



Help when
you need it

BUSINESS SERVICES

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2008 Year-End Newsletter

[\\$25 off Tax Preparation - Missed the rebate from your 2007 return?](#) - [Tax Planning in a Down Market](#) - [Mileage Rate Decrease](#) - [SDI increase](#) - [2008 Depreciation - Emergency Economic Stabilization Act of 2008](#) - [AMTPatch](#) - [FDIC Insurance](#) - [Federal Tax Due Dates - 7 Ways to Reduce Chaos - 1099s - Reducing Employee Fraud](#) - [LLC Fee Acceleration](#) - [California Nonresident Withholding](#) - [California Sales and Use Tax Audits](#).

Missed the rebate from your 2007 return? You can still get it for 2008.

Those of you who missed out on the Recovery Rebate based on your 2007 return will still have a chance to claim it for 2008. To qualify for the rebate, you need either:

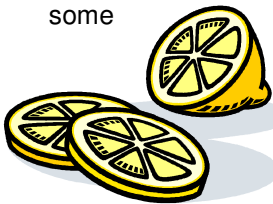
- 1) Tax liability (you don't get all of your withholding back) *or*
- 2) At least \$3,000 in earned income, or otherwise qualifying income (generally social security, tier 1 railroad retirement benefits, certain veteran's benefits, or nontaxable combat pay)

Your rebate may be reduced based on your income or your tax liability.

If you qualify for a larger rebate in 2008 than you received in 2007, you can claim the difference. If you qualify for a lower rebate in 2008 than you received in 2007, you don't have to repay the difference.

Tax Planning Opportunities in a Down Market

You may have heard that losses on sales of items like stocks and bonds can reduce your tax bill. Here are some ways you might be able to make lemonade out of our recent bumper crop of economic lemons:



- *Sell your losers:* Generally, individual taxpayers can use up to \$3,000 of net capital losses each year to reduce

other taxable income. If your net capital losses exceed \$3,000, you can carry the remaining losses forward to the next year. *Warning* – if you sell an equity at a loss, and then purchase an equivalent equity within 30 days (before or after) or the sale, the IRS considers this a “wash sale” and the loss is *disallowed* for most taxpayers. Contact your investment advisor for strategies you can use to keep your portfolio balanced.

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Retirement planning: If your IRA has been slammed by the down market, this may be the year to convert it to a Roth. When a traditional IRA is converted to a Roth, you pay tax on the *value* of the account converted – a lower value means less taxable income. Please note that a taxpayer cannot be married filing separately or have a “modified adjusted gross income” (generally your total reportable income) exceeding \$100,000 in the year of the conversion.

- *Estate planning:* Using planned gifting, taxpayers may reduce the eventual amount of their taxable estate by making gifts to potential heirs ahead of time. Generally, the gifts are up to the amount that triggers gift tax (\$12,000 in 2008, increases to \$13,000 in 2009). This year, the \$13,000 yearly limit could include a lot more stock than it used to.

The future of the estate tax is extremely uncertain.

Current legislation calls for the estate tax exemption to increase from \$2 million in 2008 to \$3.5 million in 2009, with a complete elimination of the estate tax in 2010. In 2011, the estate tax returns to 2001 limits.

Congress still has time to change those figures, and odds are good that they will.

- *Sell your winners:* If you have highly appreciated equities that you've been afraid to sell because of the capital gains income, this may be the least expensive year to cash out. You may also want to use this strategy for equities that you inherited when their value was much lower, or that were given to you by someone who purchased them at a much lower price.

Mileage Rate Decrease

On January 1st, 2009 the standard mileage rate will be 55¢ per mile – down from 58.5¢ per mile for the last half of 2008.

SDI increase

California SDI withholding will increase from 0.8% to 1.1% in 2009

Depreciation's Great in 2008

2008 will see the amount of assets you can expense in the year of purchase nearly double. Also, for qualified assets purchased and placed in service in 2008, taxpayers can claim 50% bonus depreciation, as well as the usual depreciation on the remaining 50%. California, of course, doesn't conform.

