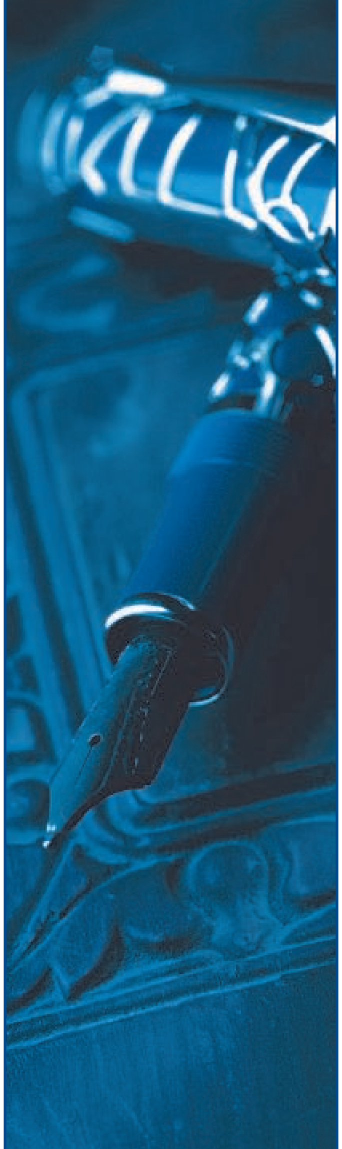
35 YEARS OF SERVICE 1972-2007

THE LEDGER

VOLUME 12, NUMBER 3 ■ THIRD QUARTER 2007

IN THE LEDGER:



NEW SMALL BUSINESS ACT: GOOD NEWS & BAD NEWS FOR TAXPAYERS

Just before Memorial Day, the President signed new tax legislation tied to foreign troop funding and an increase in the federal minimum wage. As the name implies, the Small Business and Work Opportunity Tax Act of 2007 features a number of tax breaks for small business owners. But it also includes several revenue-raisers that could catch you by surprise.

Good News

First, here's a brief overview of the favorable tax changes.

- The maximum Section 179 deduction is instantly raised from $112,000 to $125,000 for 2007. Also, the new law increases the Sec. 179 phase-out level from $450,000 to $500,000 and extends inflation adjustments through 2010.
- The new law includes several technical changes that benefit S corporation owners. Prime example: S corporation capital gains will no longer be treated as passive activity income.
- The Work Opportunity Tax Credit (WOTC) for employing disadvantaged workers is extended through August 31, 2011. Among other modifications, the WOTC is now also available for hiring disabled veterans.
- Tax filing requirements are eased for certain joint business ventures by a husband and wife. The couple may elect to not be treated as a partnership for tax purposes.
- Despite the increase in the minimum wage over the next two years, the employer tip credit will not be reduced. This credit is based on the excess above the minimum wage.

Bad News

But it's not all a bed of roses under the new law. Here are several thorns in the thicket.

- The new law prolongs the kiddie tax for many families (see "Kiddie Tax", page 2).
- The IRS can take 36 months, instead of only 18 months, to notify taxpayers about a liability before suspending interest and filing penalties.
- A collection due process (CDP) hearing is no longer required before the IRS begins to impose levies on certain delinquent employment taxes.

How are you affected by the new small business tax law? For more information and planning assistance, give us a call at 630-953-4900.

REVIEW YOUR TAX PLAN

This is the time of year when wise taxpayers review their tax situation and make the needed adjustments. Here are a few helpful reminders.

- Donations to charity require substantiation for deductibility, so get the documentation you'll need for your 2007 return. Remember, all money donations require a written record, even those under $250.
- Local and state sales taxes can be deducted this year in lieu of deducting state and local income taxes.
- Educators can deduct up to $250 for classroom supplies they purchase with their own money.
- Single taxpayers with income of $65,000 or less ($130,000 or less for couples) can deduct up to $4,000 for higher education tuition and fees. For singles with income of no more than $80,000 ($160,000 or less for couples), the deduction limit is $2,000.
- 2007 is the final year for those age 70-1/2 or older to make a charitable donation of up to $100,000 from an IRA without reporting the distribution as income.

