

REGULATION

CPA2903US3-37

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ABOUT UPDATING SUPPLEMENT VERSION 37.2

Information that is only six months old is eligible to be tested on the CPA exam. Updating Supplement Version 37.2 is designed to bring the very latest information to candidates using our products to prepare for the CPA exam in the April-May 2008 exam window and later exam windows. Candidates with the 37th edition and corresponding software (version 11) will find the information in this supplement more than adequate for these exam windows.

When new information first becomes available, the examiners tend to test new or changed portions of concepts lightly. Coverage of information after that point may increase, if it is in a heavily tested area. Do not fall into the trap of attaching undue significance to new information merely because it is new.

Remember, with the information and techniques in our material, passing the exam is an attainable goal. ***Adhere to a reasonable study plan—and pass the first time!***

STUDY OPTIONS AVAILABLE TO CANDIDATES

As every candidate's needs are different, Bisk Education offers a variety of CPA Review formats and packages that are guaranteed* to help you pass the CPA exam on your next sitting. Options include: our Online CPA Review with structured Internet classes and our self-study CPA Review utilizing multimedia CD-ROM software, video programs, audio lectures, and books.

**Purchase of software required. Call for complete details.*

OTHER SOURCES OF INFORMATION FOR CANDIDATES

Candidates with the 36th edition and corresponding software also will need Updating Supplement Version 36.2. Updating Supplement Version 36.2 contains summaries of bankruptcy and tax changes, inflation-adjusted amounts, and questions released in 2007 by the AICPA. (Material in the series 36 updating supplements is incorporated within the 37th edition, as appropriate).

Candidates with the 35th and earlier editions are strongly encouraged to purchase new materials. Candidates choosing to use previous editions of our books must accept responsibility for adequately updating their materials. Candidates should consider the strain that this will add to the already time-consuming process of studying for the exam. Material in the related updating supplements may be reviewed to determine the nature and quantity of information that has changed from one edition to another.

SMALL BUSINESS & WORK OPPORTUNITY TAX ACT OF 2007

There are several other provisions of the *Small Business & Work Opportunity Tax Act of 2007*; however, they are unlikely to be tested due to the scope of the exam.

Business

- A. Section 179: For 2007 through 2010, the §179 expense deduction is a maximum of \$125,000 for qualified property. For 2007, the limit is reduced by cost of §179 property placed in service during the year that exceeds \$500,000. For 2008 through 2010, the \$500,000 amount is indexed for inflation. [Editor's Note: The *Economics Stimulus Act of 2008* overrides these amounts for 2008.] For 2007 and 2008, the §179 expense deduction is \$100,000 higher than ordinary for qualified property in the Gulf Opportunity Zone—for a total of \$225,000. For 2007 and 2008, the \$500,000 limit is \$600,000 higher for qualified property in the Gulf Opportunity Zone—for a total of \$1,100,000.
- B. Passive Investment Income: Capital gain from the sale or exchange of stock or securities is no longer treated as an item of passive investment income for S corporations that previously converted from C corporation status.

Family Provisions

- A. Family Business Simplification: For tax years beginning in 2007, an unincorporated business jointly operated by a married couple exclusively may elect not to be treated as a partnership. Instead, each spouse reports her/his share of income, gain, expense, loss, etc. as a sole proprietor on Schedule C.
- B. Kiddie Tax: For tax years beginning after May 25, 2007, the age limit is raised to include all children under age 19 (rather than under age 18) and students under age 24. The actual computation of the kiddie tax remains the same. The net unearned income of the child (for 2007, generally unearned income over \$1,700) is taxed at the parents' marginal tax rates, if the rates are higher than the child's tax rates. If the earned income of a student over age 17 exceeds half of the student's support, the kiddie tax is inapplicable. Scholarships are not counted in the support test for this purpose.

Tax Procedures

- A. Penalty & Interest Suspension: The period before which the accrual of interest and penalties are suspended is increased from 18 to 36 months. The suspension is available only for individuals' and only for income taxes.
- B. Preparer Penalties: Several penalties are increased relating to income tax, estate tax, gift tax, excise, tax, exempt organizations, and employment tax returns. The \$250 "unreasonable position" penalty is raised to the greater of \$1,000 or half the income derived by the preparer. The \$1,000 "willful or reckless conduct" penalty is raised to the greater of \$5,000 or half the income derived by the preparer.
- C. Preparer Conduct: The "realistic possibility" standard for undisclosed positions is replaced by a "reasonable belief" that the tax treatment of the position was more likely than not the proper treatment. The "not-frivolous" standard for understatements is raised to the requirement that there be a reasonable basis for the tax treatment.

