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## It's Not Too Late

### Last-Minute Tax Tips, Plus Two Changes for 2007

By **Christine Martin**

Tax returns are due on April 16 this year, a day later than usual because April 15 falls on a Sunday. As most librarians know, the IRS Web site (<http://www.irs.gov>) provides forms and publications, and IRS Publication 17 (“Your Federal Income Tax”) is a good place to start. So if you haven’t filed your return yet, you may find the following tips helpful.

**You can e-file for free if you make \$52,000 or less per year.** Go to <http://www.irs.gov> and look for “free file.” According to the IRS, 70 percent of individual taxpayers are eligible for this service, which is provided by a consortium of tax preparation software companies. Be sure to access this service through the IRS Web site and not the companies’ Web sites. Otherwise, you will be charged a fee. Also beware that preparation of state returns may not be free. Some companies also have lower income eligibility limits and age limits. You may be charged a processing fee (also called a convenience fee) if you use a credit card to pay your taxes via “free file.”

**It's not too late to open an IRA.** You can open an individual retirement account (IRA) for calendar year 2006 as late as April 16, 2007. As in past years, you may deduct contributions of up to \$4,000 (\$5,000 for individuals age 50 or older). But if you are covered by a retirement plan at work you may not be able to deduct the entire amount. Contributions to a traditional IRA are excluded from your taxable income, but are taxed when you reach age 70 1/2. A Roth IRA, however, is funded with after-tax dollars, but is exempt from taxation when you take distributions years later. But beware: the amount you can contribute to a Roth IRA is offset by the amount you contribute to any traditional IRA—or any amount that anyone else contributes on your behalf.

**You may qualify for the Earned Income Credit.** If your adjusted gross income for 2006 is under \$38,348, you may qualify for the Earned Income Credit (EIC), a federal program that refunds taxes, including payroll taxes (i.e., Social Security and Medicare), to low- to moderate-income families who are working. Use the chart below to see if you qualify. Your annual investment income cannot exceed \$2,800 per year. According to IRS Publication 596 (“Earned Income Credit”) <http://www.irs.gov/publications/p596/index.html>, EIC tax refunds can be as high as \$4,536. And because the EIC refunds payroll taxes as well as income taxes, you may be eligible even if you owe no or little income tax.

<b>You can claim the Earned Income Credit if your adjusted gross income* is less than:</b>	<b>Without children</b>	<b>One child</b>	<b>Two or more children</b>
Single (at least age 25 but younger than age 65)	\$12,120	\$32,001	\$36,348
Married filing jointly (not eligible if married filing separately)	\$14,120	\$34,001	\$38,348

\*Adjusted gross income is found on:

- Line 4 of Form 1040EZ;
- Line 22 of Form 1040A; and
- Line 38 of Form 1040.

**Do you deduct sales taxes, tuition and fees, or up to \$250 in classroom supplies? If so, laws passed in December may change how you file.** Apparently, taxpayers aren't the only ones who wait until the last minute. Congress passed three tax provisions in December that hit the books too late to be included in the printed tax forms that the IRS mailed for 2007. The last-minute changes allow taxpayers to continue to deduct state and local sales taxes instead of state and local income taxes (popular in states that have no income tax) and certain higher education tuition and fees. The December law also continues the deduction for up to \$250 in educator expenses (typically money teachers spend to equip their classrooms). The IRS says these "extender" changes have been included in tax preparation software (see IRS fact sheet *IRS Begins Processing Returns Claiming Extender Deductions: Urges Taxpayers to File Electronically, Check on Phone Tax Refund* at <http://www.irs.gov/newsroom/article/0,,id=167605,00.html>). But paper filers will have to mark up their tax returns to continue to claim these deductions. Teachers who want to continue to deduct up to \$250 in classroom supplies will have to write in "E" (for educator, no doubt) near line 23 of Form 1040 and ignore the fact that it's nominally devoted to the Archer MSA (Medical Savings Account). Similarly, those wishing to deduct their state and local sales taxes or tuition and fees will have to write in "ST" on Line 5 of Schedule A or "T" on Line 35 of Form 1040.

**Tax credits still available for hybrid vehicles, limited for only Toyota models.**

You may have heard that the tax credit for purchasing a Toyota hybrid vehicle expired because sales were so strong. But taxpayers will be able to claim a partial tax credit for Toyota (including Lexus) hybrids purchased through October 1, 2007, according to the IRS fact sheet *Credit Available for Taxpayers Who Purchased or Leased Hybrid Vehicles in 2006* at <http://www.irs.gov/newsroom/article/0,,id=165649,00.html>. The federal Energy Policy Act of 2005 grants tax credits to those who buy the energy-efficient vehicles, which rely on rechargeable batteries as well as internal combustion engines. According to the IRS, only Toyota (including Lexus) has sold enough hybrids—60,000—to trigger a phase-out of the tax credit. Vehicles purchased from other makers, such as Honda, Ford, and General Motors, are still eligible for the tax credit, which can be as much as \$2,600 depending on make and model.

**If you can't file by April 16, you can get an extension until October 15.** If you can't get your tax return in the mail by April 16, you can get a six-month extension (until October 15 for most individuals) by filing Form 4868. But you still must pay any estimated tax liability when you request an extension. Otherwise, you risk incurring penalties and interest.

**New for 2007: Get written proof of money donations; taxpayers over age 70 1/2 may be able to contribute IRA funds to charity tax-free**

- **Get written proof of money donations—you'll need it next year.** If you're accustomed to tossing cash into the collection plate and then claiming it as a charitable contribution when you file your tax return, change your ways now to make life easier next year. According to the IRS Web site, *Recent Tax Law Changes May Affect People Giving to Charity: IRS Offers Tips for Year-End Donations* (<http://www.irs.gov/newsroom/article/0,,id=164997,00.html>), "to deduct any charitable donation of money, a taxpayer must have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution." This change took effect August 17, 2006, when President Bush signed the Pension Protection Act of 2006, but for most individuals—who pay their taxes on a calendar year basis—it didn't kick in until January 1, 2007. According to the IRS, cancelled checks are sufficient to prove money contributions, as are pay stubs or W-2 forms for donations made via payroll deduction.
- **Consider giving IRA distribution to charity; it's tax-free for 2007.** According to the same IRS press release cited above, if you are age 70½ or older, you can transfer up to \$100,000 from an Individual Retirement Account (IRA) to a qualified charity without having to pay taxes on the amount transferred. This provision may be important to retirees who do not relish having to pay taxes on what would otherwise be an involuntary distribution from an IRA. According to the IRS (see same Web site as above), this provision, also part of the federal Pension Protection Act of

2006, applies to only tax years 2006 and 2007. Donations made pursuant to this provision must flow directly from the IRA trustee to the charity and may not be deducted as charitable contributions. A taxpayer does not have to itemize deductions to take advantage of this temporary tax provision.

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