Emergency Economic Stabilization Act of 2008

Known for and as the "bailout," this act, which contained the Energy Improvement and Extension Act of 2008 and the Tax Extenders and Alternative Minimum Tax relief Act of 2008, also has significant tax implications as well, including the AMT Patch discussed below. Here are some highlights:

Tax Extenders and Alternative Minimum Tax Relief Act of 2008

- Increased FDIC insurance limit from \$100,000 to \$250,000 through 2009— see the article on how the FDIC limits are calculated.
- Extended through 2009 some popular deductions that were set to expire, including:
 - Sales tax deduction
 - Tuition deduction
 - Standard deduction for property taxes
 - Enhanced charitable contribution deductions for qualified computer and book inventories to schools and the enhanced deduction for food inventories.

Midwest Disaster tax relief includes

- Removing income limits on deductible charitable contributions for the Midwest disaster area, and an increase in the mileage rate for deductible volunteer miles
- Doubling the maximum Hope and Lifetime learning credits for students at a qualified institution and allows additional types of expenses to be used towards those credits
- Allowing a \$500 exemption deduction for taxpayers housing Midwest disaster victims.
- Removing thresholds for deductible casualty losses for any federally declared disaster area in 2008 and 2009. This act also increases the tax benefit of casualty losses for taxpayers who don't itemize deductions.

The Energy Improvement and Extension Act of 2008

- Authorizes a comprehensive review of the tax code to determine which provisions have the most effect on greenhouse gas emissions.
- Creates a \$2,500 credit (or more) for plug-in electric vehicles (will phase out based on the number of cars sold)
- Extends renewable energy credits and per gallon biodiesel production tax credit through 2009
- Extends credits for solar energy, fuel cell, and microturbine property through 2016 and eliminates the \$2,000 cap on solar electricity generation credit.

Sources:

<http://www.bricker.com/publications/articles/1368.pdf>

http://www.bnasoftware.com/News_Articles/Articles/Emergency_Economic_Stabilization_Act_of_2008_Effect_on_Business_Returns.asp

<http://www.blankrome.com/index.cfm?contentID=37&itemID=1697>

Charging Deductible Business Expenses:

- Expenses are deductible when they are charged to your credit card – not when the credit card is paid.
- If you use a credit card exclusively for your business expenses, the interest on the credit card may be deductible as well.

Alternative Minimum Tax Patch

In 1969, the alternative minimum tax was introduced to limit high income taxpayers' ability to avoid taxes (see [December 2007 Newsletter](#) for more detailed information).

However, as no provision was made for inflation, more and more taxpayers with moderate income are getting unpleasant AMT surprises on their return.

This year's patch increased the exemption amount to \$46,200 for unmarried taxpayers. For taxpayers who file jointly, the amount has increased to \$69,950 (\$34,975 for married taxpayers filing separately).

This newsletter discusses general application of tax law, and every tax situation is unique. [Contact us](#) to discuss how this may apply to your particular situation.

Some of the above strategies mentioned could have a significant impact on your estate or investments – please consult with your attorney or investment advisor before taking any action.

Everything You Wanted to Know about FDIC Insurance

With the implementation of the recent "Bailout" bill, FDIC insurance coverage increased from \$100,000 the \$250,000 *per depositor per bank*. But, if you have multiple accounts, or joint accounts, how much of each account is used to determine your limit for FDIC coverage?

- Accounts held at different branches of the same bank are combined in determining the total amount of FDIC coverage; accounts at different banks would be treated separately. If two separate banks merge, you generally have six months of FDIC coverage as if the accounts were still at separate banks (possibly longer if the money is in a CD that doesn't mature within six months).
- Amounts held by joint account holders are included towards their FDIC limits based on their "share" of the account.

