

IRS Revenue Procedure 2006-46 Sets Forth Inflation Adjusted Items for 2007

.01 Under § 25B eligible individuals are allowed a credit against tax equal to the applicable percentage of qualified retirement savings contributions of the individual that do not exceed \$2,000. Section 833(a) of the Pension Protection Act of 2006, Pub. L. No. 109-280, 120 Stat. 780 (2006) (PPA), added § 25B(b)(3), which provides that the adjusted gross income amounts in § 25B(b) used to determine the applicable percentage for calculating the credit are adjusted for inflation. (See section 3.06 of this revenue procedure.)

.02 Section 219(a) allows individuals to deduct qualified retirement contributions for a taxable year. Section 833(b) of the PPA added § 219(g)(8), which provides that the applicable dollar amount under § 219(g)(3) used to determine the amount of reduction for the limitation on deduction for taxpayers who are active participants and for spouses who are not active participants in certain pension plans is adjusted for inflation. (See section 3.21 of this revenue procedure.)

.03 Section 408A(c) provides rules for the tax treatment of contributions made to Roth IRAs. Section 833(c) of the PPA added § 408A(c)(3)(C), which provides that the applicable dollar amount under § 408A(c)(3) used to determine the dollar limit, based on modified adjusted gross income, for the contribution limit to Roth IRAs is adjusted for inflation. (See section 3.25 of this revenue procedure.)

.04 Q&A 14 of Rev. Proc. 2002-41, 2002-1 C.B. 1098, provides an inflation adjustment method for the hourly rates used to determine the amounts deemed substantiated for payments made by transportation mainline pipeline construction employers under accountable plans. (See section 3.10 of this revenue procedure.)

Q&A 14 is modified to read as follows:

Q-14. Will the amount deemed substantiated under this revenue procedure be adjusted for inflation?

A-14. Yes. For calendar years after 2006, the hourly rate will be adjusted annually for inflation under § 1(f)(3), except that the base year for such adjustment will be calendar year 2002 and any adjustment will be rounded to the nearest dollar. Any adjustment to the rates provided in this revenue procedure will be published annually.

2007 ADJUSTED ITEMS

.01 Tax Rate Tables. For taxable years beginning in 2007, the tax rate tables under § 1 are as follows:

TABLE 1 — Section 1(a). — Married Individuals Filing Joint Returns and Surviving Spouses If Taxable Income Is: The Tax Is:

Not Over \$15,650 10% of the taxable income
Over \$15,650 but not over \$63,700 \$1,565 plus 15% of the excess over \$15,650
Over \$63,700 but not over \$128,500 \$8,772.50 plus 25% of the excess over \$63,700
Over \$128,500 but not over \$195,850 \$24,972.50 plus 28% of the excess over \$128,500
Over \$195,850 but not over \$349,700 \$43,830.50 plus 33% of the excess over \$195,850
Over \$349,700 \$94,601 plus 35% of the excess over \$349,700

TABLE 2 — Section 1(b). — Heads of Households

If Taxable Income Is: The Tax Is:

Not Over \$11,200 10% of the taxable income
Over \$11,200 but not over \$42,650 \$1,120 plus 15% of the excess over \$11,200
Over \$42,650 but not over \$110,100 \$5,837.50 plus 25% of the excess over \$42,650
Over \$110,100 but not over \$178,350 \$22,700 plus 28% of the excess over \$110,100
Over \$178,350 but not over \$349,700 \$41,810 plus 33% of the excess over \$178,350
Over \$349,700 \$98,355.50 plus 35% of the excess over \$349,700

TABLE 3 — Section 1(c). — Unmarried Individuals (other than Surviving Spouses and Heads of Households).

