TAXLOGIC

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We provide a prompt, professional, personal one-on-one tax preparation service from the comfort of your home or office. We are competitively priced; in addition we offer a number of additional services as well as comprehensive information from our web site – http://www.taxlogic.com.

We thought we would discuss the personal exemption, the standard deduction and the phase- outs, since it is getting closer and closer to tax time.

Electronically filed tax returns can be transmitted next week – Friday, January 11, 2002

Individual Rate Reductions

Individual taxpayers determine their federal income-tax liability by applying graduated tax rates to their taxable income for the year. Different income brackets apply to separate categories of taxpayers (single, head of household, married filing jointly and surviving spouses, and married filing separately. Before the new law, there were five regular tax rates: 15%, 28%, 31%, 36%, and 39.6%

The new law introduces a new 10% tax rate, which will apply as follows:

	For 2002-2007 Taxable income up to:	In 2008 and after Taxable Income up to:
Single	$6,000	$7,000
Head of Household	$10,000	$10,000
Married-joint	$12,000	$14,000
Married-separate	$6,000	$7,000

Individual taxpayers will also benefit from the new 10% rate in 2001. Rather than incorporating the 10% rate into the 2001 tax rate schedules, the new law directed the Treasury to mail a “rebate” check to most individual taxpayers who filed a return for 2000, providing an immediate tax benefit. For those who didn’t file for 2000 or had no or a small tax liability, an adjustment will be made on the 2001 return.

The remaining tax rates will also be reduced, starting July 1, 2001. The initial reduction will be one percentage point. Thus, the 39.6% will be reduced to 38.6, the 36% rate to 35%, the 31% rate to 30%, and the 28% rate to 27%. Further reductions are to occur in succeeding years. Finally in 2006, the tax brackets are to be 10%, 15%, 25%, 28%, 33% and 35%.

Itemized Deduction Reduction Repealed.

Higher income taxpayers who itemize deductions on their federal tax returns must reduce their deductions on if their AGI exceeds a certain inflation-adjusted threshold ($132,950 in 2001; $66,475 for married persons filing separately). The new law gradually repeals the itemized deduction reduction. The otherwise applicable reduction will be reduced by one third for 2006 and 2007, and by two thirds in 2008 and 2009. Effective for tax years beginning after 2009, the itemized deduction reduction will be repealed.

2001 Personal Exemption and Phase-Out

Personal exemptions for a taxpayer, his or her spouse, and any dependents ($2,900 each for 2001) are reduced by 2% for each $2,500 (or portion thereof) by which AGI exceeds certain thresholds. The $2,500 figure is $1,250 for a married person filing a separate return. For 2001, the AGI thresholds are $132,950 for single individuals, $199,450 for joint filers, $166,200 for heads of households, and $99,725 for married persons filing separately. These thresholds are adjusted annually for inflation.

Under the new law, the otherwise applicable exemption phase-out will be reduced by one third in 2006 and 2007 and by two thirds in 2008 and 2009. After 2009, the personal exemption phase-out will be totally repealed. We will be happy to further explain this phase-out on our web site - http://www.taxlogic.com.

Standard Deductions

In most cases, your Federal income tax will be less if you take the larger of:

. Your itemized deductions or
. Your standard deduction.

To figure your itemized deductions, fill in Schedule A.

Most people can find their standard deduction by looking at the amounts list under all others to the left of line 36 of Form 1040. There is an additional amount if you or your spouse checked any boxes in line 35a

All others standard deductions are as follows:

Single	$4,550
Head of Household	$6,650
Married Filing Jointly	$7,600
Married Filing Separately	$3,800

If you are single or head of household, over 65 or blind you get an additional $1,100 per boxed checked for your standard deduction. If married filing jointly you will get an additional $900 for your standard deduction for each box checked in line 35a.

If you turned 65 on January 1, 2002, you are considered to be age 65 at the end of 2001. If you did not live with your spouse at the end of 2001 (or on the date your spouse died) and your gross income was at least $2,900 you must file a return regardless of your age.

Gross income means all income you received in the form of money, goods, property, and services that is not exempt from tax including any income from sources outside the United States (even if you may exclude part or all of it). Do not include social security benefits unless you are married filing a separate return and you lived with your spouse at any time in 2001.

We would be happy to give you more information on any of the above topics and help you to understand the financial issues that affect you at out site http://www.taxlogic.com.