For example, in addition to personal and joint accounts at the You Trust National Bank, Mary Moneybags also has business account for her shipping company, "Proud Mary's":

ACCOUNT TITLE	ACCOUNT TYPE	ACCOUNT BALANCE	MARY'S SHARE	
Mary or Paul Moneybags	Joint Checking	\$40,000	50.0%	\$20,000
Mary and Paul Moneybags	Joint Money Market	\$280,000	50.0%	\$140,000
Mary Moneybags	Individual Checking	\$85,000	100.0%	\$85,000
Mary or Paul or Peter Moneybags	Joint savings with son	\$300,000	33 ¹ / ₃ %	\$100,000
Proud Mary's business account	Checking	\$45,000	100.0%	\$45,000
Total Deposits		\$750,000		\$390,000
Insured Amount				\$250,000
Uninsured Amount				\$140,000

But wait, there's more. Because she listened to her tax preparer several years ago, Mary also has a balance of \$250,000 in an IRA account at You Trust National Bank. The FDIC insurance limit of \$250,000 for qualified retirement plans (IRAs, SEP and SIMPLE IRAs, as well as self-directed Keogh and 401(k) plans) is calculated separately from her other deposits.

FDIC also insures the *beneficiaries'* (not the account holder's) interest in certain revocable trusts. So if Mary has a named two beneficiaries on her bank account (this is known as a Totten Trust or payable-on-death (POD) account), the FDIC will insure both qualifying beneficiaries interests up to their coverage limits (\$250,000 each or \$500,000 total). To qualify for this treatment, beneficiaries must be identified by name in the bank's account records; only beneficiaries with certain relationships to the owner are qualified (generally spouses, siblings, parents, and descendants)

- <http://www.fdic.gov/deposit/Deposits/insured/basics.html>
- http://www.palmbeachdailynews.com/biz/content/business/2008/09/06/biz_lieberman_0907.html
- <http://moneysmartlife.com/fdic-insurance-coverage-and-limits-for-your-bank-accounts>



For Both You and a Friend \$25 off Tax Preparation

Any new client you refer to SOS Business Services may use this certificate to receive a **\$25 credit** towards their tax preparation fees.

You will also receive a \$25 credit toward tax preparation for every client you refer who completes a tax return with SOS Business Services, up to the total cost of your tax preparation fees.

Name: _____ Referred by: _____

www.sosbusinessservices.com

info@sosbusinessservices.com

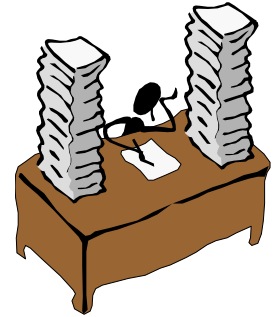
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From “7 Ways to Control Chaos in Your Small Business”

by Susan Ward, About.Com

“I know it’s here somewhere.” “I’ll have to get back to you about that.” “Where’s that _____?”

Sound familiar? If so, chaos has crept into your small business. What to do? Control chaos by applying these basic office management principles:



1. Set up routines for handling paperwork and office systems: Try to handle each piece of paper that comes into your office only once - act upon it and file it.

2. Set up clearly delineated responsibilities. [Put] one person in charge of ordering all equipment. Have one person responsible for the security of your computer system and keeping track of things such as accounts, passwords and software.

3. Keep records – and keep your business records current: When you get a new customer or client, for instance, it only takes a moment to enter him into your contacts database. Then it will only take another moment or two to update the record after you’ve spoken to him on the phone.

4. Take a walk through your office and have a seat: When you walk through the office, do you have to detour around obstacles or run the risk of tripping over something? When you sit down at a desk, could you actually work comfortably there? Are things logically arranged so that the things that you would use most at the desk are closest to hand?

5. Schedule the scut work: If you are a small business owner who’s in the position of not being able to assign whatever you view as scut work to someone else, force yourself to get to it regularly by scheduling time each week for it.

6. Delegate and outsource: Delegating and outsourcing can not only improve your small business’s office management, but free you to focus on your talents as well, thereby improving your bottom line.

7. Make business planning a priority: Many small business owners spend their days acting and reacting – and then wonder why they seem to be spinning their wheels. Spend time every week on business planning. If you have staff, involve them in business planning, either formally or informally.

<http://sbinfocanada.about.com/od/smallofficehomeoffice/a/officemgt1.htm>

For tax returns due on or after January 1, 2009, the partnership and trust return extension will only be 5 months (one month less than the extension for individual returns). For Calendar year entities, the due date will be September 15 instead of October 15.