DECEMBER 2007 TAX LEGISLATION

Several tax acts were passed in December, 2007, making them first eligible to be tested in the **July-August 2008** exam window.

Tax Increase Prevention Act of 2007

- A. **AMT Exemption Amount Increase:** The Tax Increase Prevention Act of 2007 increases the exemption amounts for 2007: \$66,250 for married filing jointly status, \$44,350 for single and head of household filing status, and \$33,125 for married filing separately status. Without additional legislation, the amounts for 2008 will be the amounts before the increase (\$45,000, \$43,750, and \$22,500, respectively).
- B. **Nonrefundable Personal Credits:** Most nonrefundable personal credits may be used to offset AMT liability, including the dependent care credit, the HOPE credit, and the Lifetime learning credit.

Mortgage Forgiveness Debt Relief Act of 2007

- A. **Surviving Spouse:** Beginning January 1, 2008, a surviving spouse may exclude \$500,000 from the sale of a residence jointly owned and occupied by the two spouses, provided the sale occurs no later than two years from the death of the deceased spouse.
- B. **Volunteer Emergency Responders:** Beginning January 1, 2008, volunteer firefighter and emergency medical responders who receive a state or local tax reduction or rebate due to their volunteer services may exclude up to \$360 each year.
- C. **Insurance:** For contracts entered into from January 1, 2007, to December 31, 2010, qualified mortgage insurance premiums are allowed as deductible qualified residential interest from January 1, 2007, to December 31, 2010.
- D. **Mortgage Relief:** Normally, cancelled debt is deemed taxable income. Debt cancellation on up to \$2 million of qualified principal residence indebtedness may be excluded from taxable income from January 1, 2007, through December 31, 2009. A renegotiation that results in a lower monthly payment or delay of adjustable rate resets result in forgiveness of qualified principal residential indebtedness may be excluded from taxable income for the same period. If the loan is discharged due to services performed for the lender or the taxpayer is in Chapter 11 bankruptcy, the exclusion is not available.
 - 1. **Qualified Indebtedness:** Indebtedness secured by a principal residence and incurred in the acquisition, construction, or substantial improvement of the principal residence. Home-equity debt not used for renovation is not qualified. For example, if loan proceeds were used to pay credit card debt, tuition, or medical expenses, the indebtedness is not qualified. Indebtedness secured by a second home is not qualified.
 - 2. **Basis:** The basis of the home is reduced by the amount of debt relief excluded from income.

ECONOMIC STIMULUS ACT OF 2008

The *Economic Stimulus Act of 2008* was passed in February, 2008, making it first eligible to be tested in the **October-November 2008** exam window.

A. Recovery Rebate Credit

1. Amount: The new law allows a refundable credit against tax to low and middle-income individuals for 2008 in an amount calculated as the greater of:
 - a. Net income tax liability, not to exceed \$600 (\$1,200 for joint filers), or
 - b. \$300 (\$600 for joint filers) if the filer(s) has either: (1) At least \$3,000 of any combination of earned income, Social Security benefits and certain veterans' benefits, or (2) Net income tax liability of at least \$1 and gross income greater than \$8,950 for singles, \$17,900 for joint filers).
2. Phase-out: Rebates begin to phase out at \$75,000 of AGI for individuals and \$150,000 of AGI for joint filers. The \$600 credit for individuals phases out completely at \$87,000 of AGI, and the \$1,200 credit for joint filers phases out completely at \$174,000 of AGI.
3. Child Payments: Individuals who qualify for the rebate credit amount also are eligible to receive a full additional rebate credit amount equal to \$300 per qualifying child.

B. Section 179: For 2008, the §179 expense deduction is a maximum of \$250,000 for qualified property. For 2008, the limit is reduced by cost of §179 property placed in service during the year that exceeds \$800,000. It applies to property purchased and placed in service in tax years beginning in 2008. **Editor's Note:** This overrides the amount for 2008 established by the *Small Business & Work Opportunity Tax Act of 2007*.

C. Bonus Depreciation: The new law provides qualifying taxpayers 50% first-year bonus depreciation of the adjusted basis of qualifying property. Eligible property must be (1) eligible for MACRS with depreciation period of 20 years or less; (2) water utility property; (3) computer software (off-the-shelf); or (4) qualified leasehold property. Property must be purchased and placed in service during 2008.