If Taxable Income Is: The Tax Is:

Not Over \$7,825 10% of the taxable income
Over \$7,825 but not over \$31,850 \$782.50 plus 15% of the excess over \$7,825
Over \$31,850 but not over \$77,100 \$4,386.25 plus 25% of the excess over \$31,850
Over \$77,100 but not over \$160,850 \$15,698.75 plus 28% of the excess over \$77,100
Over \$160,850 but not over \$349,700 \$39,148.75 plus 33% of the excess over \$160,850
Over \$349,700 \$101,469.25 plus 35% of the excess over \$349,700

TABLE 4 — Section 1(d). — Married Individuals Filing Separate Returns

If Taxable Income Is: The Tax Is:

Not Over \$7,825 10% of the taxable income
Over \$7,825 but not over \$31,850 \$782.50 plus 15% of the excess over \$7,825
Over \$31,850 but not over \$64,250 \$4,386.25 plus 25% of the excess over \$31,850
Over \$64,250 but not over \$97,925 \$12,486.25 plus 28% of the excess over \$64,250
Over \$97,925 but not over \$174,850 \$21,915.25 plus 33% of the excess over \$97,925
Over \$174,850 \$47,300.50 plus 35% of the excess over \$174,850

TABLE 5 — Section 1(e). — Estates and Trusts

If Taxable Income Is: The Tax Is:

Not Over \$2,150 15% of the taxable income
Over \$2,150 but not over \$5,000 \$322.50 plus 25% of the excess over \$2,150
Over \$5,000 but not over \$7,650 \$1,035 plus 28% of the excess over \$5,000
Over \$7,650 but not over \$10,450 \$1,777 plus 33% of the excess over \$7,650
Over \$10,450 \$2,701 plus 35% of the excess over \$10,450

.02 Unearned Income of Minor Children Taxed as if Parent's Income (the "Kiddie Tax"). For taxable years beginning in 2007, the amount in § 1(g)(4)(A)(ii)(I), which is used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax," is \$850. This amount is the same as the \$850 standard deduction amount provided in section 3.11(2) of this revenue procedure. The same \$850 amount is used for purposes of § 1(g)(7) (that is, to determine whether a parent may elect to include a child's gross income in the parent's gross income and to calculate the "kiddie tax"). For example, one of the requirements for the parental election is that a child's gross income is more than the amount referenced in § 1(g)(4)(A)(ii)(I) but less than 10 times that amount; thus, a child's gross income for 2007 must be more than \$850 but less than \$8,500.

.03 Adoption Credit. For taxable years beginning in 2007, under § 23(a)(3) the credit allowed for an adoption of a child with special needs is \$11,390. For taxable years beginning in 2007, under § 23(b)(1) the maximum credit allowed for other adoptions is the amount of qualified adoption expenses up to \$11,390. The available adoption credit begins to phase out under § 23(b)(2)(A) for taxpayers with modified adjusted gross income in excess of \$170,820 and is completely phased out for taxpayers with modified adjusted gross income of \$210,820 or more. (See section 3.15 of this revenue procedure for the adjusted items relating to adoption assistance programs.)

.04 Child Tax Credit. For taxable years beginning in 2007, the value used in § 24(d)(1)(B)(i) to determine the amount of credit under § 24 that may be refundable is \$11,750.

.05 Hope and Lifetime Learning Credits.

(1) For taxable years beginning in 2007, the Hope Scholarship Credit under § 25A(b)(1) is an amount equal to 100 percent of qualified tuition and related expenses not in excess of \$1,100 plus 50 percent of those expenses in excess of \$1,100, but not in excess of \$2,200. Accordingly, the maximum Hope Scholarship Credit allowable under § 25A(b)(1) for taxable years beginning in 2007 is \$1,650.

(2) For taxable years beginning in 2007, a taxpayer's modified adjusted gross income in excess of \$47,000 (\$94,000 for a joint return) is used to determine the reduction under § 25A(d)(2)(A)(ii) in the amount of the Hope Scholarship and Lifetime Learning Credits otherwise allowable under § 25A(a).

.06 Elective Deferrals and IRA Contributions by Certain Individuals. For taxable years beginning in 2007, the applicable percentage under § 25B(b) is determined based on the following amounts:

Modified Adjusted Gross Income		Joint Return		Head of Household		All Other Cases		Applicable Percentage
Over	Not Over	Over	Not Over	Over	Not Over	Over	Not Over	
\$0	\$31,000	\$0	\$23,250	\$0	\$15,500			50%
\$31,000	\$34,000	\$23,250	\$25,500	\$15,500	\$17,000			20%
\$34,000	\$52,000	\$25,500	\$39,000	\$17,000	\$26,000			10%
\$52,000	\$39,000	\$26,000						0%

.07 Earned Income Credit.