Federal Tax Due Dates For Calendar year taxpayers

January 15th	Final 2008 individual estimated tax payment due. Monthly payroll tax deposits due.
February 2nd	W2’s due to employees, 1099’s due to recipients Deposit FUTA tax owed through December File Payroll tax forms 940, 941, 943, or 944 (Due February 10 th if all deposits were made timely)
February 13th	File a new W-4 if you claimed exemption from withholding in 2008
February 16th	Begin withholding on employees who filed exempt in 2008 and have not furnished a new W-4.
February 17th	Monthly payroll tax deposits due
March 2	1099s and W2s due to IRS/Social Security Administration
March 16	Calendar year Corporate returns due. K-1s due to S-Corporation shareholders and partners in electing large partnerships Monthly payroll tax deposits due
March 31	Electronically filed W-2, 1099s due
April 1	Initial Required Minimum Distribution due for plan participants who turned 70 ½ in 2008
April 15	Individual and Partnership returns due First installment of individual and corporate taxes for calendar year 2009 due

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1099's Due February 2

File 1099's for your vendors. The IRS requires that you issue a 1099 to any independent contractor to whom you paid over \$600 for services in 2008. Generally you do not have to issue a 1099 to corporations, unless they provided medical or legal services to your business. If you are operating in California, you are required to complete and submit a report of independent contractors (DE 542) within 20 days of entering into a contract with them for \$600 or more. For your convenience, we've put a link to more information about 1099-MISC filing requirements at www.sosbusinessservices.com.

If you pay interest to investors or dividends to shareholders in your business, you may also have to issue 1099-INT or 1099-DIV.

We strongly recommend getting a completed [W-9](#) from contractors before they start working for you, as well as a written contract outlining the work that they will be doing and the amount that they will be paid. Also, please see the [California nonresident withholding requirements](#) discussed below.

Please let us know if you need help preparing your 1099s or W-2s.

Take a bite out of fraud

As a small business owner, one of the many hats you wear is police officer – here's some quick ways¹ to make life a little harder for fraudsters

1. Send Bank and Credit Card Statements to a Separate Address. Have your bank statement sent to your home, PO Box, or lockbox address. Review each check both front and back for payee, signature, and endorsement. Even if you don't allow your employees to use your credit card, make sure those statements sent to an alternative address too.

Examine each statement carefully. Review each and every line item of both payments and charges. You can also receive your bank and credit card statements electronically, so you don't have paper copies lying around.

2. Do Not Let Anyone Misrepresent Themselves as You. Never let an employee sign your name, use your password, use your credit card, or misrepresent themselves to your bank or credit card company. Don't reveal sensitive passwords. If you allow your employee to sign your name - even on credit card purchases, it could compromise your legal recourse in case of fraud or embezzlement.

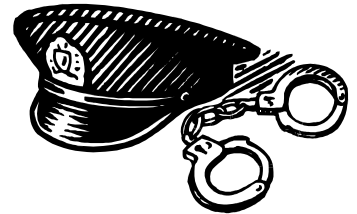
3. Reconcile Bank Accounts and Review Statements. Review every statement. Make sure all bank accounts and credit cards are reconciled. Afterward, take time to review every reconciliation report. Notice stale checks or deposits that have not cleared the bank. Check for missing deposits and reconciliation adjustments.

4. Establish Accounting Controls. The principle of countervailing power is the fundamental reason to use checks and balances in accounting. Split the responsibilities between staff members or outside accounting professionals.

5. Adhere to a Numerical Sequence. Use a numerical sequence for all transactions. Numbered invoices, bills and checks fall into a logical chronological order and make it easier to identify missing documents. Look at the bank statement for large gaps. Secure paper checks. If you keep voided paper checks, remember to tear off the signature area to keep it from being misused. If your bank sends paper checks, sort them numerically.

6. Review Receivables and Payables. Look for adjustments to **Receivables** or **Payables**. Such adjustments could indicate subverted payments or vendor checks. Also look into old receivables and payables.

7. Back up Your Data. Think redundant backups as a contingency plan for disasters of all sorts. Make scheduled copies. Rotate the media (tape drive or portable storage) and store your backups at another location. It's not unusual for a fraudster to delete some or all accounting records to hide their tracks.