HOUSING ASSISTANCE ACT OF 2008

The *Housing Assistance Tax Act of 2008* became law in July, 2008, making it first eligible to be tested in the **April-May 2009** exam window.

Housing Assistance Tax Act of 2008

- A. Sale of Principal Residence: An exclusion of gain (\$500,000 married filing jointly or \$250,000 for single or head of household) still is available to a taxpayer who owned and occupied the home as a principal residence in two of the five years immediately preceding a sale after May 6, 1997.
1. Death of Spouse: Starting January 1, 2008, a taxpayer may exclude \$500,000 from the sale of a residence jointly owned and occupied by the taxpayer and the taxpayer's deceased spouse, provided the sale occurs no later than two years from the spouse's death.
 2. Non-Qualifying Use: For home sales after December 31, 2008, involving non-qualifying use periods, the Housing Assistance Tax Act of 2008 reduces the exclusion of gain from a sale of a home by the amount of appreciation attributable to non-qualified use. The *Housing Assistance Tax Act of 2008* (HATA '08) determines excluded appreciation on a *pro rata* basis rather than requiring a valuation when use changes. A qualifying use period includes the time that the property is used as a principal residence plus a subsequent period in which it is empty. After December 31, 2008, any period in which the property is a vacation home or rental property counts as a non-qualifying use period.

Example 1 ▶ Non-Qualifying Use

On January 2, 2008, Wilma bought a house for \$200,000 and used it as her vacation home until June 30, 2009, when she converted it to her principal residence. On October 2, 2012, Wilma moved out of the house and listed it for sale. Wilma sold the home for \$250,000 on January 2, 2013.

<u>Period</u>	<u>Use</u>	<u>Qualifying?</u>	<u>Duration</u>
January 2, 2008, to December 31, 2008	vacation home	yes	12 months
January 1, 2009, to June 30, 2009	vacation home	no	6 months
July 1, 2009, to October 1, 2012	principal residence	yes	39 months
October 2, 2012, to January 2, 2013	empty	yes	3 months

Wilma's exclusion for the sale of a principal residence is reduced by the appreciation attributed to the 6 months of vacation home use after December 31, 2008. As Wilma used the property for a non-qualifying purpose for half a year of the 5 years of ownership, 10% (0.5 year / 5 years) of the appreciation is not eligible to be excluded from gain. Wilma must include 10% of the \$50,000 gain, or \$5,000, in taxable income.

- B. **Real Property Taxes:** HATA '08 allows those homeowners who do not itemize a limited deduction for property taxes by increasing the amount of their standard deduction by the lesser of the amount of state or local real property taxes paid or \$500 (\$1,000 for MFJ). This temporary increase is effective for 2008 only.
- C. **First-Time Homebuyer Tax Credit:** HATA '08 allows first-time homebuyers a refundable tax credit up to the lesser of 10% of the home's purchase price or \$7,500 (\$3,750 for MFS). Homes purchased from unrelated parties on or after April 9, 2008, and before July 1, 2009, are eligible for this credit. For this credit, a first-time homebuyer had no ownership interest in a principal residence during the 3-year period before the purchase; thus, those who rent a principal residence while owning a vacation home are eligible for this credit. (This credit subsequently was changed by ARRA '09.)
1. **Timing:** Buyers may claim the credit on a 2008 or 2009 return. Qualified buyers who purchase a principal residence in 2009 may claim the credit on an amended 2008 return.
 2. **Repayment:** A unique feature of this credit is that—generally—it must be repaid in equal installments over 15 years. Repayments start two years after the year of purchase. If the taxpayer dies, the balance of the credit need not be repaid. Special rules (beyond the scope of the exam) apply to a home transferred in a divorce or involved in an involuntary conversion. Any unpaid balance becomes due in the year in which the property no longer is used as a principal residence or is sold to the extent that the balance exceeds the amount of gain from the sale of the property to an unrelated person.
 3. **Phase-out:** The credit phases out for modified AGI between \$75,000 and \$95,000 for single taxpayers (\$150,000 and \$170,000 for MFJ).
 4. **Eligibility:** The following are ineligible for the credit: buyers who resell the property or convert the property to other than a principal residence before the end of the tax year in which the credit is claimed; buyers who are nonresident aliens; buyers who take the District of Columbia first-time homebuyer tax credit; and buyers who have financing from tax-exempt mortgage revenue bonds. (State and local government housing finance agencies sell mortgage revenue bonds and use the proceeds to finance below-market rate mortgages for qualifying first-time homebuyers.)

