

# IN THE BLACK

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## BRUCE A. RUKKILA, CPA, PC

CERTIFIED PUBLIC ACCOUNTANTS

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### 9 Year-End Tax Tips

See page 2 & 3 for details

*We would like to send this newsletter to you electronically, please forward your e-mail address to: [help@brucerukkila.com](mailto:help@brucerukkila.com)*

If you have questions, comments or suggestions for us, visit our web site at [www.brucerukkila.com](http://www.brucerukkila.com), send us an email at [help@brucerukkila.com](mailto:help@brucerukkila.com), or give us a call at (906) 482-6601.

Bruce Rukkila, President,  
CPA, MA, CVA

### New Michigan Income Tax Rate

Michigan raised its personal income tax rate to 4.35%, effective October 1, 2007. For 2007 there is now a "blended rate." The old rate of 3.9% and new rate will result in a blended rate of 4.0125% for 2007. Most payroll systems should be adjusting their employee withholding tables for this higher rate. If you are currently paying safe harbor quarterly individual state tax estimates, you probably do not need to change your 4<sup>th</sup> quarter estimate due on January 15, 2008. If you are unsure give us a call.

### New Michigan Business Tax

Effective January 1, 2008 the Michigan Single Business Tax (SBT) will be replaced by the New Michigan Business Tax (MBT). It is a little too early to answer all the questions on how or what will be the effect on small businesses. The Michigan Department of Treasury and the courts will no doubt issue interpretations and other rules on the new MBT. Further legislation may even be introduced in the future. If you have MBT questions please contact our office and we will soon have more information on our web site ([www.brucerukkila.com](http://www.brucerukkila.com)).

### IRS Scam Notice

Please disregard any e-mails you receive from the IRS stating you have refunds or that they are requesting information. The IRS explains on their website [www.irs.gov](http://www.irs.gov) that they never contact individuals via e-mail.

Please visit our website at: [www.brucerukkila.com](http://www.brucerukkila.com)

## Michigan SBT, MBT and Personal Property Taxes

For 2006 and 2007 there was a Single Business Tax (SBT) credit available equal to 15% of personal property taxes on "industrial" property. Starting in 2008, there is a similar, but enhanced, credit of 35% of personal property taxes paid on "industrial" personal property. ***To claim the credit the taxpayer must file its 2008 Personal Property Tax statements by February 20, 2008 and pay the personal property tax in the year the credit is claimed.***

Also starting in 2008, property classified as "industrial" is exempt from all 18 school operating mills and the 6 mill state education tax. Property classified as "commercial" is exempt from 12 of the 18 school operating mills.

We suggest you review your 2007 and future "Notice of Assessments" to verify that the assessor properly classifies your property. Please contact us if you have any questions.

## Planning for Year-End Payroll Reporting

It is time again to start planning for year-end payroll reporting. We have prepared the following hints to get you on your way:

January 31, 2008 is the deadline for W2s to employees, and 1099s to recipients.

**W2s** - Be sure to have current address information and Social Security numbers on all employees. This is especially important for those employees no longer working for you, and will be necessary for mailing their W2s.

**1099s** - It is also important to make sure that you have current addresses and Social Security numbers or Federal ID numbers for anyone who requires a 1099-MISC Form. This form is issued to individuals and certain entities to whom you have paid \$600 or more to for rent, services, or other miscellaneous payments. The information is also important to have for other types of 1099s that must be filed as well. Your individual situation will determine if any, and which type, of 1099 is necessary. If you are unsure of whether you should be issuing 1099s, give our office a call. We are happy to go over the requirements in more detail with you.

In addition, remember that if you have an employee that has changed his or her exemption status during 2007, he or she must fill out a new W4 for 2008.

# 9 Year-End Tax Tips

## 1. Estimate your business' profit or loss for the year:

Your numbers will be more accurate if you estimate closer to the end of the year. Do not wait too long or else you could miss the opportunity to use some tax saving strategies. Your profit or loss in your books may not be the same as the profit or loss on your business' tax return due to certain tax rules. It is also important to know whether you report your tax returns on the cash basis or accrual basis. It is possible that you keep your books on the accrual basis but file your tax returns on the cash basis. This is legal and very common.

### Here are some helpful tips to use when computing your profit or loss for tax purposes:

- In most cases, only 50% of your total business-related meals and entertainment expenses can be deducted for tax purposes.
- Personal expenses of the owners are not deductible for tax purposes.
- Certain expenses, such as fixed assets and intangible assets, cannot be deducted all at once and must be depreciated or amortized over a specific period of years.
- You may have certain tax carryovers or credits that may reduce your tax profit or tax liability. These carryovers most likely will not appear on your company's books but should be included with your prior year tax work papers.
- If you maintain inventory and do not track it throughout the year, the inventory should be counted and adjusted at the end of the year to its actual amount. Inventory adjustments increase or decrease your income accordingly.
- You may have depreciation and/or amortization that can be deducted on your tax return but is not deducted on your books. If you do not keep track of this on your books, please ask us for a depreciation schedule to determine the applicable deduction(s).

## 2. Defer income to the next year:

Deferring income means delaying sending invoices to your customers or clients until the beginning of the next fiscal year. If you are on the accrual basis, this is especially important because if you bill your customer at the end of the year, you will have to report the sale as income in that year.