(1) In general. For taxable years beginning in 2007, the following amounts are used to determine the earned income credit under § 32(b). The “earned income amount” is the amount of earned income at or above which the maximum amount of the earned income credit is allowed. The “threshold phaseout amount” is the amount of adjusted gross income (or, if greater, earned income) above which the maximum amount of the credit begins to phase out. The “completed phaseout amount” is the amount of adjusted gross income (or, if greater, earned income) at or above which no credit is allowed.

Number of Qualifying Children

Item One Two or More None

Earned Income Amount \$8,390 \$11,790 \$5,590

Maximum Amount of Credit \$2,853 \$4,716 \$428

Threshold Phaseout Amount (Single, Surviving Spouse, or Head of Household) \$15,390 \$15,390 \$7,000

Completed Phaseout Amount (Single, Surviving Spouse, or Head of Household) \$33,241 \$37,783 \$12,590

Threshold Phaseout Amount (Married Filing Jointly) \$17,390 \$17,390 \$9,000

Completed Phaseout Amount (Married Filing Jointly) \$35,241 \$39,783 \$14,590

The instructions for the Form 1040 series provide tables showing the amount of the earned income credit for each type of taxpayer.

(2) Excessive investment income. For taxable years beginning in 2007, the earned income tax credit is not allowed under § 32(i) if the aggregate amount of certain investment income exceeds \$2,900.

.08 Low-Income Housing Credit. For calendar year 2007, the amounts used under § 42(h)(3)(C)(ii) to calculate the State housing credit ceiling for the low-income housing credit is the greater of (1) \$1.95 multiplied by the State population, or (2) \$2,275,000.

.09 Alternative Minimum Tax Exemption for a Child Subject to the “Kiddie Tax.” For taxable years beginning in 2007, for a child to whom the § 1(g) “kiddie tax” applies, the exemption amount under § 55 and 59(j) for purposes of the alternative minimum tax under § 55 may not exceed the sum of (1) the child’s earned income for the taxable year, plus (2) \$6,300.

.10 Transportation Mainline Pipeline Construction Industry Optional Expense Substantiation Rules for Payments to Employees under Accountable Plans. For calendar year 2007, an eligible employer may pay certain welders and heavy equipment mechanics an amount of up to \$15 per hour for rig-related expenses that is deemed substantiated under an accountable plan if paid in accordance with Rev. Proc. 2002-41. If the employer provides fuel or otherwise reimburses fuel expenses, up to \$9 per hour is deemed substantiated if paid under Rev. Proc. 2002-41.

.11 Standard Deduction.

(1) In general. For taxable years beginning in 2007, the standard deduction amounts under § 63(c)(2) are as follows:

Filing Status Standard Deduction

Married Individuals Filing Joint Returns and Surviving Spouses (§ 1(a)) \$10,700

Heads of Households (§ 1(b)) \$7,850

Unmarried Individuals (other than Surviving Spouses and Heads of Households) (§ 1(c)) \$5,350

Married Individuals Filing Separate Returns (§ 1(d)) \$5,350

(2) Dependent. For taxable years beginning in 2007, the standard deduction amount under § 63(c)(5) for an individual who may be claimed as a dependent by another taxpayer cannot exceed the greater of (1) \$850, or (2) the sum of \$300 and the individual's earned income.

(3) Aged or blind. For taxable years beginning in 2007, the additional standard deduction amount under § 63(f) for the aged or the blind is \$1,050. These amounts are increased to \$1,300 if the individual is also unmarried and not a surviving spouse.

.12 Overall Limitation on Itemized Deductions. For taxable years beginning in 2007, the "applicable amount" of adjusted gross income under § 68(b), above which the amount of otherwise allowable itemized deductions is reduced under § 68, is \$156,400 (or \$78,200 for a separate return filed by a married individual).

.13 Qualified Transportation Fringe. For taxable years beginning in 2007, the monthly limitation under § 132(f)(2)(A), regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass, is \$110. The monthly limitation under § 132(f)(2)(B), regarding the fringe benefit exclusion amount for qualified parking, is \$215.

