issued after 2006.

Qualified Tuition Expenses

The above-the-line deduction for qualified tuition and related expenses is extended through December 31, 2007. The deduction limit is $4,000 for a taxpayer whose modified adjusted gross income does not exceed $65,000 ($130,000 on a joint return), and $2,000 for a taxpayer whose modified adjusted gross income for the tax year does not exceed $80,000 ($160,000 on a joint return).

Helping in the Community

Miller Moriarty & Company was proud to donate a *Decorated Holiday Tree to the* **New Britain Public Library 2006 Festival of Trees**. Our tree was donated with a ***"Baking Theme"*** complete with an embroidered Chef's Hat as our tree topper and an apron skirt in a beautiful baker themed fabric. The MMCO tree was part of the library's silent auction. All funds raised went directly to the New Britain Public Library to help with library improvements and creating programs throughout the year that directly benefit the local community.

Tax Planning

Tax planning starts on January 1 of each year and never ends. We hope that the information in our newsletter is helpful to you. Please contact us to learn more about the many ways we can assist you with your tax planning and the range of services offered by our firm

Circular 230 Notice

None of the articles in this newsletter are intended to be used, nor can they be used, for the purpose of avoiding U.S. Tax Penalties.

Pension Protection Act of 2006

General provisions – Millions or taxpayers will be affected by the Pension Protection Act of 2006. Pension benefits under the act include higher plan contribution deductions for employers, permanent IRA changes, Roth 401(k) Plans, and automatic 401(k) enrollment. Some of the changes are noted below. Please call our office if you need information on changes that may affect you under this new law.

Charitable donations - The new Pension Act allows individuals over 70 ½ to make a charitable donation ***directly*** from their IRA in any amount up to $100,000 and exclude it from income. The check must be payable directly to the public charity, and not to the account holder. Amounts so distributed are treated as consisting of income first, leaving any basis intact. Of course, taxpayers do not also get a charitable deduction for the contribution, but the amount donated does count as a Required Minimum Distribution. Since the IRA distribution is not included in Adjusted Gross Income (AGI), several items of income and deductions are calculated in favor of the taxpayer. This benefit is scheduled to expire December 31, 2007.

IRA Rollovers - Prior to the Pension Protection Act (PPA), spouses who were beneficiaries of a qualified plan could roll the benefit over into their own IRA, remain the beneficiary, or transfer the benefits to an inherited IRA. Until now, beneficiaries other than spouses were not allowed similar benefits. However, as of January 1, 2007, the Pension Protection Act allows even non-spouse beneficiaries of a qualified plan to roll the distributions into their own IRA or to transfer them to an inherited IRA. Once the transfer is in place, beneficiaries may stretch the inherited IRA payments over their own life expectancy. Since the account has more years to accumulate income, total benefits will be increased.

Energy Credits

Remember that you may claim energy credits during 2006 or 2007 for:

- The cost of making energy saving improvements to your home. This is a new 10% credit for energy efficient improvements to an existing home, with a lifetime maximum per taxpayer of $500.
- The use of solar power to generate electricity or solar hot water in your home. The credit is 30% of the purchase of qualifying residential solar water heating, photovoltaic equipment and fuel cell property. You may claim a maximum credit of $2,000, but not for heating a swimming pool or hot tub.
- The purchase of a hybrid automobile. The original use of the vehicle must begin with you. The credit is calculated on the relative fuel economy of your automobile to the 2002 fuel economy.

Long Distance Telephone Tax Refunds

Remember to claim your telephone excise tax refund on your 2006 individual income tax return. You can either use the actual tax on your telephone bills between February 28, 2003 and July 31, 2006, or take a standard amount based on your exemptions, ranging from $30 for a return with one exemption to $60 for a return with four or more exemptions.

You've Got Mail – from us

We would like to communicate with you electronically when matters come to our attention that we think would be of interest to you. In order to make sure we have your correct email address, please visit our website at http://www.millermoriarty.com and click on the "Contact Us" section, fill in the requested information, type "current email address" in the Comment/Question box and click on the submit button to forward the information to us.

Career Celebration

On September 28, 2006 the entire Miller Moriarty Team honored Frank Miller with an evening at the Aqua Turf celebrating his outstanding career and dedicated community service through the years.

The evening was filled with over five decades of fond memories from his family, friends and clients.

It was apparent to everyone in attendance how much Frank has meant to the community, his clients, and as a mentor to his employees over the years. It was a wonderful evening honoring a very special man.

Charitable Giving

As a part of the recently enacted Pension Protection Act of 2006, the government has taken steps to assure that charitable contribution deductions are documented more carefully. For 2006, documentation depends on whether the donation is more or less than $250. But for 2007, ***all*** cash gifts, regardless of amount, must be substantiated by a bank record or written communication stating the name of the charity and the amount and date of the contribution. Self-created records, such as logbooks, will no longer be accepted as documentation. We encourage you to make all of your donations by check or credit card. If you chose to make a cash gift, be sure you receive a signed receipt from the charity. For donations of clothing and household items, a deduction will be allowed only if the items are in "good used condition or better". Although the law does not define this term, we suggest that you obtain a receipt from the charity stating that the items are in good condition. In addition, you may wish to keep a photograph of the items with your tax information. For items which are not in good condition but are valued in excess of $500, a qualified appraisal is required to be attached to your tax return.

Please keep in mind that we have described only some of the highlights of the most important changes in the new law.
Please call our office for more details on how you may be affected by this important tax legislation.

All of the Team Members at
Miller, Moriarty & Company, LLC
wish you a joyous and
prosperous New Year.

Call us at 860.225.7854

Fax us at 860.225.4893

Email us at main@millermoriarty.com

Miller, Moriarty & Company, LLC

35 Court Street

New Britain, CT 06051

ADDRESS CORRECTION REQUESTED