The one misconception for businesses is the cash basis. If you receive payments from your customers before the year ends but do not deposit those payments until the next year, **the income is still taxable in the year the payments are received.** This also applies to any cash received and being kept in your cash register on the last day of the year.

## 3. Prepay expenses this year:

On the flip side of deferring income, you may want to prepay expenses before the end of the year to lower your business' profit.

- Business expenses charged on your credit card are deductible in the year charged, even if they are actually paid in the following year.
- Major purchases of equipment and other assets must be depreciated; however, certain purchases may be eligible for Section 179 expense deductions.
- Prepaying expenses that are due the month after the end of the fiscal can be deducted in full; however, prepaying expenses that are due over a longer period of time cannot be deducted all at once; those payments must be deducted ratably over the period the payments cover.

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**4. Purchase equipment and other business assets:**

Although fixed assets must generally be depreciated, businesses can take advantage of the Section 179 deduction. This allows a business (or self-employed individual) to deduct the full amount of such purchases in the year of purchase.

**The rules for 2007 for the Section 179 deduction are as follows:**

- Only certain types of property are eligible for Section 179 treatment. Generally personal property like, machinery, equipment, furniture and fixtures are eligible. Buildings and their structural components, rental and investment properties and assets held in an estate or trust are not eligible.
- The maximum amount of assets that can be depreciated using Section 179 in 2007 is \$125,000. **Currently, this will be reduced to \$25,000 starting in 2008.**
- If the total amount of assets purchased during the year **that could be eligible for Section 179 treatment** exceeds \$500,000, the \$125,000 Section 179 threshold is reduced. Thus if you purchase \$625,000 of eligible Section 179 equipment during 2007, you cannot take a 179 deduction in 2006.
- You can only deduct Section 179 depreciation to the extent of your income. Your income for Section 179 purposes includes your passthrough income from your S-Corporation, partnership or LLC and your (and your spouse's) W-2 wages. Any Section 179 depreciation not used due to income limitations may be carried forward to subsequent years.

**5. Write off your uncollectible accounts:**

If you have clients or customers that have not paid you for your services, you may be entitled to write those amounts off as bad debt deductions. The key factor here is determining if and when the account becomes worthless. Legal action against the debtor is not required to prove worthlessness, but you must show evidence that you have tried to collect the debt and that future payment is unlikely.

**Only businesses that use the accrual method of accounting can deduct bad debts.** Businesses on the cash basis may not claim bad debt deductions. This is because cash basis businesses recognize income when payment is received. If no payment has been received, no income has been recorded and there is no bad debt to expense. If an accrual basis business writes off a bad debt then later receives payment on that debt, the income must be recognized when the payment is received.

**6. Pay out year-end bonuses:**

One of the most common and easiest ways to reduce your year-end profit is to payout bonuses to owners and employees. Here are a few things you should know if you are planning on doing this:

- If you operate on the cash basis of accounting, the bonuses must actually be paid by the end of the year to be deducted in that year. If the bonus is not paid until the subsequent year, then no deduction is allowed in the current year. If you operate on the accrual basis of accounting, you may accrue bonuses to your employees. Thus, your business will get a deduction for the bonuses in the current year even though they are not paid until the next year. However, these accrued bonuses must be paid within 2 ½ months of year-end.
- An accrual basis corporation may only deduct bonuses paid to individual shareholders who own 50% or more of the corporation when such bonuses are actually paid. If the corporation is a Personal Service Corporation, then the rule applies to all shareholders, regardless of the percentage of stock owned.

**7. Contribute to your company's retirement plan:**

If you have previously set up a retirement plan for your business, you should consider making a contribution to that plan before year-end. This is an excellent way to reduce your company's taxable income. If your company does not have a plan set up, you may need to establish the plan before the end of the year to be able to deduct the contributions to the plan this year.

Since retirement plans have varying eligibility requirements, you should review the various types of plans available to business owners.

**8. Review your basis in your S-Corporation, LLC, or partnership:**

If you expect your business to have a loss, you want to make sure you have adequate basis to deduct the loss individually, if your basis is too low, you should consider making either a capital contribution or a loan to the business to generate basis.

Your basis is generally the sum of your capital contributions plus any income passed through to you, less any losses passed through to you, less any distributions you have taken. Your basis is a cumulative calculation and is carried over from year-to-year. You may also have debt basis, which is generally the total of any money you have lent the business less the amount of those loans that have been paid back to you. For partnerships and LLCs taxed as partnerships, you may also have debt basis for your share of the partnership's debts.

Basis calculations can be very tricky and difficult to understand. Please call us (906-482-6601) to review your basis before the end of the year.

**9. Check to see if you are eligible for any new tax deductions or credits:**

The tax laws are constantly changing and new tax deductions and credits are introduced every year by Congress. Recent legislation includes the Work Opportunity Tax Credit and the Domestic Production Activities Deduction. Since there are numerous deductions and credits available for businesses, be sure to call us (906-482-6601) to see what you may be eligible for.

**Please visit our website at: [www.brucrukila.com](http://www.brucrukila.com)**

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