From the Web “Land of Free Stuff”

Yes, they're trying to sell you their sales tax software, but their free sales tax audit risk assessment took about 5 minutes to complete and was an interesting read, especially since California has been stepping up the use of tax audits and assessments.

<http://www.speedtax.com/questionnaire/index.php>.

Please let us know if you have questions or concerns about your sales and use tax compliance – before or after you complete the survey.

¹ From “Top Ten Tips to Prevent Fraud” by Victoria Marechal 2006

http://accountant.intuit.com/practice_resources/articles/accounting/article.aspx?file=vm_fraud-door

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California Matters

LLC Fee Acceleration

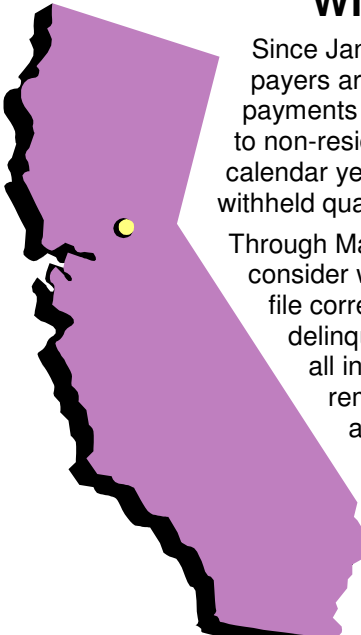
The LLC Fee acceleration is one of the many interesting revenue provisions in the 2008 budget: In addition to being required to pay their LLC fees by April 15, 2009 for tax year 2008, calendar year LLC's will be required to pay the LLC fee for tax year 2009 by June 15, 2009.

Other provisions include:

- Suspending the net operating loss deduction for 2008 and 2009
- Increasing the first two estimated payments from 25% to 30% of estimated taxes
- Requiring certain individuals to pay their estimated taxes electronically (given California's history of sitting on payments and then assessing late fees, I recommend making estimated and tax payments on the Franchise Tax Board website <http://www.ftb.ca.gov/online/webpay/index.asp>) even if you are not required to make payments electronically.

Curious? You can find the budget at <http://www.ebudget.ca.gov/pdf/Enacted/BudgetSummary/FullBudgetSummary.pdf>

California Offers Incentives to Encourage Nonresident Withholding



Since January 1, 2008 California payers are required to withhold 7% on payments of "non-wage" compensation to non-residents exceeding \$1,500 per calendar year, and remit the amounts withheld quarterly.

Through March 15, 2009, California will consider waiving penalties for failure to file correct information returns if the delinquent returns are prepared and all interest is paid. Payers can remit past-due 2008 withholding as additional compensation to the nonresident. The Franchise Tax Board will also agree not to audit 2007 tax year and prior withholding to program participants.

California Sales and Use Tax Audit Can Increase Income Tax

If the IRS audits your return and makes adjustments, you generally are required to file an amended California tax return reflecting the IRS changes within six months. However, changes from a Sales and Use tax audit may also change your taxable income, and the Board of Equalization reports such changes to the Franchise Tax Board. (Franchise Tax Board's November "Tax News and Tips.")

Please let us know immediately if you receive correspondence from the IRS or state taxing authorities.

What Types of Income are Subject to California Withholding?

Payments of over \$1,500 annually for:

- Services provided in California by independent contractors
- Rents, Royalties
- Estate and Trust Distributions

Even though no withholding is required of California residents (including entities qualified with the CA Secretary of State to do business in California), payers of California source income should get a completed FTB form [590](#) "Withholding Exemption Certificate" from the payee.

7% Withholding is *required* for payments over \$1,500 to nonresidents (including entities *not* qualified with the California Secretary of State to do business in California).

- Payees who are current on California taxes or meet other criteria can submit FTB form [588](#) "Nonresident Withholding Waiver Request" to request an exemption from withholding.
- Payees can also file FTB form [589](#) "Nonresident Reduced Withholding Request" to request reduced withholding based on their California income and expenses.

Forms 588 and 589 are due at least 10 days before payment is made.

Amounts withheld are due quarterly –generally on the 15th day of the month after the end of the quarter.

More information is available at www.ftb.ca.gov/individuals/wsc/withholding.shtml