Editor's Note: If you find items in the Bisk materials that you believe are ambiguous or in error, please contact the Bisk Education editors (editor@cpaexam.com) with full details.

INFLATION-ADJUSTED AMOUNTS FOR 2007

From the AICPA's *Uniform CPA Examination Candidate Bulletin*:

Accounting and auditing pronouncements are eligible to be tested on the Uniform CPA Examination in the window beginning six months after a pronouncement's effective date, unless early application is permitted.

When early application is permitted, the new pronouncement is eligible to be tested in the window beginning six months after the issuance date. In this case, both the old and new pronouncements may be tested until the old pronouncement is superseded.

For the federal taxation area, the Internal Revenue Code and federal tax regulations in effect six months before the beginning of the current window may be tested on the Uniform CPA Examination.

For all other materials covered in the Regulation and Business Environment and Concepts sections, material eligible to be tested includes federal laws in the window beginning six months after their effective date and uniform acts in the window beginning one year after their adoption by a simple majority of the jurisdictions.

Thus, the questions on the October-November 2008 CPA examinations should cover the law in effect for 2008. However, the examiners repeatedly have tested the last full calendar year. The editors expect the October-November 2008 CPA examination questions to ask about 2007, not 2008, in questions where the year makes a difference. The questions on the January-February 2009 and April-May 2009 CPA examinations will cover the tax law in effect for 2008.

Bisk Education recommends that candidates not concentrate on particular tax amounts, especially amounts particular to one year. The examiners are unlikely to concentrate on the amounts, let alone the differences between amounts. Recall the questions in the book and software and notice how few of them require knowledge of specific amounts. Thus, most of the amounts here are to forestall candidate curiosity, rather than to supply information needed for the exam.

Inflation-Adjusted Tax Amounts

Individual Taxation

- A. Exemption: The personal exemption is \$3,400 for 2007 (\$3,500 for 2008).
- B. Standard Deduction & Personal & Dependency Exemption Phase-out: For 2007, the standard deduction for an individual who may be claimed as a dependent by another taxpayer may not exceed the greater of \$850 (\$900 for 2008) or the sum of \$300 and the individual's earned income.

Filing Status	Standard Deduction		Personal & Dependency Exemption Phase-out		Additional Age & Blindness	
	2008	2007	2008	2007	2008	2007
Married Filing Jointly *	\$10,900	\$10,700	\$239,950	\$234,600	\$1,050	\$1,050
Single	5,450	5,350	159,950	156,400	1,350	1,300
Head of Household	8,000	7,850	199,950	195,500	1,350	1,300
Married Filing Separately	5,450	5,350	119,975	117,300	1,050	1,050

* Also surviving spouse

- C. The 3% Rule: For 2007, applies to an individual whose AGI exceeds \$156,400 (\$78,200 for a married taxpayer filing a separate return). For 2007, the maximum reduction is at most 2/3 of the amount calculated before the reduction. For 2008, applies to an individual whose AGI exceeds \$159,950 (\$79,975 for a married taxpayer filing a separate return). The maximum reduction is at most 2/3 of the amount calculated before the reduction. For 2008, the maximum reduction is at most 1/3 of the amount calculated before the reduction. [The 3% rule is applicable to the phase-out of itemized deductions. Candidates who are unfamiliar with the 3% rule should review the material on AGI in Chapter 44.]

D. Savings Bond Phase-out: The savings bond phase-outs are as follows.

<u>Filing Status</u>	<u>2008</u>	<u>2007</u>
Married filing jointly	\$100,650 to \$130,650	\$98,400 to \$128,400
All others	\$ 67,100 to \$ 82,000	\$65,600 to \$ 80,600

E. Health Savings Account: For 2007, taxpayers can contribute up to the amount of the health plan's annual deductible, but not more than \$2,850 (\$2,900 for 2008) for individual coverage and \$5,650 (\$5,800 for 2008) for family coverage.

F. Retirement Plans: Employees may defer up \$45,000 in defined contribution plans for 2007 (\$46,000 for 2008). The limit for defined benefit plans is \$180,000 for 2007 (\$185,000 for 2008).

