

Tax Tips

Keeping you informed...

Summer 2007

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Save Your Receipts

Optional sales tax deduction extended

Congress has extended the sales tax deduction, allowing people who itemize to deduct either state and local income tax or state and local sales tax. This option is especially beneficial for taxpayers living in a state with no state sales tax. The option is good until December 31, 2007.

You are allowed to deduct the greater of your actual state sales tax paid or an amount the IRS has determined based on your income and the number of exemptions that you claim when you file.

In addition to the amounts provided in the IRS tables, you can also deduct sales tax paid on motor vehicles, boats, motor homes, and aircraft. The IRS has also specified the following additional items, but only if the tax rate on these items is the same as the general sales tax rate in your state:

- Homes (including mobile and prefabricated homes); and
- Home building materials and substantial additions to or renovations of your home.

The sales tax is deductible on the above items only if the state or locality imposes a general sales tax directly on the sale of a home or on the cost of a substantial addition or major renovation, and only if you purchased the materials yourself.

Did You Purchase a New Home This Year?

One-time deduction for mortgage insurance premiums available

If you purchased a home in 2007 and paid premiums for qualified mortgage insurance, you may be entitled to an additional deduction. You personally must have paid the mortgage insurance premiums in connection with the debt you incurred to acquire your residence. Only premiums paid during 2007 qualify.

Qualified mortgage insurance is mortgage insurance provided by the Veterans Administration (VA), the Federal Housing Administration (FHA), the Rural Housing Administration (RHA), or a private mortgage insurance company.

