SOLUTIONS

2nd Quarter ◆ 2008

Dear Clients and Friends

Selected Items From the Economic Stimulus Act of 2008

Automobile Deductions Under the Economic Stimulus Act of 2008

Passenger vehicles costing more than $15,100 are subject to depreciation limitations, sometimes referred to as "luxury auto limits." As part of the Economic Stimulus Act of 2008, Congress enacted a temporary increase in the allowable depreciation deduction for passenger vehicles under the luxury car rules. Under this law, taxpayers will be able to deduct just under $11,000 as first-year depreciation on business use vehicles purchased and placed in service in 2008. Trucks and vans, including SUVs that have a loaded gross vehicle weight rating greater than 6,000 pounds, are not subject to the "luxury auto limits". The same is true for trucks or vans if, because of their design, they are not likely to be used for personal purposes.

As an alternative to purchasing a vehicle, consider leasing. Generally, lease payments for vehicles used for business purposes are deductible in proportion to the vehicle's business use. However, the lessee must include a certain amount in income during the years the vehicle is leased to partially offset the excess of lease payments over the "luxury auto limits." The increase in the deduction limitation for luxury cars, however, may impact your decision whether to lease or purchase a vehicle. We can help you determine whether leasing may be financially advantageous for you, and answer your questions about the tax aspects of leasing vs. purchasing a new vehicle.

States React to the Economic Stimulus Act of 2008

For property purchased during 2008, the Economic Stimulus Act of 2008 allows an additional first-year depreciation deduction equal to 50% of the adjusted basis of qualified property. It also includes a provision for an increased first year expense deduction of $250,000 for qualified property placed in service in 2008.

In 2002, Pennsylvania amended its Tax Code to disallow the additional depreciation deductions provided for by the federal government. The state also capped the Section 179 deduction at $25,000. Both of these provisions are still in effect, thus decoupling Pennsylvania from the federal provisions of the Stimulus Act for depreciation purposes.

For New Jersey gross income tax purposes, N.J.S.A. 54A: 5-1.2 decouples the Gross Income Tax Act from some federal changes to depreciation and to IRC section 179 for assets placed in service on or after January 1, 2004. Therefore, as New Jersey decoupled from the federal treatment, the Economic Stimulus Act will not change the current treatment of depreciation for New Jersey gross income tax purposes.

St. Clair CPA Solutions
Accounting for Life · Advising for Lifecycles™
Plan To Build Wealth℠ PERSONAL • BUSINESS • ESTATE
www.cpasolutions.net

Tax Tip – Reviewing Your Deductions May Reduce Your Income Tax

Are you paying too much income tax? You may be if, like many business taxpayers, you fail to fully deduct qualifying business expenses. Alternatively, you may be deducting such expenses improperly, which could result in taxes owed, plus penalties and interest. Below is a list of commonly misunderstood deductions that you may not be fully utilizing. We recommend that you carefully examine your records to determine if you are missing any of these deductions:

- **Home Office Deduction:** If you use part of your home as a home office, you may be entitled to deduct expenses related to the home office, including mortgage interest, property taxes, utilities, repairs, etc.
- **General Business Expenses:** If you use your personal funds for business expenses such as office supplies, these are qualifying business expenses, which you may deduct.
- **Meals and Entertainment Expenses:** If you have used your personal funds to pay for meals and entertainment expenses, these expenses may qualify as business deductions, subject to limitations.
- **Personal Assets Converted to Business Use:** If you have contributed personal assets, such as a computer, the fair market value of these assets may qualify as a business deduction, subject to depreciation limitations, beginning with the date of conversion.
- **Communications Expenses:** Expenses related to the business use of your personal telephones, cellular phones, and internet connections may be deducted.
- **Automobile Expenses:** Mileage and other related automobile expenses may be deducted when your personal vehicle is used for business or charitable purposes.

St. Clair CPA Tax Professionals

Terry A. Cantor, CPA
Alan B. Gubernick, CPA, MST
Hal J. Michels, CPA, MST
James F. Knight, CPA
Colleen E. Levin, CPA
Edward J. Mahalidge, CPA
Gary S. Martosella, CPA
Cheryl A. Post, CPA
Angela Casey
Kristen L. Kobell
Asen N. Trambev, CPA
David W. Wharton, CPA, CFP

Securities and Advisory Services offered through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Adviser.