CONTINUED ON NEXT PAGE

Turn Annual Employee Reviews Into A Constructive Exchange Of Ideas

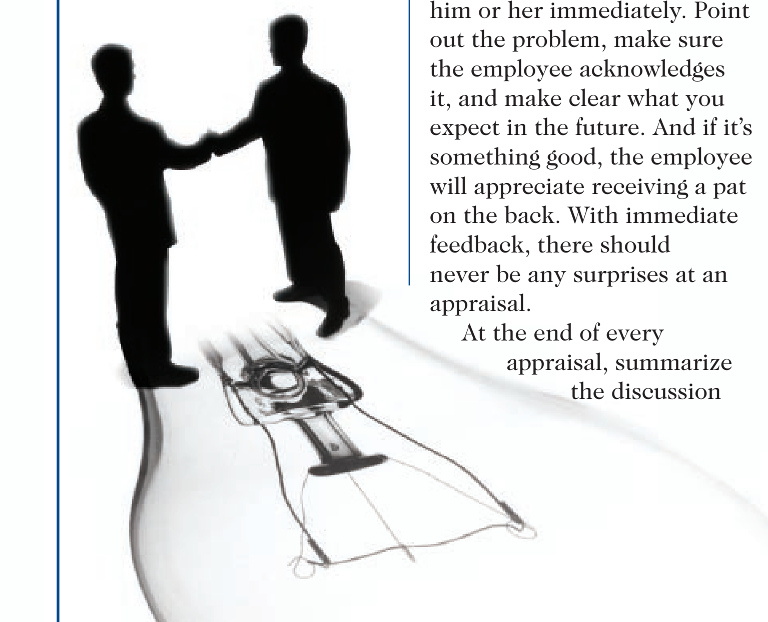
The annual employee performance review – usually it's dreaded by both supervisor and employee. The employee knows he'll have to hear about those mistakes from months ago, and the supervisor will finally have to discuss those issues he's been avoiding all year. Too often, the result is discomfort and embarrassment all around. Usually both parties fudge a little and are glad that it's over for another year. Too bad, because another chance for open communication and feedback has been lost.

To improve the process, consider holding performance appraisals more frequently, perhaps even quarterly. This can help make the appraisal less of a "special event" and more of a routine exchange of information. It also means your feedback is more directly related to your employee's recent performance, rather than coming months later.

Of course, even quarterly appraisals don't substitute for immediate feedback. If an employee does something wrong, or something good, tell him or her immediately. Point out the problem, make sure the employee acknowledges it, and make clear what you expect in the future. And if it's something good, the employee will appreciate receiving a pat on the back. With immediate feedback, there should never be any surprises at an appraisal.

At the end of every appraisal, summarize the discussion and put the highlights in writing. Make sure your employee gets a copy. Before the next appraisal, ask your employee to review the copy and prepare his thoughts on his most recent performance. Ask him to present his opinions to start the discussion. If there are areas needing improvement, agree on an action plan and put that in writing too. And that might be a two-way street. It could involve your providing training or taking actions to support the employee, so make sure you're living up to the agreement.

Don't limit the appraisal to a score-card on the employee's achievements. If appropriate, use it to discuss career planning, cross-training, or job enrichment. Solicit ideas from the employee. It can all help turn a judgmental meeting into a constructive exchange of ideas.



Size Up The "Kiddie Tax" Changes

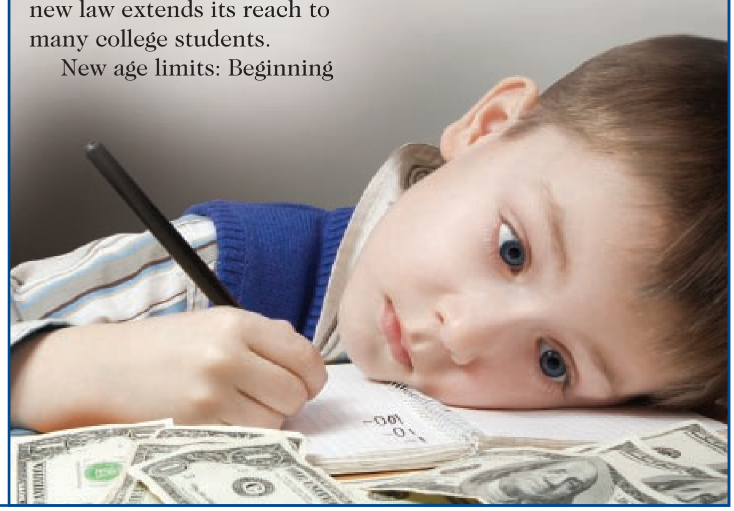
The kiddie tax isn't child's play anymore. Thanks to a big change in the new small business law, this tax could apply to twenty-somethings as well as toddlers.

