JENNIFER A. JONES, CPA, LTD.

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Articles

2007 Tax Legislation: On May 25, 2007, President Bush signed into law, H.R. 2206, the Small Business and Work Opportunity Tax Act of 2007. In part, the Act (1) extends the work opportunity tax credit for 3 1/2 years and provides liberalized rules for certain groups; (2) increases the Section 179 deduction limit to $125,000 and the phase-out amount to $500,000 for 2007 (to be indexed for inflation thereafter), and extends the enhanced expensing provision through 2010; (3) makes several beneficial changes to the S corporation rules; (4) allows unincorporated businesses owned by a married couple to file as a sole proprietorship instead of a partnership; and (5) waives the individual and corporate AMT limitations on the work opportunity tax credit and the tip credit. These provisions will be paid, in part, by (1) expanding the kiddie tax rules to apply to children age 18, and children over age 18 but under age 24 who are full-time students, if their earned income doesn't exceed one-half of their support; (2) extending the period of time the IRS has to issue notices of deficiency before it must suspend interest and penalties on an underpayment; (3) expanding and increasing preparer penalties; and (4) authorizing a new penalty on refund claims that lack a reasonable basis. Click on headline for more info.

2007 Charitable Contribution Rules: The basic rules have been around since the 1980's, but they're constantly evolving—most recently in the form of new documentation requirements included in the Pension Protection Act of 2006. These new rules came upon the heels of three recent summary opinion cases (*Harrell*, *Warren*, and *Warfield)* in which the taxpayers lacked reliable evidence for their alleged charitable contributions, *i.e.*, they were unable to produce cancelled checks, receipts from the charity, or other reliable evidence to substantiate the contributions. Because Congress has been concerned about the abuse of charitable deductions, it added new requirements for documenting certain types of charitable contributions, as well as increasing existing taxpayer penalties for the overvaluation of property contributed to charity and subjecting appraisers who overvalue the contributed property to new penalty provisions.

With this in mind, it's a good time to revisit the recordkeeping requirements for charitable donations and take a closer look at the latest requirements for cash contributions, as well as used clothing and household items. Click on headline for Reference Guide.

IRS Audits: The IRS has decided to launch a research project that will audit thousands of individual taxpayers aimed to update the agency's audit selection process. The National Research Program project, announced in a news release (IR-2007-113), will begin in October and will initially audit about 13,000 individuals for tax year 2006. The audits will focus on those parts of the individual return that cannot be verified through third-party information reporting, e.g. W-2s, 1099s, Schedule K-1s, certain deductions.

Home Sale Exclusion: Since its enactment in 1997, the $250,000 ($500,000 for joint returns) exclusion for gain on a home sale has lost 20% of its real value to inflation. Also, the recent boom in the housing market has greatly increased the value of many homes. With the combination of inflation and appreciation, the longer you own your home, the greater the likelihood is that you will owe taxes when you sell it. This means it is still important to keep records of the cost basis of your home and any improvements you've made to it, like additions and remodeling, upgrades, etc. The greater the cost basis, the less gain and potential tax there is. Organize your records to track these expenditures. If you failed to keep these records, try to reconstruct them now, documenting as much as possible, and safeguarding your documentation.

Previous Articles and Newsletters

2007 Cost-of-Living Limits

IRA Contribution Limit $4,000

IRA 50 & Over Catch-up Contribution $1,000

401(k) deferral limit $15,500

401(k) 50 & Over Catch-up Contribution $5,000

SIMPLE Deferral limit $10,500

SIMPLE 50 & Over Catch-up Contribution $2,500

Annual Compensation limit $225,000

Defined Contribution IRC Sec 415 limit $45,000

Compensation limit for SEP eligibility $500

IRC Section 179 $125,000

Estate Tax Exclusion $2,000,000

Social Security Wage Base $97,500

Prior Year's Limits

2007 Standard Mileage Rates:

Business mileage rate $0.485/mile

Medical & Moving mileage rate $0.20/mile

Charitable mileage rate $0.14/mile

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Have a Question?

If you have a subject or question that you would like covered, or comment, please email us at jenny@jajonescpa.com