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YEAR-END TAX PLANNING ISSUE

The end of 2007 is fast approaching and that means it is time for individual and business tax planning. This issue will focus on various year-end tax planning ideas.

**SMALL BUSINESS WORK
OPPORTUNITY TAX ACT OF 2007**

This tax act was the only major piece of tax legislation passed in 2007. The act was designed to primarily benefit small businesses. The act extends the Work Opportunity Tax Credit (WOTC) through August 31, 2011. The Code Sec. 179 small business expensing provisions were extended through 2010, and it increased the 2007 limit to \$125,000. The FICA Tip Credit has been modified to remain at a base of \$5.15 per hour, rather than the increased minimum wage, which is slated to reach \$7.25 per hour.

For individual taxpayers the Kiddie Tax rules have been expanded for 2008 to include children that are 18 years old, or under 24 and a full-time student. A positive change is the ability of the WOTC and the FICA Tip Credit to reduce the tentative minimum tax beginning in 2007.

**DEFER RECEIPT OF CASH-BASIS
REVENUES**

Most individuals are cash-basis taxpayers. As such, cash receipts are taxable in the year received. If you are self-employed consider sending out your December invoices late in the month to increase the likelihood of receiving the payment in January. By reducing your 2007 taxes you will also reduce your 2008 estimated tax payments.

Employees that typically receive year-end

bonuses or commissions would benefit from reduced taxes in 2007 if the payment was received in January 2008.

Accrual method taxpayers may also have the ability to defer the taxability of revenues received in 2007 for work to be performed in 2008 by applying the principles of Revenue Procedure 2004-34.

**ACCELERATE PAYMENT OF
EXPENSES**

By paying expenses in 2007 that would normally be paid in early 2008 you may benefit from the time value of the advanced tax deduction. The most common expenses that are prepaid are state taxes and property taxes. By paying the remaining 2007 state taxes, and the entire property taxes in December, you would generate a federal tax deduction (see AMT exception below).

Bunching expenses is another technique that may reduce your taxes. Whenever there is a deduction floor for expenses, there is an opportunity to bunch expenses. Deductions that have floors include medical and dental expenses (in excess of 7.5 percent of adjusted gross income) and miscellaneous expenses (in excess of 2 percent of adjusted gross income). By alternating the year in which the payments are made you may exceed the floor and generate a tax deduction. If the expenses were paid in each year you may not generate a deduction as the floor may not be exceeded.

If you are subject to the alternative minimum tax, or have expiring losses or credits, you may be better off delaying these payments until 2008.

INVESTMENT GAINS AND LOSSES

If you have year-to-date capital gains you should consider selling securities in a loss position before year-end. The losses will offset the gain, and net losses up to \$3,000 are deductible in 2007.

When selling securities be aware of the wash sale rules. Losses from stock sales are disallowed if the same security was purchased within 30 days before or 30 days after the sale at a loss.

When selling investment property at a gain you may want to consider a "like-kind exchange." The gain is deferred and will be recognized upon a subsequent sale of the property. If the property were held until death the gain would never be recognized.

Consider selling devalued investments with significant passive loss carryovers. The passive losses will generate an ordinary deduction which can then offset other ordinary income, such as wages, interest, and dividends.

RETIREMENT PLAN CONTRIBUTIONS GENERATE BIG TAX SAVINGS

Retirement plan contributions are a smart way to reduce your current taxes, and to provide income at retirement. The time value of the current savings, plus the tax deferred growth (or possibly tax free growth), make contributing a "no brainer."

The maximum contribution to a Simplified Employee Pension Plan (SEP) is the lesser of 25% of the net earnings from the trade or business, or \$45,000. Contributions to a 401(k), Roth 401(k), or a 457 plan are limited to \$15,500. A catch-up contribution of \$5,000 may also be made to the previously mentioned plans. SIMPLE plans have a contribution limit of \$10,500, with a \$2,500 catch-up contribution. Both traditional IRAs and Roth IRAs have a maximum contribution of \$4,000, and a catch-up contribution of \$1,000.

Keep in mind that Roth IRA and Roth 401(k) contributions do not generate a tax savings, but future distributions are generally tax free. Also, IRAs have income limitations that must be considered before contributing. Contributions to an IRA must be made by April 15, 2008, while contributions to a SEP or SIMPLE plan must be made by the due date (including extensions) of the em-

ployer's tax return. Contribution limits are for 2007. Catch-up contributions are allowed if the taxpayer is 50 years of age or older during 2007.

A qualified plan is another type of retirement plan that may allow for larger contributions and resulting tax savings. Qualified plans must be established by December 31st, but the contributions are not due until the extended due date of the employer's tax return.

CHARITABLE CONTRIBUTIONS

Making charitable contributions before year-end is another way to accomplish two goals at once. First, your 2007 tax will be reduced. Second, and more importantly, the public will benefit from your generosity.

Contributions may consist of cash, securities or personal property. Depreciated securities should first be sold at a loss, then the cash proceeds donated. You will recognize a tax loss on the sale as well as a deduction for the donated cash. Appreciated securities should be contributed directly to the charity. You will not have to pay the tax on the appreciation and you will still receive a deduction for the fair market value. Used personal property must be in good condition to receive a deduction.

Several limitations and substantiation requirements exist for charitable contributions. Be sure to consult the rules before making the contribution to make sure you will fully benefit from your kindness.

ANNUAL GIFTING PROGRAM

An important part of your estate plan should be a formal gifting program. The 2007 gift exclusion is \$12,000, which means that a taxpayer may make a non-taxable gift of that amount to an unlimited number of people without any tax consequences. But failure to make the gift will result in the loss of the exclusion. If the taxpayer is subject to the highest marginal estate tax rate of 45%, just one missed exclusion of \$12,000 costs \$5,400.

There are requirements that must be met to qualify for the exclusion. Gifts to minors are typically made in trust or to a custodial account.

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