

FEBRUARY
2008

BRIEFLY STATED

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CANCELLATION OF MORTGAGE DEBT RELIEF

The *Mortgage Forgiveness Debt Relief Act of 2007* was signed into law on December 20, 2007 by President Bush. This law was passed in response to the sub-prime mortgage crisis. See the article "Mortgage Debt, Tax Gain on Sale of Residence" in the October 2007 edition of *Briefly Stated* for background. The most important provision of this new law is a provision that eliminates the federal tax many homeowners will incur if a lender reduces or eliminates certain debt.

Qualifying discharges occurring between 2007 and 2009 may be exempt from federal taxes under this law. The limit is \$2 million of "qualified principal residence indebtedness," which means debt that was used to acquire, build, or improve the taxpayer's principal residence, and that is secured by the residence. Home equity loans used for other purposes do not qualify for the exclusion. Other exceptions also exist. At press time the State of California has not conformed to this law, which means the debt forgiveness may be taxable in California. Each state law must be examined to determine conformity.

EXTENSION OF HOME SALE GAIN EXCLUSION

Also included in the *Mortgage Relief Act* was an extension of the time period for a qualifying surviving spouse to claim the \$500,000 gain exclusion on the sale of a principal residence. Effective for sales after 2007, a surviving spouse that met the ownership and residence requirements at the time of his or her spouse's death, may claim a \$500,000 gain exclusion (rather than the \$250,000 exclusion for singles) for sales within two years of the death of the spouse.

DELAWARE ANNUAL FILING REQUIREMENT

Corporations incorporated in the State of Delaware are required to file their Annual Franchise Tax Report by March 1, 2008. Any tax due must also be paid at that time.

Beginning with the 2008 year, all filings must be done electronically. Paper reports will no longer be accepted. For more information visit the Delaware Division of Corporations' website at www.corp.delaware.gov.

FRAUD AVOIDANCE TIPS

With the recent economic downturn, and decreasing property values, the motivation to commit fraud is likely to increase. With the strict internal control requirements of Sarbanes Oxley (passed in 2002) the occurrences of fraud are moving down to middle management.

Following are some simple steps that may help reduce the risks of fraud.

- ◆ Install an anonymous tip line
- ◆ Conduct seminars about workplace fraud
- ◆ Obtain credit reports on employees
- ◆ Discuss fraud risks with the independent auditors
- ◆ Review new vendors and service providers
- ◆ Apply "Benford's Law" of probabilities
- ◆ Segregate sensitive duties
- ◆ Perform surprise audits
- ◆ Take action now

CHALLENGE YOUR PROPERTY TAX ASSESSMENT

California real property taxes are administered by the various counties throughout the state. The counties assess the value, determine the appropriate amount of tax, and collect the tax. In a period of declining property values, owners have the ability to request a reassessment of the value. Successful appeals will result in a lower property tax bill. However, the decrease is only temporary. As the property's value increases, the assessment will return to its original amount over time.

To apply for a reassessment you must file the appropriate application, which may be found on the website of the county assessor where the property is located.

EARNED INCOME TAX CREDIT NOTIFICATION

Effective in 2008, all employers are required to notify their employees of the federal Earned Income Tax Credit (EITC). The EITC is a refundable income tax credit for low-income working individuals and families.

The notice must be provided within one week of providing the annual W-2 to employees. The notice must either be handed to each employee or mailed to their last known address. Posting the notice on an employee bulletin board is not sufficient.

For a sample notice and more information visit the website of the California Employment Development Department at <http://www.edd.cahwnet.gov/eddeitc.htm>.

NEW LATE FILING PENALTIES

A revenue raiser included in the *Mortgage Relief Act* increases the penalties on the late filing of partnership and S corporation returns beginning with the 2007 tax year. The penalty period for partnerships has been increased from 5 months to 12 months, and the per-partner monthly penalty increased to \$86.

A similar penalty has been imposed on S corporations. The penalty is \$85 per-stockholder, for every month the tax return is late.

2008 IRS MILEAGE RATES

The IRS has released the 2008 standard mileage rates for business, medical, moving and charitable purposes. The business mileage rate will be 50.5 cents per mile. The medical and moving mileage rates have decreased to 19 cents per mile from 20 in 2007. The mileage rate for charitable purposes remains unchanged at 14 cents per mile. Be sure to comply with the substantiation requirements in order to claim the proper tax deduction.

INCENTIVE STOCK OPTION REPORTING

The *Tax Relief and Health Care Act of 2006* imposed IRS reporting requirements on grantors of incentive stock options (ISO) beginning in 2007. The filing requirements include employee information, the dates granted, number of shares involved, the stock's value at exercise, etc. This new requirement was to replace the existing requirement to provide similar information to ISO grantees.

Since the IRS failed to issue the required regulations, the new reporting requirement is being waived for 2007. Don't forget that the existing notification requirement must still be met for grants in 2007. Assuming the regulations are issued in 2008, the new requirements will be effective for 2008 grants.

ALTERNATIVE MINIMUM TAX PATCH

President Bush signed into law *The Tax Increase Prevention Act of 2007* on December 26, 2007. The main provision of the Act was to increase the alternative minimum tax exemption amounts for 2007. This Act is referred to as the "AMT Patch."

The Act increases the exemption to \$66,250 for married couples, and \$44,350 for singles. Without this patch the exemption amounts would be significantly lower, increasing overall tax burdens.

The patch is only effective for 2007 and Congress must once again address the issue for 2008 and future years. As a result of the late passage of the Act, the IRS will experience delays in processing returns, resulting in delays in issuing refunds.

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