28 South Centre Street
Merchantville, NJ 08109
(P) 856.482.5600
(F) 856.665.3618

101 West Elm Street, Suite 500
Conshohocken, PA 19428
(P) 610.862.1998
(F) 610.862.3200

Employee or Independent Contractor? Knowing the Difference May Save You Money

What's the difference between an employee and an independent contractor? Understanding the difference is critical to making the right classification. If you are an employer, you are required to withhold and contribute a matching amount of FICA and Medicare taxes from your employee's income. However, if your workers are independent contractors, you are only required to report payments of $600 or more on a Form 1099-MISC (Miscellaneous Income). Failing to make the right classification could cost you money.

If you have workers who make substantial financial investments in tools, equipment, or a place to work, or undertake some entrepreneurial risks, they are probably independent contractors. However, when you control and direct the workers who perform services for you towards accomplishing an end result, you are probably involved in an employer-employee relationship.

Unless there is a reasonable basis for treating your employees as independent contractors, failure to withhold income and employment taxes from their wages can result in severe penalties and interest, in addition to the back taxes owed, which may be assessed to the individual responsible for these decisions. The individual responsible is not protected by the corporate veil. Of course, penalties for intentional worker misclassifications are harsher than they are for inadvertent mistakes.

States and the Internal Revenue Service have a vested interest in whether your workers are independent contractors or employees, because the misclassification of workers is costing states millions of dollars in lost unemployment insurance tax revenue. Thus, expect states and the IRS to be looking closely at how your workers are classified. The New Jersey legislature recently approved a bill that would subject employers who contract with the state of New Jersey to criminal penalties and debarment from receiving public works projects if the employer misclassifies employees as independent contactors. Pennsylvania House Bill 2400 would include a misdemeanor charge, a fine up to $2,500 and/or imprisonment for up to 180 days for those employers who unknowingly misclassify employees as independent contractors. For those employers who knowingly misclassify employees; the charge goes to a felony and up to $15,000 in fines and/or imprisonment for up to three and a half years.

Since the potential liability is considerable, make verifying that your workers are properly classified a high priority. We can answer any questions you may have regarding classifying your employees and/or independent contractors. Please contact our office at your earliest convenience to make an appointment.

Retirement Plan Refresher

Your company retirement plans and IRAs may be among the biggest, if not the biggest, assets that you have. Therefore, one of the most important planning areas for you is taking distributions from your IRAs and qualified retirement plans. You have a great opportunity to plan your distributions to meet your personal financial and estate planning objectives. Understanding the basic tax rules and then planning accordingly is essential. We can explain the basic rules and provide some strategies for you to consider as part of your overall tax plan.

Some taxpayers may consider early retirement as a viable option. However, generally, a distribution made before you are 59-1/2 years of age is subject to a 10% penalty, in addition to the tax otherwise payable on the distribution. There are some exceptions to this rule. The penalty may not apply for certain hardship cases, for first-time home buyers, or to pay certain medical or education expenses. Many distributions may be received tax free if they are transferred to an IRA or another eligible plan within 60 days of the distribution.

Although there is a penalty for premature distributions, there is also a penalty for failure to commence distributions by a certain age. Minimum distribution rules are imposed to prevent participants from unreasonably deferring the tax on their retirement savings. Under these rules, distributions are required to begin, for a participant other than a five percent owner, no later than April 1st of the calendar year following the later of:

1. the calendar year in which the participant reaches age 70-1/2, or
2. the calendar year in which the participant retires.

The minimum distribution rules do not apply to Roth IRAs, but do apply to traditional IRAs, deferred compensation plans, tax sheltered annuities, and qualified retirement plans.

Navigating between the rules of when and how retirement distributions are taxed can be intimidating. We can help you make the right choices that will minimize your tax burden, meet your financial needs and comply with tax regulations.

Resident of Philadelphia? Don't Forget the School Income Tax

The School Income Tax is an often overlooked tax that is imposed on residents of the School District of Philadelphia. This tax is imposed on several classes of income including dividends, long-term capital gains, pro-rata share of S Corporation income, income from limited partnerships, and income from trusts. This tax is imposed at the regular resident income tax rate, which is currently 4.219%. If you have recently moved to Philadelphia or are already a resident and receiving dividends or other taxable types of income for the first time, contact our office and we will help you assess your potential liability under the School Income Tax to make sure you are in compliance.