1. Section 401(k), Section 457, and SEP Plans: The maximum on elective deferrals is \$15,500 for 2007 and 2008.
2. SIMPLE Plans: Employees may defer up to the lesser of \$10,500 for 2007 and 2008 of elective contributions or 25% of annual compensation.
3. Catch-up Contributions: The maximum catch-up contributions are \$5,000 for Sections 401(k), 403(b), and 457 plans, and \$2,500 for SIMPLE plans for 2007 and 2008.

G. Individual Retirement Account (IRA) Phase-outs: In 2007, the maximum Roth IRA contribution is phased out for taxpayers with AGI exceeding \$156,000 (MFJ), \$99,000 (single), and \$0 (MFS). In 2008, these maximums are \$159,000, \$101,000, and \$0, respectively. The phase-out range for contributions of a non-active spouse are \$156,000 to \$166,000 for 2007 (\$159,000 to \$169,000 for 2008). The active participant phase-outs are as follows.

<u>Filing Status</u>	<u>2008</u>	<u>2007</u>
Married filing jointly	\$85,000 to \$105,000	\$83,000 to \$103,000
Single or Head of Household	\$53,000 to \$ 63,000	\$52,000 to \$ 62,000
Married filing separately	\$0 to \$ 10,000	\$0 to \$ 10,000

H. Income Tax Rates: The individual tax rates are as follows for 2008.

<u>Rate</u>	<u>MFJ & SS</u>	<u>Head of household</u>	<u>Single</u>	<u>MFS</u>
10%	\$0-\$16,050	\$0-\$11,450	\$0-\$8,025	\$0-\$8,025
15%	\$16,051-\$65,100	\$11,451-\$43,650	\$8,026-\$32,550	\$8,026-\$32,550
25%	\$65,101-\$131,450	\$43,650-\$112,650	\$32,551-\$78,850	\$32,551-\$65,725
28%	\$131,451-\$200,300	\$112,651-\$182,400	\$78,851-\$164,550	\$65,726-\$100,150
33%	\$200,301-\$357,700	\$182,401-\$357,700	\$164,551-\$357,700	\$100,151-\$178,850
35%	Over \$357,700	Over \$357,700	Over \$357,700	Over \$178,850

I. Self-Employment & Social Security Taxes: The maximum income subject to the full self-employment and Social Security taxes is \$102,000 for 2008.

J. AMT Exemption & Phase-out Schedule (Amounts amended by the *Tax Increase Prevention Act of 2007*.) The 2008 AMT exemption amounts are particularly subject to change by future legislation. The phase-out ceiling amounts are four times the exemption plus the phase-out threshold amount.

<u>Filing status</u>	<u>2008 Exemption</u>	<u>2007 Exemption</u>	<u>2007 & 2008 Phase-out Threshold</u>
Married filing jointly or Surviving spouse	\$45,000	\$66,250	\$150,000
Single or Head of household	\$33,750	\$44,350	\$112,500
Married filing separately	\$22,500	\$33,255	\$ 75,000

K. Adoption Expense Credit: The maximum adoption expense credit is \$11,390 for 2007 (\$11,650 for 2008). It phases out starting at \$170,820 for 2007 (\$174,730 for 2008).

- L. **Child Credit:** The child credit is refundable to the extent of the greater of 15% of the taxpayer's earned income in excess of \$11,750 for 2007 (\$12,050 for 2008), or for taxpayers with three or more qualifying children, the amount of Social Security taxes that exceeds the earned income credit.
- M. **Earned Income Credit:** The earned income credit is denied if certain investment income is greater than \$2,900 in 2007 (\$2,950 in 2008).

	Number of Qualifying Children	Credit %	Base	Maximum Credit	Beginning Phase-out*	Complete Phase-out*
2008	0	7.65	\$ 5,720	\$ 438	\$ 7,160	\$12,880
	1	34.00	8,580	2,917	15,740	33,995
	2	40.00	12,060	4,824	15,740	38,646
2007	0	7.65	\$ 5,590	\$ 428	\$ 7,000	\$12,590
	1	34.00	8,390	2,853	15,390	33,241
	2	40.00	11,790	4,716	15,390	37,783

* For married filing jointly, add \$2,000 to each phase-out amount in 2007 (\$3,000 in 2008).

- N. **Education Credit & Phase-out Threshold:** For 2007, the Hope Scholarship Credit is 100% of expenses not in excess of \$1,100 and 50% of such expenses in excess of \$1,100. For 2008, the Hope Scholarship Credit is 100% of expenses not in excess of \$1,200 and 50% of such expenses in excess of \$1,200. The education credit phase-out range is as follows.

