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Client Update

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Employee or Independent Contractor?

If your employer says you're a contractor but you really should be treated as an employee, you're losing out tax-wise. Now, the IRS has a way for you to help repair the damage. When you file your tax returns, you can attach Form 8919, declaring yourself to be an employee for tax purposes and giving the IRS information about your employer. You must also state a reason for your belief, such as having knowledge of co-workers performing similar tasks who are treated as employees. Filing this form allows you to avoid paying the self-employment tax. You must however, send the IRS your employee share of Social Security and Medicare tax due (75% on the first \$97,500 of earnings; 1.45% after that).

Kiplinger's Finance Adviser, April 2008

Reminder on Hybrid Credit Phase-out

The hybrid vehicle credit for Honda models began to phase-out on January 1, 2008, with only a reduced credit available for Honda hybrids bought during the year. No credit will be available for a Honda vehicle purchased after 2008, assuming the law is not changed.

Four Honda models will qualify for the reduced credit. For the 2007 Accord Hybrid AT and Navi AT, the credit will be \$650 if purchase from January 1 through June 30, 2008, and \$325 if purchased from July 1 through December 31, 2008. For the 2007 and 2008 Civic Hybrid CVT, the credit will be \$1,050 if purchased before July, and \$525 if purchased in July through December. Only the original purchaser of a new certified vehicle may claim the hybrid vehicle credit.

J.K. Lasser's Monthly Tax Letter, April 2008

Reduced User Fee for Installment Agreements

When the IRS approves a taxpayer's request for a monthly installment plan, it charges a user fee. Last



year, the IRS generally raised the user fee to \$52 if you make direct debit payments from your account or \$105 if you do not use direct debit payments. However, the user fee was left at \$43 for individuals whose income does not exceed 250% of the poverty guidelines updated annually by the U. S. Department of Health and Human Services. For example, for a family of four living in one of the 48 contiguous states, or Washington, D.C., total income from Form 1040, Line 22, has to be \$51,625 or less to qualify for the reduced fee.



In the past, low-income taxpayers have had to submit a paper Form 13844 to request the reduced \$43 user fee. Now, when a taxpayer applies for an installment agreement, whether on Form 9465, online (at IRS.gov), by phone, or face-to-face with an IRS employee, the IRS will automatically review the income information from the taxpayer's return to determine eligibility for the reduced user fee.

It is possible that the IRS may approve a monthly installment plan without granting a reduced user fee to a qualifying taxpayer. In that case, the taxpayer can request the reduced fee by filing Form 13844 with the IRS within 30 days of receiving the IRS's acceptance notice.

J.K. Lasser's Monthly Tax Letter, April 2008

Bonus Depreciation & Enhanced Expensing

Issue: President George Bush signed into law the Economic Stimulus Act of 2008 (ESA), a \$152 billion economic stimulus plan, on February 13, 2008. The plan enacted, among other measures, bonus depreciation provisions and an enhanced expensing provision for fixed assets purchased by businesses.

Taxpayers Potentially Affected: Businesses acquiring fixed assets during the 2008 calendar year.

Background, Fifty Percent Bonus Depreciation: The ESA permits taxpayers to claim a bonus first-year depreciation deduction on



qualified depreciable property. The additional depreciation deduction is equal to 50 percent of the adjusted basis of the eligible property. There is no limit on the amount of the deduction.

Assuming no further regulations are issued by the IRS, rules governing the new deduction are similar to rules enacted for pre-2008 bonus depreciation. Property eligible for the deduction must meet six criteria:

- The property must fall into one of the following groups: (a) tangible property with a tax recovery period less than 20 years; (b) purchased computer software; (c) water utility property; or (d) qualified leasehold improvement property.
- The property must be purchased and placed in service after December 31, 2007, and before January 1, 2009. An exception, however, is that certain property with a production period exceeding one year and a cost in excess of \$1 million may qualify for the deduction if placed in service before January 1, 2010.
- Property purchased during 2008 for which a binding agreement was in place prior to January 1, 2008, does not qualify for the deduction.
- Only property for which the taxpayer is the original purchaser qualifies for the deduction (in other words, used property does not qualify for the deduction).
- Property purchased from a related party or self-constructed property for which construction began prior to January 1, 2008, does not qualify for the deduction.
- The property may not be ineligible property, such as property owned by a controlled foreign corporation.

The deduction is not affected by short taxable years.

The deduction will be allowed for regular tax and alternative minimum tax purposes. The deduction will be computed after the application of any allowable small-business expensing. Additionally, the luxury auto limitation on first-year depreciation has increased from \$4,600 to \$8,000.

Small-business Expensing: The ESA increases and extends the small-business expensing election. For tax years beginning in 2008, taxpayers are allowed to expense up to \$250,000 of eligible property that is placed in service during the 2008 tax year. The expensing amount is reduced if the total amount of eligible property that is placed in service during 2008 tax year exceeds \$800,000. Property eligible for the small-business expensing election includes tangible property and computer software acquired for use in a business. The expensing election is not available to estates, trusts, and certain

noncorporate lessors. The small-business expensing election is allowed for both regular and alternative minimum tax purposes.

The temporary increase in the expensing limits expires for property placed in service in tax years beginning in 2009. The amount of the deduction for property placed in service after 2008 but before 2011 is \$125,000, adjusted annually for inflation. The expensing amount is reduced if the total amount of eligible property placed in service during the 2009 tax year exceeds \$510,000.

State Adoption of bonus Depreciation and Enhanced Expensing Election: Most states have not yet indicated whether they will accept the bonus depreciation and enhanced expensing provisions in the ESA. When bonus depreciation was last available, several states elected to decouple from the federal bonus depreciation provisions or, in some cases, allowed only a portion of the federal bonus depreciation. Several states are likely to again opt out of the bonus depreciation and enhance expensing, thus requiring tax payers to maintain separate depreciation records for state tax purposes.

<http://www.crowechizek.com/crowe/Publications/detail.cfm?id=1451>

*****WARNING WARNING WARNING!!!*****

The IRS has seen several variations of a refund/stimulus payment related e-mail which falsely claims to come from the IRS, tells the recipient that he or she is eligible for a tax/stimulus payment refund for a specific amount and instructs the recipient to click on a link to access a refund claim form. The form asks the recipient to enter personal information that the scammers can then use to access the recipient's bank or credit card account. This email is a phony. The IRS does not send unsolicited e-mail about tax account matters to individual, business, tax-exempt or other taxpayers. Those who have received a questionable e-mail claiming to come from the IRS may forward it to a mailbox the IRS has established, phishing@irs.gov, using instructions contained in an article titled "How to Protect Yourself from Suspicious E-Mails or Phishing Schemes."

Discounts on QuickBooks Products

If you plan on purchasing QuickBooks products please remember that one of the benefits QuickBooks Pro-Advisors have is to pass on discounts to our clients. Our firm has two Pro-Advisors, Dan and Ana. To secure our discount, normally 20%, inform the sales representative that you are a client of a "QuickBooks Pro-Advisor." Ana has been working with Ellen at QuickBooks to secure the best possible price for our clients; Ellen's phone number is 800-365-9618 extension 87786.