CrawfordEllenbogen LLC
Certified Public Accountants
INAA Member

Tax Bytes

Fall 2008 Volume 2, Issue 1

Rascal's Corner

Something Smells "Phishy" to me

The IRS has received over 1,600 taxpayer reports of "phishing" in 2008, where identity thieves, posing as the IRS send phony e-mails or faxes asking taxpayers for personal information

One variation on the scam includes an e-mail telling the taxpayer that he or she is eligible to receive a tax refund in a specific amount, and to click on an embedded link in order to process the claim. The link is to a form on which the taxpayer reveals personal information that could be used to access the taxpayer's bank account or credit card account.

Another similar scam uses the ploy of needing direct deposit information so the taxpayer's economic stimulus rebate check can be deposited into the taxpayer's bank account.

Be on the lookout for these and other similar schemes in which the name of a familiar institution, such as the IRS, is used. If you have any concerns about a communication you receive from the IRS or other taxing authority, please call us. We'd be happy to review it for you.

On the Back Page

New Housing Bill Signed Into Law

Interest-free loan from the IRS

On July 30, 2008 President Bush signed into law The Housing and Economic Recovery Act of 2008, which contains, among other things, $15.1 billion in tax incentives. The tax title, The Housing Assistance Tax Act of 2008 includes a "refundable" first time home buyer tax credit, an additional standard deduction for real property taxes and numerous other housing and non-housing provisions.

First Time Home Buyer Tax Credit

A temporary refundable credit is available to first time home buyers equal to 10% of the home's purchase price, up to $7,500. This credit is for homes purchased on or after April 9, 2008 and before July 1, 2009, by taxpayers who have not owned a principal residence in the previous three years.

Unfortunately, this credit is not paid by the IRS as cash at closing. The credit must be claimed on the taxpayer's 2008 or 2009 income tax return, and must be repaid [interest free] in equal installments over 15 years, beginning two years after the year in which the residence was purchased. If a taxpayer sells or no longer uses the home as a principle residence, the unpaid balance becomes due in the year in which the residence is sold or is not longer used as a principal residence.

The credit starts to phase out for taxpayers with adjusted gross income greater than $75,000 ($150,000 for a joint return).

Property Tax Deduction for Non-Itemizers

For 2008 only, property owners who do not itemize, can increase their standard deduction by the lesser of $500 ($1,000 for a joint return) and the actual amount of real property taxes paid.

Other Provisions

The Housing Assistance Tax Act contains many other provisions, some of which include:

- Simplifying and increasing the low income housing tax credit;
- A temporary increase in mortgage revenue bonds;
- Some federally guaranteed municipal bonds being treated as tax exempt bonds;
- A package of real estate investment trust (REIT) reforms;
- Allowing corporations to use accumulated AMT and R&D credits;
- Reducing the home sale gain exclusion for the periods that the home was not used as the principal residence.

Standard Mileage Rate vs. Actual Expense Method

Which One Is Best For You?

The IRS has announced an eight cents-per-mile hike in the standard mileage rate for business drivers in the second half of 2008. This increase to 58.5 cents per business mile is designed to help offset rising costs at the gas pump.

With the standard mileage rate, you don't have to account for all the actual expenses for the business use of a vehicle. This method is not the best for every taxpayer, though.

If you use your vehicle for business driving, you may deduct out-of-pocket expenditures–gas, oil, repairs, registration fees, tires, etc.–attributable to business use, plus a generous depreciation allowance based on the percentage of business use. Keep in mind that

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Athena Award Finalist

Joan Recognized for Her Leadership

Joan Ellenbogen has been selected as one of six finalists for the 2008 Athena Award. The ATHENA, awarded by the Allegheny Conference on Community Development, recognizes extraordinary women leaders based on their professional excellence, dedication to community service and their ability to assist other women attain professional excellence.

The final recipient will be announced on September 8, at the 18th Annual Athena Award Luncheon at the Westin Convention Center.

Standard Mileage Rate vs. Actual Expense Method, continued

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depreciation deductions are generally limited by the "luxury car" tax rules.

Similarly, if you lease a vehicle, you can write off the portion of the lease payments attributable to business use. The tax law requires you to report an "inclusion amount" reflecting the luxury car limits.

