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Client Update

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2008 Inflation Adjustments Widen Tax Brackets

IR-2007-172, Oct. 18, 2007

WASHINGTON- For 2008, personal exemptions and standard deductions will rise, tax brackets will widen and workers will be able to save more for retirement, thanks to inflation adjustments announced today by the Internal Revenue Service.

By law, the dollar amounts for a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits, affecting virtually every taxpayer, are being adjusted for 2008. Key changes affecting 2008 returns, filed by most taxpayers in early 2009, include the following:

- The value of each personal and dependency exemption, available to most taxpayers, is \$3500, up \$100 from 2007.
- The new standard deduction is \$10,900 for married couples filing a joint return (up \$200), \$5,450 for singles and married individuals filing separately (up \$100) and \$8,000 for heads of household (up \$150). Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions and state and local taxes.
- Tax-bracket thresholds increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket is \$65,100, up from \$63,700 in 2007.

- The maximum earned income tax credit for low and moderate income workers and working families with two or more children is \$4,824, up from \$4,716. The income limit for the credit for joint return filers with two or more children is \$41,646, up from \$39,783.

<http://www.irs.gov/newsroom/article/O,,id=174876,00.html>

5 Year-end Small Business Tax Tips

From Darrell Zahorsky

Quick Tax Tips Before Year Ends

As the holidays quickly approach it's hardly a time to think about small business taxes. But a quick look at these year-end tax tips for small business can pay big dividends for 2007.

5 Year-end Small Business Tax Tips

- 1. Update Your Accounting:** It's important as part of your year-end tax strategy to have a good understanding of your company's financial situation. Spend extra time ensuring your books are up-to-date and accurate. It won't hurt to plan time with your accountant for year-end advice, particular to your operations.
- 2. Defer Income:** Any payments your company can receive during the first week of January as opposed to December cuts your tax bill. Every cent deferred until January 2008 will not owe taxes until April 2009.

Any deferral strategy will depend on your profit and losses for the year and business legal structure (LLC, partnership, corporation, etc.) Depending on your income tax rates in the foreseeable new year, deferral of income can make the best sense for many sole proprietors, partnerships, LLC's and S corporations. Ensure your cash flow can handle the deferred income.

Don't forget to push any early 2008 charitable donations back to 2007. Make sure you get a receipt for the tax deduction.

3. Increase Expenses: Purchase items your business will require in the immediate future to maximize deductions for this year. If you can see a need for goods and services in the first quarter of the new year, buy them now, if cash flow permits.

4. Inventory Write-Offs: Depending on your accounting methods, you may wish to check inventory for goods that have been damaged or have become obsolete. The drop in market value of the inventory can provide your company with added deductions.

5. Contribute to a Retirement Plan: Make payments to your retirement plan or set one up before the year-end to reduce your income for this year. Check the contribution limits for your type of plan. Plans to consider are: KEOGH plans, Roth IRAs, or SEP's (For SIMPLE IRA's the deadline is set in October, too late for year-end tax planning.) Discuss the best strategy with your financial planner or accountant.

These year-end tax tips will apply differently to each business owner's situation and accounting method. The cash method of accounting allows for deductions and income reported for the year they are paid or received. The accrual accounting method applies income and deductions in the year incurred. Take the time to review the best strategy with a professional advisor and make the most of the year-end tax planning for your small business.

<http://sbinformation.about.com/cs/accounting/a/aa121502a.htm>



the nest

Secrets from Financial Planners

KEEP A REVERSE BUDGET

Budgets are a great way to track your cash flow, but a lot of people get frustrated and quit. Try a reverse budget instead. If your goal is to save \$500 a month, make it automatic. Have the bank automatically take \$250 out of each of your bimonthly paychecks and transfer it to a money market account. This allows you to satisfy your priorities first—and use the rest of your money to live on.

PRIORITIZE DEBT

If you receive a huge lump of money—no, not from the sky, but from a wedding gift or annual bonus—and are debating what to put it toward, here's the priority list: 1) credit card debt, 2) investments, and 3) school loans. The reason school loans come last is that they usually have a decent interest rate, provide tax benefits, and aren't held against you on your credit report (unlike credit card debt).

KNOW YOUR FUNDS

Don't buy too many mutual funds. Two or three are fine. Since they are already diversified, you risk overlapping investments—so if a repeated stock tanks, it effects more than just one pot of money. Go to www.morningstar.com and run your funds through the Portfolio X-ray to see if any of them cover common ground.

http://www.thenest.com/articles/article_life.aspx?articleid=A60417182634

Energy Saving Tips to Save Gas and Money

Use these energy conservation tips to save gas and money.

- Idling your engine wastes gas and money.
- Driving at a steady pace to save gas.
- Plan your route and time to save gas.
- Proper tire pressure is critical to the safe operation of your car and will help you save gas.
- Changing your engine oil on a regular basis will lead to greater fuel efficiency.

<http://canadaonline.about.com/od/tipsonsavegas/>