IN THE BLACK

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BRUCE A. RUKKILA, CPA, PC

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Bruce Rukkila, President, CPA, MA,CVA

Tax Planning for Businesses Acquiring Assets in 2008

As part of the Economic Stimulus Act of 2008, there are bonus depreciation provisions and enhanced expensing provisions for assets purchased by businesses:

Bonus Depreciation: Businesses may claim 50% depreciation on qualified depreciable property purchased after December 31, 2007 and before January 1, 2009. Used property does not qualify for this deduction, however, there is no limit on the 50% deduction for new equipment.

Small Business Expensing (Expanded Section 179 Rules): For tax years beginning in 2008, businesses are allowed to expense up to $250,000 of eligible property placed in service during the 2008 tax year. This expensing amount is reduced if the total amount of eligible property exceeds $800,000. Used property qualifies for this deduction.

After 2008 and through 2010, the amount of the deduction is $125,000 (with the maximum purchase amount reduced from $800,000 to $510,000), adjusted annually for inflation. In 2011, unless further legislation is passed, the deduction will be reduced to $25,000.

CAUTION: Accelerated depreciation is an excellent way to write off additional capital expenditures immediately vs. taking lesser amounts over several years. While this increased deduction helps trim the tax bill this year, because there is less to be depreciated in future years, the company's tax bill in later years could be higher. The political push behind the Stimulus Act was to boost investment to stave off a recession in 2008. However, if the economy downturn continues into 2009 and further, paying more taxes later may be difficult on cash flows that are already under pressure.

Minimum Wage Increases to $7.40 Effective July 1, 2008

On July 1, 2008 Michigan's minimum wage increased to $7.40 per hour.

Tipped employees can be paid $2.65 per hour if they report receiving tips of at least $4.75 an hour.

The federal minimum wage is set to increase to $6.55 per hour July 24, 2008. When an employee is subject to both the state and federal minimum wage laws, the employee is entitled to the higher of the two minimum wage rates.

For more information please go to www.michigan.gov

Health Savings Accounts

A health savings account (HSA) is an alternative to traditional health care coverages, the contribution to which is tax deductible. HSA funds may be used to pay out-of-pocket cost such as deductibles, co-pays and other qualifying medical expenses.

Commonly referred to as a "medical IRA" an HSA is a personal savings account that can be used during the year or accumulated in the account for future use. As long as the dollars are spent to pay for qualifying medical expenses, withdrawals are tax free.

Eligibility

Individuals under the age of 65 are eligible to contribute to an HSA if they are enrolled in a qualified High Deductible Health Plan (HDHP). The HDHP must have a deductible of at least $1,100 for self-only coverage or $2,200 for family coverage and must limit annual out-of-pocket expenses of the beneficiary to $5,600 for self-only coverage and $11,200 for family coverage.

Employer Contributions

Up to specified dollar limits, qualified employees can generally exclude cash contributions to the HSA from state and federal income tax withholding, Social Security Tax, Medicare Tax. For 2008, you can contribute up to the following amounts to a qualified individual's HSA, even if the HDHP deductibles are lower.

- $2,900 for self-only coverage or $5,800 for family coverage.
- $3,800 for self-only coverage or $6,700 for family coverage for qualified individuals who are age 55 or older at any time during the year.

Social Security Retirement Benefits

The Social Security Administration invites you to visit their website at www.socialsecurity.gov. There you will find useful online retirement benefit calculators, how to order Social Security publications, get answers to frequently asked questions and download a copy of their "Online Retirement Planning" CD.

They give presentations, free of charge, on a variety of Social Security topics. Their typical presentation lasts about 60 minutes, including time for questions.

If you would like a coordinator to give a pre-retirement seminar to a group of your clients-or an informational presentation to staff in your office-please contact Michelle Sampson, eServices Coordinator at (906) 786-0396 ext. 1224 or by e-mail michell.sampson@ssa.gov.

Please visit our website at www.brucerukkila.com

IRS Increases Mileage Rates

The IRS announced an increase in the optional standard mileage rates for the final six months of 2008.

The rate will increase to 58.5 cents a mile for all business miles driven from July 1, 2008, through December 31, 2008. This is an increase of 8 cents from the 50.5 cent rate in effect for the first 6 months of 2008.

In recognition of recent gasoline price increases, the IRS made this special adjustment for the final months of 2008. The IRS normally updates the mileage rates once a year in the fall for the next calendar year.

For more information please go to www.irs.gov

Penalty for Late Filing of an S Corporation Return

For Federal Corporation tax returns required to be filed after December 20, 2007, a new penalty may be charged if the return is filed after the due date (including extensions) or the return does not show all required information. The penalty is $85 for each month or part of a month (up to 12 months) the return is late or does not contain the required information, multiplied by the total number of persons who were shareholders in the corporation during any part of the corporation's tax year for which the return is due.

For more information please go to www.irs.gov

Tax Freedom Day Arrives Early in 2008

The annual announcement from the Tax Foundation tells us how many days we have to work each year in order to pay federal taxes. Tax Freedom Day 2008 was April 23rd, three days earlier than 2007's Tax Freedom Day, which fell on April 26.

Stimulus rebates and a projection of slow growth in 2008 are the principal reasons for the earlier celebration, according to the nonpartisan Tax Foundation.

Tax Freedom Day is calculated by dividing the official government tally of all taxes collected in each year by the official government tally of all income earned in each year. Governments (federal, state and local) took 29.6% of income in 1970, 30.4% of income in 1980, 33.6% in 2000, and so on. This percentage is the nation's total tax burden. The Foundation then uses the historical trend and the most recent economic data to make a projection of what the tax burden will be in the current year and converts that burden into a date (a percentage of the year) on which Americans will have earned enough income to pay their total tax bill for the year.

For more information please go to www.accountingweb.com

Planning Tip for 2010 in Regard to IRA Rollovers

Currently, a married couple whose adjusted gross income (AGI) does not exceed $100,000 may rollover amounts from a Traditional IRA to a Roth IRA. The AGI is determined prior to including any conversion amount. The conversion is treated as a taxable distribution, but is not subject to the 10% early withdrawal penalty.

Starting in 2010, the Tax Increase Prevention and Reconciliation of Act of 2005 eliminates the $100,000 ceiling. This opens the door for many taxpayers, whom were not previously eligible, to convert Traditional IRAs to Roth IRAs.

Additionally, keep in mind that 401(k) money paid out to employees upon separation from their employer may be rolled into a Traditional IRA at any time. Once in the Traditional IRA, the amount may be converted to a Roth IRA in the current year if AGI is under $100,000, or in 2010 if AGI is over $100,000.

TIP: Taxpayers whose wage level exceeds the amount allowing them to contribute to a Traditional IRA or a Roth IRA may contribute to a non-deductible Traditional IRA in 2008 and 2009 in anticipation of converting it to a Roth IRA in 2010, paying tax on only the gain in the non-deductible Traditional IRA.

CAUTION: This TIP works wonderfully if you have only one IRA. However, the IRS considers all of your Traditional IRAs as one aggregate IRA, whether they are deductible (tax-deferred on both the contributions and growth) or nondeductible (only tax-deferred on the growth). Thus, the taxable portion of the rollover is determined by prorating the rollover among all of your IRAs, regardless of which IRA is converted. If your deductible IRA is substantially more than your non-deductible IRA, and you only wish to roll over a small portion, the majority of your rollover will be taxable income.

The year 2010 is the last year for the lower income tax rates before they sunset in 2011. The rush to implement Roth conversions in 2010 may be historic, especially if Congress does not extend the lower tax rates. Plan ahead to take full advantage of this change in the law.

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