.14 Income from United States Savings Bonds for Taxpayers Who Pay Qualified Higher Education Expenses. For taxable years beginning in 2007, the exclusion under § 135, regarding income from United States savings bonds for taxpayers who pay qualified higher education expenses, begins to phase out for modified adjusted gross income above \$98,400 for joint returns and \$65,600 for other returns. The exclusion is completely phased out for modified adjusted gross income of \$128,400 or more for joint returns and \$80,600 or more for other returns.

.15 Adoption Assistance Programs. For taxable years beginning in 2007, under § 137(a)(2) the amount that can be excluded from an employee's gross income for the adoption of a child with special needs is \$11,390. For taxable years beginning in 2007, under § 137(b)(1) the maximum amount that can be excluded from an employee's gross income for the amounts paid or expenses incurred by an employer for qualified adoption expenses furnished pursuant to an adoption assistance program for other adoptions by the employee is \$11,390. The amount excludable from an employee's gross income begins to phase out under § 137(b)(2)(A) for taxpayers with modified adjusted gross income in excess of \$170,820 and is completely phased out for taxpayers with modified adjusted gross income of \$210,820 or more. (See section 3.03 of this revenue procedure for the adjusted items relating to the adoption credit.)

.16 Private Activity Bonds Volume Cap. For calendar year 2007, the amounts used under § 146(d)(1) to calculate the State ceiling for the volume cap for private activity bonds are the greater of (1) \$85 multiplied by the State population, or (2) \$256,235,000.

.17 Safe Harbor Rules for Broker Commissions on Guaranteed Investment Contracts or Investments Purchased for a Yield Restricted Defeasance Escrow. For calendar year 2007, under § 1.148-5(e)(2)(iii)(B)(1), a broker's commission or similar fee for the acquisition of a guaranteed investment contract or investments purchased for a yield restricted defeasance escrow is reasonable if (1) the amount of the fee that the issuer treats as a qualified administrative cost does not exceed the lesser of (A) \$33,000, and (B) 0.2 percent of the computational base (as defined in § 1.148-5(e)(2)(iii)(B)(2)) or, if more, \$3,000; and (2) the issuer does not treat more than \$93,000 in brokers' commissions or similar fees as qualified administrative costs for all guaranteed investment contracts and investments for yield restricted defeasance escrows purchased with gross proceeds of the issue.

.18 Personal Exemption.

(1) Exemption amount. For taxable years beginning in 2007, the personal exemption amount under § 151(d) is \$3,400. The exemption amount for taxpayers with adjusted gross income in excess of the maximum phaseout amount is \$1,133 for taxable years beginning in 2007.

(2) Phaseout. For taxable years beginning in 2007, the personal exemption amount begins to phase out at, and reaches the maximum phaseout amount after, the following adjusted gross income amounts:

Filing Status	AGI - Beginning of Phaseout	AGI - Maximum Phaseout
Married Individuals Filing Joint Returns and Surviving Spouses (§ 1(a))	\$234,600	\$357,100
Heads of Households (§ 1(b))	\$195,500	\$318,000
Unmarried Individuals (other than Surviving Spouses and Heads of Households) (§ 1(c))	\$156,400	\$278,900
Married Individuals Filing Separate Returns (§ 1(d))	\$117,300	\$178,550

.19 Election to Expense Certain Depreciable Assets. For taxable years beginning in 2007, under § 179(b)(1) the aggregate cost of any § 179 property a taxpayer may elect to treat as an expense can not exceed \$112,000. Under § 179(b)(2) the \$112,000 limitation is reduced (but not below zero) by the amount by which the cost of § 179 property placed in service during the 2007 taxable year exceeds \$450,000.

.20 Eligible Long-Term Care Premiums. For taxable years beginning in 2007, the limitations under § 213(d)(10), regarding eligible long-term care premiums includible in the term "medical care," are as follows:

Attained Age Before the Close of the Taxable Year Limitation on Premiums

40 or less \$290

More than 40 but not more than 50 \$550

More than 50 but not more than 60 \$1,110

More than 60 but not more than 70 \$2,950

More than 70 \$3,680

.21 Retirement Savings.