How the kiddie tax works: If a child receives investment income above an annual threshold, the excess may be taxed at the top tax rate of the child's parents. For 2007, the threshold is $1,700.

Before 2006, the kiddie tax only affected children under age 14. Then Congress raised the limit to age 18. Now the new law extends its reach to many college students.

New age limits: Beginning in 2008 for most taxpayers, the kiddie tax applies to children who are under age 19 or full-time students under age 24. But these higher age limits kick in only if the child's earned income doesn't exceed half of his or her annual support. So some older children with jobs may be spared.

What's the reason for the change? Congress wanted to close a tax "loophole" for shifting income to children to be taxed at lower rates than their parents' rates.



Review Your Tax Plan

Continued From Page One

- Itemizers may deduct qualified mortgage insurance premiums this year only. The policy must have been issued in 2007, and income limits apply.

There are other new and soon-to-expire provisions that could affect your tax situation this year. Call our office for planning assistance while there is still time to take tax-cutting action for 2007.

FINANCIAL PLANNING

Are You Giving Your Children The Financial Education They Need?

Most parents, at one time or another, have asked their teenaged child, "Do you think that money grows on trees?" While the question is just a common expression, it hits at an underlying truth. Children on the verge of adulthood often don't have a clue about financial matters.

For instance, can you honestly say that your brood knows enough about managing debt, saving for college, or planning for retirement? If not, here are a few financial tips you should pass along.

Debt Management. Debt doesn't have to be treated like a four-letter word. In fact, there are times when it makes financial sense to borrow money, such as taking out a home mortgage. But caution your children about over-extending themselves, especially when it comes to credit card debt.

College Savings. At an early age, include your children in planning for their college education. When appropriate, let them participate in investment decisions, and monitor portfolio progress together on a regular basis.

Also, point out the advantages of tax-advantaged vehicles such as 529 plans and Coverdell Education Savings Accounts.

Retirement Planning. Sure, retirement is way off your child's radar screen, but don't ignore the need to plan ahead. Advise your child about the benefits of tax-sheltered retirement vehicles.

If your child works summers or part-time, he or she can contribute up to $4,000 to an IRA for 2007. Contributions to a traditional IRA are tax-deductible, but distributions are taxable. On the other hand, contributions to a Roth IRA are not deductible, but qualified distributions are tax-free.

Is that all there is? Not by a long shot. But these simple suggestions will be a good start.

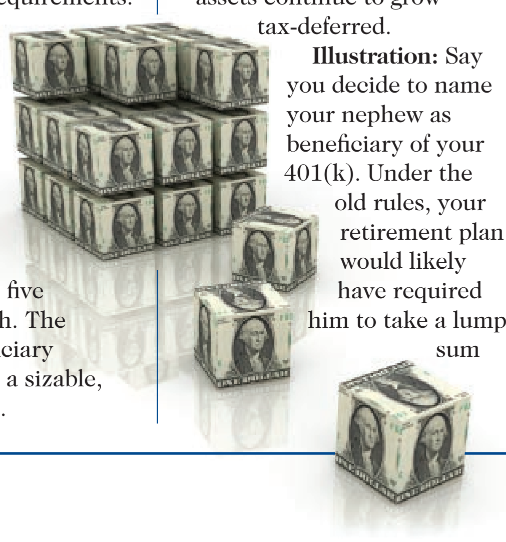
ESTATE PLANNING

New Rules Apply To Inherited Retirement Accounts

Thanks to the Pension Protection Act of 2006, leaving your retirement plan to someone other than your spouse has become more tax-friendly. The reason? Under new rules that took effect in January 2007, your nonspouse beneficiary might be able to defer part of the tax bill to future years.

