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2007 Small Business Tax Act Signed into Law – A couple months ago, the President signed into law the *Small Business and Work Opportunity Act of 2007*. The 2007 Act targets nearly \$5 billion in tax incentives mostly to small businesses but also includes some larger businesses as well. It also provides tax incentives for taxpayers impacted by Hurricane Katrina. Some of the small business tax incentives provided in the Act are increased Sec. 179 expensing from \$100,000 to \$125,000 for tax years 2007 to 2010 and an extended and enhanced Work Opportunity Tax Credit (WOTC). The WOTC encourages employers to hire individuals from various economically challenged populations including targeted individuals receiving public assistance, high-risk youth, ex-felons, and veterans. The WOTC provides a credit for a percentage of wages for the first two years of employment and was scheduled to expire after 2007 however it is now extended through August 31, 2011. A couple other key provisions of the new Act include Family Business Tax Simplification for a small unincorporated business operated jointly by a husband and wife and S corporation reforms intended to make it easier for small businesses to retain S corporation status. The *Katrina* provisions included in the Small Business Tax Act extend and enhance tax incentives originally included in the *Gulf Opportunity Zone Act of 2005* and *Katrina Emergency Tax Relief Act of 2005*. These incentives include Sec. 179 expensing up to \$225,000 of specified “GO Zone property” through 2008, enhanced Low-Income Housing Credit and carryover provisions applicable to buildings in the GO Zone through 2010, and expansion of the qualified rehabilitation loan definition to include qualified GO Zone repair or construction loans for years through 2010. If you have any questions about how any of these provisions might impact you, please give us a call.

Investors in Realty Exchanges Seek Relief – After the collapse of a Northern California company specializing in tax deferred real estate deals, hundreds of investors have lost an estimated \$150 million and are seeking relief from the Internal Revenue Service to avoid paying taxes on money that has disappeared. After sale of their own real property, the investors placed sale proceeds with the company in Sec. 1031 exchange transactions. There are strict timing requirements on buying and selling real property in order to obtain deferrals of capital gain taxes and if the transactions are not complete within 180 days, then gain deferral is not available and capital gain tax liabilities of up to 24% are generated. Because there was a breach by the company that caused the failure to complete the 1031 exchange transactions and due to no fault of the investor taxpayers, attorneys and other industry leaders are likening this to a “financial hurricane” and calling for the IRS to provide some relief including possible additional extensions of time to complete the transaction. For the Hurricane Katrina, the IRS granted effected taxpayers in the middle of 1031 exchanges multiple 120-day extensions to close escrow on their properties. The company has filed bankruptcy and the restructuring officer for the bankruptcy has indicated there might be a chance that the investors will get their money back.

Independent Contractor vs. Employee – Do you pass the tests? – Classification of workers has always been a contentious issue between businesses and the IRS. Typically, businesses prefer classifying workers as independent contractors so they are not responsible for payroll taxes and fringe benefits. On the other hand, the IRS has the responsibility to make sure all employer payroll taxes are paid and that employees' out-of-pocket business expenses appropriately deducted on their personal tax returns. But what is the proper classification of a worker and what factors are considered in making that determination? Generally, the primary factor considered relates to "control" such as who has control of what the worker does, how he or she does the work, and how they are paid. Over time, "Common Law" tests have been developed in helping make the proper classification. The tests considered include control of the worker, capital investment of tools and facilities, opportunity to realize a profit, right to discharge the worker, permanence of the work assignment, and determination of compensation. Although subject to interpretation, a careful analysis of these factors and the overall work activities of the worker will generate a pretty accurate conclusion. However if, for some reason, the IRS determines that independent contractor status has been incorrectly used over time, a last chance stop gap for payroll tax purposes exists in the form of "Section 530 Relief." This is a non-statutory provision that Congress established in the 1970's that can help shield a taxpayer from employment tax liability that has mistakenly failed to properly classify workers as employees. There are some very specific requirements to obtain Section 530 relief, but if it can be shown that a reasonable basis exists for such failure and all required federal tax forms have been filed in a consistent manner, then it is possible. If you're in a quandary over worker classification issues and need some assistance, give us a call.

The Kiddie Tax – 2008 Changes to Be Aware Of – As you may recall, provisions were added to the tax code in 1999 that taxed a child's unearned income. These 1999 provisions, called the "Kiddie Tax", were the result of more family units transferring wealth and investment assets such as stocks, bonds, and other investment funds from the parents to a child in order to lower the marginal tax rate on the related earnings. Through 2005, the kiddie tax provisions applied to children under 14 years of age at year end but for 2006 and 2007, the age limit was increased to under 18 where a child's unearned income of more than \$1,700 was to be taxed at the higher of either the parent's or child's marginal tax rate. Now, we can look forward to further changes once the 2008 tax year begins due to "revenue raising" provisions in the recently passed *2007 Small Business Tax Act*. Beginning in 2008, the kiddie tax will apply to unearned income above \$1,700 of a child who will be (1) age 18, and (2) students aged 19 to 23 as of year-end if the child's earned income (wages) for the year does not exceed half of his or her support for the year. This means that if your child is 18 or older now, they may be exempt from the "kiddie tax" provisions for 2007 but possibly not next year if they don't have sufficient earned income or if they are full-time students. If you think you might be impacted by these changes, don't hesitate to contact one of our tax professionals for more information.