(1) For taxable years beginning in 2007, the applicable dollar amount under § 219(g)(3)(B)(i) for taxpayers filing a joint return is \$83,000. If the taxpayer's spouse is not an active participant, the applicable dollar amount for the spouse under § 219(g)(3)(B)(i) is \$156,000 for taxable years beginning in 2007.

(2) For taxable years beginning in 2007, the applicable dollar amount under § 219(g)(3)(B)(ii) for all other taxpayers (except for married taxpayers filing separately) is \$52,000.

(3) The applicable dollar amount under § 219(g)(3)(B)(iii) for married taxpayers filing separately is \$0.

.22 Medical Savings Accounts.

(1) Self-only coverage. For taxable years beginning in 2007, the term "high deductible health plan" as defined in § 220(c)(2)(A) means, for self-only coverage, a health plan that has an annual deductible that is not less than \$1,900 and not more than \$2,850, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$3,750.

(2) Family coverage. For taxable years beginning in 2007, the term "high deductible health plan" means, for family coverage, a health plan that has an annual deductible that is not less than \$3,750 and not more than \$5,650, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$6,900.

.23 Interest on Education Loans. For taxable years beginning in 2007, the \$2,500 maximum deduction for interest paid on qualified education loans under § 221 begins to phase out under § 221(b)(2)(B) for taxpayers with modified adjusted gross income in excess of \$55,000 (\$110,000 for joint returns), and is completely phased out for taxpayers with modified adjusted gross income of \$70,000 or more (\$140,000 or more for joint returns).

.24 Health Savings Accounts.

(1) Monthly contribution limitation. For calendar year 2007, the monthly limitation for any month on deductions under § 223(b)(2)(A) for an individual with self-only coverage under a high deductible plan as of the first day of the month is 1/12 of the lesser of (1) the annual deductible, or (2) \$2,850. For calendar year 2007, the monthly limitation for any month on deductions under

§ 223(b)(2)(B) for an individual with family coverage under a high deductible plan as of the first day of the month is 1/12 of the lesser of (1) the annual deductible, or (2) \$5,650.

(2) High deductible health plan. For calendar year 2007, a “high deductible health plan” is defined under § 223(c)(2)(A) as a health plan with an annual deductible that is not less than \$1,100 for self-only coverage or \$2,200 for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed \$5,500 for self-only coverage or \$11,000 for family coverage.

.25 Roth IRAs.

(1) For taxable years beginning in 2007, the applicable dollar amount under § 408A(c)(3)(C)(ii)(I) for taxpayers filing a joint return is \$156,000.

(2) For taxable years beginning in 2007, the applicable dollar amount under § 408A(c)(3)(C)(ii)(II) for all other taxpayers (except for married taxpayers filing separately) is \$99,000.

(3) The applicable dollar amount under § 408A(c)(3)(C)(ii)(III) for married taxpayers filing separately is \$0.

.26 Treatment of Dues Paid to Agricultural or Horticultural Organizations. For taxable years beginning in 2007, the limitation under § 512(d)(1), regarding the exemption of annual dues required to be paid by a member to an agricultural or horticultural organization, is \$136.

.27 Insubstantial Benefit Limitations for Contributions Associated with Charitable Fund-Raising Campaigns.

(1) Low cost article. For taxable years beginning in 2007, the unrelated business income of certain exempt organizations under § 513(h)(2) does not include a “low cost article” of \$8.90 or less.

(2) Other insubstantial benefits. For taxable years beginning in 2007, the \$5, \$25, and \$50 guidelines in section 3 of Rev. Proc. 90-12, 1990-1 C.B. 471 (as amplified by Rev. Proc. 92-49, 1992-1 C.B. 987, and modified by Rev. Proc. 92-102, 1992-2 C.B. 579), for disregarding the value of insubstantial benefits received by a donor in return for a fully deductible charitable contribution under § 170, are \$8.90, \$44.50, and \$89, respectively.

.28 Funeral Trusts. For a contract entered into during calendar year 2007 for a “qualified funeral trust,” as defined in § 685, the trust may not accept aggregate contributions by or for the benefit of an individual in excess of \$8,800.