Filing Status	2008	2007
MFS	\$0	\$0
MFJ	\$96,000 - \$116,000	\$94,000 - \$114,000
Others	\$48,000 - \$ 58,000	\$47,000 - \$ 57,000

- O. **Mileage Rates:** The rate for automobile use for medical care travel or a qualified move is 20¢ per mile for 2007 and 19¢ per mile for 2008. The rate for charitable travel is 14¢ per mile for 2007 and 2008. The rate for business travel is 48.5¢ per mile for 2007 and 50.5¢ for 2008.

Property Taxation

- A. **Section 179:** For 2007, the §179 expense deduction is \$125,000 for qualified property. For 2007, the limit is reduced by cost of §179 property placed in service during the year that exceeds \$500,000. (The 2007 amounts presented in the 37th edition were based on inflation-adjusted estimates that subsequently were superseded by the Small Business & Work Opportunity Tax Act of 2007.) For 2008, the §179 expense deduction is \$250,000 for qualified property. For 2008, the limit is reduced by cost of §179 property placed in service during the year that exceeds \$800,000.
- B. **Luxury Automobiles:** For 2008, the first year's depreciation on a luxury automobile generally is limited to \$10,960. If the taxpayer does not qualify for bonus depreciation, elects out of bonus depreciation, or had a binding contract in place to purchase the vehicle before January 1, 2008, or after December 31, 2008, the first year's depreciation is limited to \$2,960.

Estates, Gifts & Trusts Taxation

- A. **Funeral Trusts:** The limit is \$8,800 for contracts entered into in 2007 and \$9,000 for contracts entered into in 2008.
- B. **Annual Gift Exclusion:** For 2007 and 2008, the first \$12,000 of gifts to any person are not included in the total amount of taxable gifts made.
- C. **Estates:** The effective unified credit exemption amount is \$3.5 million for 2009.

EXAM FORMAT CHANGE

New Research Task Format

A new research task format was introduced in the **July-August 2008** exam window. Candidates no longer need to copy their responses by selecting the proper paragraph and using the “TRANSFER TO ANSWER” feature. The new format requires candidates to identify the correct response much like they select answers to multiple-choice questions. A candidate simply clicks on a radio button to respond.

The AICPA posted a tutorial and sample tests on the CPA Examination website (www.cpa-exam.org) with this feature in 2008. Candidates should visit the site and become familiar with this and other exam functions.

Simulation Topics

Formerly, the AICPA examiners informally indicated that simulations would not cover business law topics. Technically, all REG topics were eligible to be tested in any format. Now, the AICPA informally indicates that business law topics are fair game for simulations. Due to the relatively small point value assigned to business law topics in the content specification outline, the editors do not expect the examiners to present many business law simulations.

ERRATA

If you find other items in the 37th edition printed text or corresponding software (version 11 and higher) that you believe are ambiguous or in error, please contact the Bisk Education editors (help@cpaexam.com) with details.

Chapter 36, page 36-37. In question 20 (8019), answer option ‘c’ should not have “Year 4.” This change does not make a difference to the answer or explanation as presented.

Chapter 38 (software only). In question ID 4038 (38-3-5), the first column in the second answer option should have “\$13,500,” not “\$15,500.” With this change, the answer and explanation are correct.

Chapter 39 (software only). In question ID 8194 (39-3-3), the third answer option should be “No Yes,” not “Yes Yes.” The answer and explanation are correct.

Chapter 43, page 43-34. In simulation 43-3, the answer to item 1 should be \$125,000, not \$100,000. The normal maximum for 2007 is \$125,000, not \$112,000; the deduction phases out with \$500,000, not \$450,000, of assets purchased. The \$112,000 and \$450,000 amounts were estimates based on inflation-adjusted amounts.

Chapter 44, page 44-94. In question 43-3, answer to item 2 should reference 2007 and 2006, not 2006 and 2005, respectively.

Chapter 44, page 44-95. In question 43-3, the Form 1040 should not have anyone listed as dependents.

Chapter 45, page 45-38. In simulation 45-5 (ID 6691), the “Scenario” and “Gift Tax” tabs should reference 2007, not 2006.

Appendix E, page E-16. In the explanation to question 24 (8448), the calculation should be $\$50,000 + \$12,000 - \$3,000 = \$59,000$.