

FOOTNOTES

IRS Increases Mileage Rate



Due to rising gas prices, the mileage rate increased by eight cents to 58.5 cents a mile for all business miles driven from July 1 through December 31, 2008. The new rate for computing deductible medical or moving expenses will also increase by eight cents to 27 cents a mile. The rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14 cents a mile.

Notable Quotes

Life isn't about waiting for the storm to pass. It's about learning to dance in the rain. - Unknown

Be who you are and be that well.
- Saint Francis de Sales

It's not so unusual to run out of someone else's currency. - Jeffrey Sachs

I'd rather regret the things I've done than regret the things I haven't done. - Lucille Ball

Yes, We are Accepting New Clients...

We are often asked if we have time to serve additional clients. We are a growing firm, and we would appreciate your referrals.

Please mention our name to friends and business associates who might need our services.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.

HOGAN ♦ HANSEN

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FOOTNOTES

Financial ideas for today and tomorrow

Hogan - Hansen, P.C., Certified Public Accountants and Consultants

Summer 2008

From the Pen of A Partner...



Steve is the firm's managing partner and is in our Waterloo office.

Upcoming Changes to 403(b) Retirement Plans

The Internal Revenue Service has issued reformed 403(b) retirement plan regulations that become effective January 1, 2009. These new rules require, among other things, a written plan document that will standardize each of the entity's 403(b) investment providers.

Governmental entities and nonprofit organizations have until January 1, 2009 to become compliant; however, now is the time to start the process of streamlining your 403(b) plan, drafting your plan document and selecting providers for administration and investment services.

Please contact Lisa Wall in our Waterloo office at 319-233-5225 if you would like more information about the changes and how we can help you ensure that your 403(b) plan will comply with the new law.

Sincerely,

Steven K. Duggan, CPA

*Kevin Ballard
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*Steve Duggan
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**"The Power of
Success is Within
Your Reach"**

Look for Tax-Saving Options in New 2008 Rules

Capital gains and dividends

The maximum tax rate on net long-term gains and qualified dividends for taxpayers normally in the 10% or 15% regular income tax brackets is reduced from 5% to 0% for 2008. Under current law, the 0% rate will remain in effect through 2010. This may be a good year to have your children sell securities that have appreciated in value. However, such sales may trigger "kiddie tax" complications.



This tax break isn't strictly limited to lower-income taxpayers. If you can push your taxable income for 2008 below the cut-off point for the regular 25% tax bracket – perhaps by increasing charitable gifts or 401(k) contributions – your long-term capital gains and dividend income could qualify for the 0% rate.

Small business assets

Under the new economic stimulus law, your business can currently deduct up to \$250,000 of business assets placed in service in 2008. Previously, the inflation-indexed amount for this "Section 179 deduction" was \$128,000. In addition, a business may elect "bonus depreciation" in 2008 equal to 50% of the cost of qualified assets.

If handled correctly, your business can combine the enhanced Section 179 deduction with bonus depreciation. Regular depreciation deductions may be claimed for any remainder.

IRA contributions

If you contribute to an IRA, the contributions may be fully or partially deductible. Although deductions are generally not available to high-earning taxpayers if either spouse participates in an employer's retirement plan, contributions may still grow on a tax-deferred basis until withdrawn.

Mortgage insurance

Congress previously approved a one-year deduction for mortgage insurance premiums in 2007. A full deduction was available for taxpayers with an AGI of \$100,000 or less. Once income exceeded \$100,000, the deduction was phased out.



The new mortgage relief law extends this tax break for three years through 2010. Therefore, you may qualify for a 2008 deduction for amounts paid or accrued this year.

Kiddie tax

Under the kiddie tax, a child's investment income above an annual threshold (\$1,800 for 2008) is taxed at the top tax rate of his or her parents. Prior to this year, the kiddie tax applied to children under age 18. But now the rules have changed.



Beginning in 2008, the kiddie tax generally applies to your children who are under age 19 or full-time students under age 24 if they can be claimed as your dependents.

To minimize the tax damage, try to keep investment income of children below or near the \$1,800 threshold. For example, you might have a child switch funds into tax-deferred or tax-free investment vehicles.

Finally, a word about the new economic stimulus payments the IRS has been distributing: These rebates aren't available until you've filed your 2007 return, so taxpayers with extensions have to wait.

Contact our office for details or guidance with your 2008 tax planning.

IRS Audit Focus is on Worker Classification

One of the biggest headaches for business owners is the classification of their workers. If the wrong choice is made, the IRS could step in and assess additional taxes, penalties and interest.



♦ **Most employers would rather hire contractors**, paying them as "independent" people and avoiding the imposition of any payroll taxes, worker compensation insurance or other payroll-related benefits. This method is much cheaper for the employer and can be accomplished with much less paperwork. The IRS, on the other hand, stresses that workers that are truly employees must be classified as such, with the employer paying appropriate payroll taxes and benefits.

♦ **Simply calling an employee a "contractor" isn't good enough.** There must be a reasonable basis to treat a worker as a contractor. If the IRS reviews worker classifications, they will be looking at the amount and type of control an employer has over the workers. If the IRS determines that workers who were classified and paid as contractors are really employees, additional payroll taxes (both the employer and employee portion), penalties and interest can be assessed against the employer. Make no mistake: these can be serious amounts of money.

♦ **The IRS has developed 20 factors which are used** on a case-by-case basis to determine if a worker is an employee or contractor. No one factor determines the classification. Instead, all of the factors are weighed and the preponderance of those factors determines the correct classification.

Some of those factors include the instructions and training given to the worker, if the worker performs services for other clients, the location where services are performed, how the worker is paid (hourly indicates an employee), if the worker has his own tools, etc. You should review all of the factors for any of your questionable workers.

The IRS is looking to reduce the tax gap (the difference between taxes owed and taxes paid). Therefore, the proper classification of employees (and the imposition of additional payroll taxes and penalties) has become a priority issue for the IRS. Don't get caught in their sights. Make sure that your workers are classified correctly. Call us for assistance in walking the tightrope to the proper classification of all your workers.

Vehicle Depreciation Limits

The IRS has issued the depreciation limits for business vehicles first placed in service in 2008. Recent legislation allows higher limits for new vehicles that will qualify for 50% bonus depreciation.

The first-year limit for new cars is \$10,960; for used cars, it's \$2,960. Depreciation limits for later years are the same for both new and used cars: \$4,800 in year two, \$2,850 in year three and \$1,775 in all following years.

The 2008 first-year depreciation limit for trucks and vans is \$11,160 for new vehicles and \$3,160 for used vehicles. Limits for both new and used vehicles in year two are \$5,100, in year three \$3,050 and in each succeeding year \$1,875.

For details relating to your 2008 vehicle purchases, contact us.