In lieu of deducting actual expenses, you can claim the standard mileage deduction. If you use this IRS-approved method, you don't have to record all of your operating expenses, but you still must document the date, place, business relationship and business purpose of each trip.

Initially, the IRS established a flat rate of 50.5 cents per business mile (plus related parking fees and tolls) for 2008. Now it says you can use a rate of 58.5 cents for the last six months of the year. Charitable miles remain unchanged at 14 cents, while medical and moving miles increase (by 8 cents also) to 27 cents per mile. Frequently, business drivers choose the standard mileage method for its convenience. However, with the cost of gas going through the roof, the actual expense method will generally produce a bigger deduction, especially if you intend to buy a new business vehicle between now and the end of the year.

There is a potential downside. Once you begin using the actual expense method, you cannot change back to the standard mileage deduction. Also, if the standard mileage rate has been used for a leased car, you must continue to use it for the length of the lease period.

Please call us to discuss details pertaining to your particular situation.

S Corp Owners Fringe Benefits

Tax Free Perks

The S corporation election is popular among business owners for its favorable partnership-type taxation, in addition to receiving the same liability protection as C corporation owners.

The unfavorable part of this arrangement is that more-than-2% S corp owners are generally taxed on fringe benefits provided by their company. The good news is that the IRS just issued a notice stating that a 2% shareholder can deduct health insurance premiums and also that not all fringe benefits are taxable to S corp owners.

An individual owning more than 2% of an S corp will be taxed on the value of the benefit received.

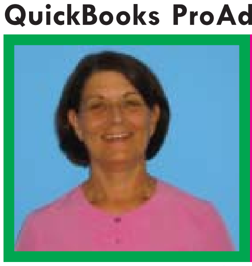
The benefits currently available to S corp owners tax-free are:

1. Working condition fringe benefits (defined as benefits that would have been deductible as business expenses had the employee paid for them himself), such as business use of a company-owned vehicle, job-related education expenses and job placement assistance.
2. Dependent care assistance plans–to qualify, payments to more-than-5% owners cannot exceed 25% of the amount paid by the employer for all employees.
3. Education assistance plans, but no more than 5% of the cost of the annual benefits may be attributable to 5%-or-more owners.
4. On-site athletic facilities
5. Employee discounts
6. De minimis fringe benefits, certain small fringe benefits that are tax-free to all employees, including occasional employer-paid dinners, birthday or holiday gifts, occasional sporting or theater tickets, and small items provided because of illness or good job performance.
7. Transportation benefits–transit passes (tokens or fare cards) if the monthly value does not exceed $21.

If you want to discuss how this may help you, please call us.

Meet Diane Turley

QuickBooks ProAdvisor, Accounting Software Trainer, Firm Administrator



Diane joined CrawfordEllenbogen six years ago, as a part-time billing clerk. It didn't take long–less than two months– to realize what a value she was to both the CE team and CE's clients. Diane, with her then 25 years of experience, became a full-time member of the CE team.

Diane is QuickBooks certified, and currently advises business clients on set-up, operating and control of accounting, bookkeeping and project management systems. She brings clients the benefits of three decades of experience in industry and public accounting–as an accountant, a computer consultant to small and mid-sized companies, an accounting software training manager, and an administrator for a multi-state computer system for a Pittsburgh-based company.

Diane is a notary public and an alumna of Pennsylvania State University, where she majored in business. In her internal role as firm administrator, she oversees billing, payroll, bookkeeping and recordkeeping.

Lite Bytes

Day Camp Program Deduction—Summer Fun for Kids is Tax Benefit for Parents

For working parents who had to provide care during summer for their children, a day camp program is a solution with a tax benefit.

The cost of day camp counts as an expense toward child and dependent care credit, but overnight camps do not qualify.

Save your summer camp receipts for tax time!

Senate Bill 1063 & 838 Passed

Senate Bill 1063 which proposed to transition the collection of local tax to a more standardized process, starting in 2011, was signed into law by Gov. Rendell on July 2, 2008.

This means the Commonwealth will issue one set of rules and regulations that apply to all local tax collectors, taxpayers and employers.

Also signed into law that same day was Senate Bill 838, which mandates a 150-hour education requirement for certification to become a CPA.

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If you have any questions about the articles in this newsletter or other tax or accounting matters, please contact us.

jellenbogen@ce-cpa.com
vdozzi@ce-cpa.com