.29 Expatriation to Avoid Tax. For calendar year 2007, an individual with “average annual net income tax” of more than \$136,000 for the five taxable years ending before the date of the loss of United States citizenship under § 877(a)(2)(A) is subject to tax under § 877(b).

.30 Foreign Earned Income Exclusion. For taxable years beginning in 2007, the foreign earned income exclusion amount under § 911(b)(2)(D)(i) is \$85,700.

.31 Valuation of Qualified Real Property in Decedent's Gross Estate. For an estate of a decedent dying in calendar year 2007, if the executor elects to use the special use valuation method under § 2032A for qualified real property, the aggregate decrease in the value of qualified real property resulting from electing to use § 2032A for purposes of the estate tax can not exceed \$940,000.

.32 Annual Exclusion for Gifts.

(1) For calendar year 2007, the first \$12,000 of gifts to any person (other than gifts of future interests in property) are not included in the total amount of taxable gifts under § 2503 made during that year.

(2) For calendar year 2007, the first \$125,000 of gifts to a spouse who is not a citizen of the United States (other than gifts of future interests in property) are not included in the total amount of taxable gifts under § 2503 and 2523(i)(2) made during that year.

.33 Tax on Arrow Shafts. For calendar year 2007, the tax imposed under § 4161(b)(2)(A) on the first sale by the manufacturer, producer, or importer of any shaft of a type used in the manufacture of certain arrows is \$0.42 per shaft.

.34 Passenger Air Transportation Excise Tax. For calendar year 2007, the tax under § 4261(b) on the amount paid for each domestic segment of taxable air transportation is \$3.40. For calendar year 2007, the tax under § 4261(c) on any amount paid (whether within or without the United States) for any air transportation, if the transportation begins or ends in the United States, generally is \$15.10. However, for a domestic segment beginning or ending in Alaska or Hawaii as described in § 4261(c)(3), the tax applies only to departures and the rate is \$7.50.

.35 Reporting Exception for Certain Exempt Organizations with Nondeductible Lobbying Expenditures. For taxable years beginning in 2007, the annual per person, family, or entity dues limitation to qualify for the reporting exception under § 6033(e)(3) (and section 5.05 of Rev. Proc. 98-19, 1998-1 C.B. 547), regarding certain exempt organizations with nondeductible lobbying expenditures, is \$95 or less.

.36 Notice of Large Gifts Received from Foreign Persons. For taxable years beginning in 2007, recipients of gifts from certain foreign persons may be required to report these gifts under § 6039F if the aggregate value of gifts received in a taxable year exceeds \$13,258.

.37 Persons Against Whom a Federal Tax Lien Is Not Valid. For calendar year 2007, a federal tax lien is not valid against (1) certain purchasers under § 6323(b)(4) who purchased personal property in a casual sale for less than \$1,290, or (2) a mechanic's lienor under § 6323(b)(7) that repaired or improved certain residential property if the contract price with the owner is not more than \$6,450.

.38 Property Exempt from Levy. For calendar year 2007, the value of property exempt from levy under § 6334(a)(2) (fuel, provisions, furniture, and other household personal effects, as well as arms for personal use, livestock, and poultry) can not exceed \$7,720. The value of property exempt from levy under § 6334(a)(3) (books and tools necessary for the trade, business, or profession of the taxpayer) can not exceed \$3,860.

.39 Interest on a Certain Portion of the Estate Tax Payable in Installments. For an estate of a decedent dying in calendar year 2007, the dollar amount used to determine the “2-percent portion” (for purposes of calculating interest under § 6601(j)) of the estate tax extended as provided in § 6166 is \$1,250,000.

.40 Attorney Fee Awards. For fees incurred in calendar year 2007, the attorney fee award limitation under § 7430(c)(1)(B)(iii) is \$170 per hour.

.41 Periodic Payments Received under Qualified Long-Term Care Insurance Contracts or under Certain Life Insurance Contracts. For calendar year 2007, the stated dollar amount of the per diem limitation under § 7702B(d)(4), regarding periodic payments received under a qualified long-term care insurance contract or periodic payments received under a life insurance contract that are treated as paid by reason of the death of a chronically ill individual, is \$260.