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Under Attack! Will SUV Tax Breaks change again? – The mythical Sport Utility Vehicles, gas-guzzling luxury vehicles that are neither environmentally friendly nor economically sound, these are considered bad social decisions yet so far, you almost can't beat the tax benefits! The rough and tough tax benefits that apply under the luxury automobile rules for limited depreciation and limited expensing do not apply to many SUV's as they exceed the 6,000 pound limit. The typical first year depreciation deduction for a \$45,000 SUV (over 6,000 pounds) placed in service in 2007 and used 100% for business is a whopping \$29,000! This compares to only a \$3,060 depreciation deduction for a \$45,000 100% business use automobile. What a deal! But how long will it last? There have been some discussions in Congress that would slash this SUV benefit. Through the *Renewable Energy and Energy Conservation Tax Act of 2007*, Congress is considering proposed legislation that would subject all SUV's with a gross vehicle weight between 6,000 and 14,000 pounds to the luxury automobile limits. The proposed bill would also eliminate the special \$25,000 SUV Sec. 179 expense deduction. At this time, it is only a proposal that is in discussion, but if its provisions are adopted, these changes would likely be effective for property placed in service after December 31, 2007. We'll keep you posted as this develops.

Personal Service Corporations – Should You Care? – Personal service corporations are a type of corporation that are not looked on so favorably under the Internal Revenue Code. If a corporation is a qualified personal service corporation ("QPSC"), then its reward is a flat 35% federal tax rate which differs from "regular" C corporations that get the benefit of graduated tax brackets that start at a 15% tax rate. For example, the tax liability on taxable income of \$100,000 for a QPSC is \$35,000 whereas it is \$22,250 for a regular C corporation - a difference of \$12,750! A QPSC is unique in that it applies to a C corporation that passes a function and ownership test. The function test is passed if the corporate employees spend at least 95% of their time performing services in the fields of health, law, engineering, architecture, accounting, actuarial sciences, performing arts, or consulting. The ownership test is passed if at least 95% of the corporations stock is held at all times during the year by employees who perform services in one of the fields listed above. When a corporation qualifies as a QPSC and becomes subject to the 35% flat tax rate, tax planning becomes more important in trying to minimize the corporation and shareholders overall income tax liability. The strategy typically utilized is zeroing out the corporate income with the use of year-end corporate deductions like shareholder-employee wage bonuses and profit sharing contributions. This is an area that the IRS has been looking at a little closer over the last year or so and making sure that corporations are being properly classified and paying tax at the correct tax rates. We'll let you know as further developments become available.

Big Donations to Charity, Philanthropic or Not? – The rich are giving more away to charity than ever before and at the same time, the federal government is giving up more revenue in tax dollars because of the charitable tax deduction and implications in collecting estate taxes. It is estimated that charitable deductions cost the government \$40 billion in lost tax revenue in 2006, an amount greater than the spending budgets for public land management and protecting the environment. Total

estimated giving for 2006 reached over \$295 billion representing 2.2% of the gross domestic product. An October 2006 study by the Center on Philanthropy at Indiana University showed that 3.1% of all US households are “high net-worth” households (with annual income greater than \$200,000) and account for almost 2/3 of all household giving in the United States. The list of influential donors include Eli Broad, Bill and Melinda Gates Foundation, William H. Gross, Warren Buffet, and others but arguments ensue as to whether the donations of the wealthy are helping society more effectively and efficiently than government. Many of the large donations are being made to Universities, private foundations, hospitals, and art museums with much less sizeable gifts being made to organizations like the Salvation Army and Habitat for Humanity whose primary goals are to help the poor and directly address basic human needs like sheltering the homeless, feeding the hungry, and caring for the sick. Many argue that a benefit for an art museum or a new building on a University campus does little to help the poor or the homeless but some donors like Eli Broad dedicates some of his biggest gifts to areas where he thinks lack government support and makes donations for things such as establishing an institute for integrative biology and stem cell research. Mr. Broad makes the argument that simply taking care of the poor does nothing to eliminate poverty and that they will ultimately benefit more from efforts to find cures for diseases that afflict them or helps improve public education. This is an issue that will probably continue being debated, but ultimately what has resulted from these discussions is a more careful process by everyone on not only *how much* is being contributed to a charitable organization but also *how* and *when* those funds will be utilized to benefit the desired recipients.

IRS Rolls Out Online EIN Application – As the IRS continues to encourage automation of the tax processes and as the number of e-filed returns continues to increase each year, the IRS moves further down the technology road by implementing an online application for employer identification numbers (EIN’s). Taxpayer’s in need of obtaining EIN’s for new entities can now make the request through the internet on a real-time basis on the IRS website (www.irs.gov). If all of the information submitted passes the IRS automatic validity checks, a permanent EIN is issued to the taxpayer before signing off. If validity checks are not passed, the application is rejected and taxpayer can either correct the information and resubmit or request an EIN through other methods (ie: paper filing of Form SS-4 or by phone call to IRS EIN unit). The internet EIN application is an interactive process which asks questions about type of entity and other relevant questions to tailor the information to be provided by the taxpayer and also has “*help*” screens throughout to facilitate the taxpayer in completing the necessary information. An EIN received via an internet submission is immediately recognized by the IRS systems and taxpayers can usually begin using the new EIN immediately for most business purposes. IRS officials believe this new online application process will be a huge benefit to taxpayers by shortening the time and providing an EIN while they wait.