

TAX NEWS

Summer 2007

TAX CLIENT NEWSLETTER

The Summer Tax Client Newsletter brings you up-to-date on a number of important tax law changes for 2007. As a result of 2007 tax legislation, there are a number of significant tax law changes affecting you this year and into 2008.

On May 25, 2007, President George W. Bush signed into law the Small Business and Work Opportunity Act of 2007. The new law provides approximately \$4.8 billion in tax incentives primarily for small business, however many individual taxpayers may be impacted by changes some of which go into effect retroactively on January 1, 2007.

Not all changes are retroactive to January 1, 2007. Some became effective the date of enactment, May 25, 2007.

The Kiddie Tax

In 2006, Congress passed the Tax Increase Prevention and Reconciliation Act of 2005 which raised the age of the "kiddie tax" under age 14 to under age 18.

Beginning in 2008, the kiddie tax applies to children under age 19 and to full-time students under age 24. There is an exemption from the kiddie tax for a student over age 18 but only if the student's earned income exceeds half of the student's support.

Scholarships are not counted as support for this test.

With the increased age limit for the kiddie tax, it will be more difficult for families wanting to shift income to children for education savings. Funds already deposited in custodial accounts and trusts are even more vulnerable to higher tax rates.

Minimum Wage Increases

The current Federal minimum wage is \$5.15 per hour. The new law eventually increases the Federal minimum wage to \$7.25 per hour.

7/24/07 the Federal minimum wage increases to \$5.85 per hour.

7/24/08 the Federal minimum wage increases to \$6.55 per hour.

7/24/09 the Federal minimum wage increases to \$7.25 per hour.

Code Section 179 – Depreciation/Expensing

The dollar limit on §179 has been increased to \$125,000 from the previous \$112,000 limit for 2007 allowing the ability to expense rather than depreciate an additional \$13,000 in qualifying assets acquired.

Work Opportunity Credit

The Work Opportunity Credit has been extended by 44 additional months, through August 31, 2011.

It had been set to expire at the end of 2007.

Beginning May 26, 2007, the Work Opportunity Credit is expanded to include an additional targeted group. Veterans with service-connected disabilities who have been unemployed for any six months within a one-year period ending with the hire date are now covered. The qualified wages for this new group are \$12,000, up from the \$6,000 which applies to other targeted groups.

The Work Opportunity Credit is allowed as an offset against the Alternative Minimum Tax.

Spouses Who Are Co-Owners of Businesses

Beginning in 2007, spouses who co-own a business that they work in can now elect to not be treated as a partnership, eliminating the need to file a Form 1065 and related Schedule K-1's. In 2007 the taxpayers can report their income on Schedule C or Schedule F of the Form 1040 and report their applicable Self-Employment tax.

This provision is only applicable if the spouses are the only owners of an unincorporated business.

Taxpayers thinking of making this election should understand all of the tax issues this provision affects before making such an election.

S Corporations

Several S Corporation changes were made by the Small Business and Work Opportunity Act of 2007 including:

The Act applies to tax years beginning after May 25, 2007 so for calendar year S corporations the first year for this provision is 2008.

Capital gains from the sale or exchange of stock or securities are no longer treated as passive investment income for purposes of the corporate level tax imposed on S corporations with excessive passive income. Passive investment income will now be defined as interest, dividends, rents, royalties and annuities.

An S corporation with Earnings & Profits before 1983 can now eliminate the Earnings & Profits by re-categorizing them as AAA. This provision is effective for tax years beginning after May 25, 2007.

Filed Under Miscellaneous

The Act allows for an increased fee when taxpayer's write the IRS a bad check. For checks received after May 25, 2007 which are insufficient, the minimum fee is \$25, up from the previous \$15 fee apply to amounts less than \$1,250. The previous amount was \$750.

The amount of the penalty cannot exceed the amount of the check.

While Congress has six more months before the end of 2007 to enact additional tax legislation, it is a pretty safe bet that they will.

Suspicious e-mails and Identity Theft

Identity theft can be committed through e-mail or other means, such as regular mail, fax or telephone, or even by going through someone's trash.

Identity theft occurs when someone uses your personal information such as your name, Social Security number or other identifying information without your permission to commit fraud or other crimes. Typically, identity thieves use someone's personal data to empty the victim's financial accounts, run up charges on the victim's existing credit cards, apply for new loans, credit cards, services or benefits in the victim's name, file fraudulent tax returns or even commit crimes. People whose identities have been stolen can spend months or years and their hard-earned money cleaning up the mess thieves have made of their good name and credit record. In the meantime, victims may lose job opportunities, are refused loans, education, housing or cars, or even get arrested for crimes they did not commit.

The Internal Revenue Service has fallen victim to such identity theft with fraudsters contacting taxpayers while claiming to be the IRS.

The good news is that you can help shut down these schemes and prevent others from being victimized. If you receive a suspicious e-mail that claims to come from the IRS, you can relay that e-mail to a new IRS mailbox, *phishing@irs.gov*. The IRS can use the information, URLs and links in the suspicious e-mails you send to trace the hosting Web site and alert authorities to help shut down the fraudulent sites.

When the IRS learns about schemes involving the use of the IRS name, it alerts Tax Professionals. The most recent schemes identified are:

In a recent scam, taxpayers have received a "Tax Avoidance Investigation" e-mail claiming to come from the IRS' "Fraud Department" in which the recipient is asked to complete an "investigation form" for which

there is a link contained in the e-mail, because of possible fraud that the recipient committed. It is believed that clicking on the link may activate a Trojan horse.

In another e-mail scam, the e-mail claims to come from *tax-refunds@irs.gov* or *admin@irs.gov* and similar variations told the taxpayers that they were eligible to receive a tax refund for a given amount. It directed recipients to claim the refund by using a link contained in the e-mail which sent the recipient to a Web site. The site, a copy of the IRS Web site, displayed an interactive page similar to a genuine IRS one; however, it had been modified to ask for personal and financial information that the genuine IRS interactive page does not require.

The Treasury Inspector General for Tax Administration has found numerous separate Web sites in at least 20 different countries hosting variations on this scheme.

Another scheme suggests that a taxpayer has filed a complaint against a company of which the e-mail recipient is a member, and that the IRS can act as an arbitrator. This appears to be aimed at business as well as individual taxpayers.

Conclusion

Whether it is a concern over new legislation or general issues concerning your individual tax situation, you and your particular tax issues are in the forefront of our thoughts. Your concerns should be promptly addressed in order to give the greatest flexibility to a favorable tax outcome. As your Tax Professional, I look forward to speaking with you regarding any personal concerns or questions you might have.

Call my office for an appointment today.

Sincerely,