■ ***What's changed.*** Qualified retirement plans such as 401(k)s, governmental 457s, and 403(b) plans can now offer your nonspouse beneficiary the option of transferring the inheritance to an IRA. That opportunity was previously available only to your surviving spouse.

■ ***The benefit.*** The change lets your beneficiary take advantage of less restrictive IRA distribution requirements. Before the law took effect, your plan's rules may have required the distribution of your entire retirement account balance to a nonspouse beneficiary within five years of your death. The result: Your beneficiary would have to pay a sizable, immediate tax bill.



But withdrawals from an IRA can generally be "stretched" over a longer period, which also stretches out tax payments. An additional benefit: Remaining assets continue to grow tax-deferred.

Illustration: Say you decide to name your nephew as beneficiary of your 401(k). Under the old rules, your retirement plan would likely have required him to take a lump sum payout. Typically he'd have been taxed on the full amount at the time of distribution.

Now, if your retirement plan decides to offer the new option, your nephew can elect to roll the assets into an inherited IRA. He'll still have to take annual distributions. But as long as he meets the technical requirements of the new law, the withdrawals – and the resulting tax – can be spread over his lifetime.

To learn more about this rule change, please give us a call. We'll be happy to explain the details and help you review and update your estate plan.

IRS ACTIVITY

'07 Vehicle Depreciation Limits Released

The IRS has released the annual depreciation limits for business vehicles first placed in service in 2007. For automobiles the limits are $3,060 for 2007, $4,900 for 2008, $2,850 for 2009, and $1,775 for each year thereafter.

For light trucks and vans, the limits are $3,260 for 2007, $5,200 for 2008, $3,050 for 2009, and $1,875 for each year thereafter.

For details on these limits as they apply to your 2007 purchases, call us.

IRS Announces Audits Aimed At "Tax Gap"

The "tax gap," the difference between taxes owed and taxes actually collected, is a major concern for the IRS.

In its efforts to narrow the gap, IRS audits will target employment tax under-payments. The number one employment tax problem is misclassified workers; that is, treating employees as independent contractors in order to escape paying payroll taxes.

Another audit project coming up is the National Research Program, to be launched this October with the auditing of about 13,000 individuals for the 2006 tax year. Results from these audits will be used to measure tax compliance and to update the Service's audit selection formulas.

Nonprofit Organizations Get Help And A Warning

The IRS is making an Internet workshop available to nonprofit organizations to help them remain in compliance with the laws governing tax-exempt status. The workshop consists of interactive modules on five tax compliance topics. Entitled "Stay Exempt – Tax Basics for 501(c)(3)s," the workshop is free and does not require registration.

Also, a warning has been issued to tax-exempt organizations by the IRS: Do not lose your tax-exempt status by engaging in prohibited political activities. Churches and charities are reminded that a condition of their exemption from federal income taxes is refraining from such activities during the upcoming elections.

BY THE NUMBERS

IMPORTANT DATES FOR FALL 2007

September

September 17
Third installment of 2007 individual estimated tax is due.

September 17
Filing deadline for 2006 tax returns for calendar-year corporations with extensions of the March 15 deadline.

October

October 1
Deadline for businesses to adopt a SIMPLE retirement plan for 2007.

October 15
Filing deadline for 2006 individual tax returns on automatic six-month extensions of the April 17 deadline.

October 15
Deadline for filing 2006 partnership and limited liability company returns on extensions.

October 15
Deadline for reconverting a Roth to a regular IRA.

35 YEARS OF SERVICE 1972-2007

CRAY, KAISER LTD.

1901 SOUTH MEYERS ROAD
SUITE 230
OAKBROOK TERRACE, IL
60181
T: 630-953-4900
F: 630-953-4905
E :INFO@CRAYKAISER.COM

John W. Kaiser, Jr., CPA
Roger L. Reitz, CPA
James K. Scherzinger, CPA
James H. Slager, CPA
Deanna L. Salo, CPA