

Monthly Tax and Accounting Newsletter

Gregg Harvey, CPA

About This Newsletter

This monthly Newsletter is a free service provided by Gregg Harvey, CPA. It is emailed every month to clients and to select members of the Rochester Regional Chamber of Commerce.

This Month's Contents:

Tax reform news and other 2007 tax related developments, an IRA suggestion, and how to get a copy of your CLUE report.

Tax Reform Update

The Treasury Secretary has told tax writers that the Administration will not go ahead with options issued by the President's tax reform panel. However, Democrats are still trying to push ahead.

An idea of those priorities can be found by reviewing the proposed Fair Flat Tax Act – three tax brackets instead of six, elimination of the marriage penalty, huge standard deductions (up to \$30,000 for married filers), no Alternative Minimum Tax, and more. To pay for all that, higher taxes on investments, fewer tax-free fringes, a flat 35% rate on corporate income, and slower depreciation.

Of course this package will not pass as-is. It does highlight some of the priorities for tax reform though, and with the need for a permanent fix to the AMT, a major overhaul of the tax system is in the works at some point.

New Auto Depreciation Limits

For autos placed in service in 2007, the first year ceiling is now \$3,060, which is up \$100 from 2006. The second year limit is \$4,900 also a \$100 increase.

New Filing Requirement for Small Non-Profits

Those with revenues of \$25,000 or less need to file a new electronic notice, the 990-N. Paper submissions will not be accepted. The first filing is due May 15, 2008. Groups that fail to file for three years in a row will automatically lose their exempt status.

Standard Deduction for 2007

Single = \$5,350
MFJ = \$10,700
MFS = \$5,350
Head of Household = \$7,850

Please contact me if you need a clarification of your status.

MFJ 2007 Tax Brackets

10% - up to \$15,650
15% - up to \$63,700
25% - up to \$128,500
28% - up to \$195,850
33% - up to \$349,700
35% - over \$349,700

Single 2007 Tax Brackets

10% - up to \$7,825
15% - up to \$31,850
25% - up to \$77,100
28% - up to \$160,850
33% - up to \$349,700

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35% - over \$349,700

Head of Household 2007 Tax Brackets

10% - up to \$11,200
15% - up to \$42,650
25% - up to \$110,100
28% - up to \$178,350
33% - up to \$349,700
35% - over \$349,700

MFS 2007 Tax Brackets

10% - up to \$7,825
15% - up to \$31,850
25% - up to \$64,250
28% - up to \$97,925
33% - up to \$174,850
35% - over \$174,850

Estates and Trusts 2007 Tax Brackets

10% - N/A
15% - up to \$2,150
25% - up to \$5,000
28% - up to \$7,650
33% - up to \$10,450
35% - over \$10,450

Standard Mileage Rates For 2007

- Business 48.5/mile (up from 44.5)
- Charitable 14/mile (no change)
- Medical and moving 20/mile (up from 18)

In 2006 there were 3 rates for miles driven for charitable purposes – the

general rate and two hurricane Katrina related rates. This year we are back to just one.

The standard mileage rates for business, medical and moving purposes are based on an annual study of the fixed and variable costs of operating an automobile. Runzheimer International, an independent contractor, conducted the study for the IRS.

The mileage rate for charitable miles is set by statute. It has not changed for several years.

Taxpayers generally can choose to use either actual expenses or the standard rate, with some exceptions.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS), after claiming a Section 179 deduction for that vehicle, for any vehicle used for hire or for more than four vehicles used simultaneously. Revenue Procedure 2006-49 contains additional information on these standard mileage rates.

Michigan Single Business Tax Update

Negotiations continue in Lansing between Democrats and Republicans over a replacement to Michigan's Single Business Tax (SBT). House Democrats' plan recently received a favorable write up from the Tax Foundation.

The foundation of this plan is a business income tax levied at 7 percent, a net

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worth tax levied at just under 5 percent, and substantial cuts in the personal property tax.

According to the Tax Foundation, the biggest positive is that it lays the proper foundation for Michigan's business tax system. By moving from the SBT to a system based on taxing business income and net worth, the House Democrats have chosen to rely on basic business tax structures that are either neutral (taxing profits) or familiar (taxing net worth) to business taxpayers.

The biggest problem with most of the SBT replacement plans was either a failure to rely on mainstream business taxes or the utilization of business tax structures (like gross receipts) that would badly distort investment decision-making. In choosing to tax profits and net worth the House Democrats avoided both these pitfalls.

On the other hand the plan contains over \$700 million in tax incentives that narrow the tax base and drive up the tax rate. The plan also exempts some companies from the tax based their gross receipts, reportedly raises a fair amount of revenue by taxing "out-of-state" companies, and appears to rely heavily on net worth taxation (known as a "franchise tax" in most states) in an era where many states are cutting or eliminating their net worth taxes.

Is Contributing To A Non-Deductible IRA The Way To Go?

Higher income individuals may find themselves maxed out on their 401(k)s

and they make too much to contribute to a Roth IRA. In such a case is contributing to a nondeductible, traditional IRA the right move?

In many cases, no. If you make that investment you do get the benefit of tax-free growth but there are some pitfalls.

One of them is just paperwork. For those contributions you need to file Form 8066 to tell the IRS you have paid taxes on that deposit and to track your basis. Failure to file 8066s can lead to you paying taxes again when you make withdrawals.

Another administrative issue is that at withdrawal time you need to add up all of your traditional IRAs and the compute the ratio of after tax contributions to the total balance.

But the most important consideration is probably that the taxable account will generate a capital gains tax where the nondeductible IRA will get taxed as ordinary income.

You can find such investments by searching for a tax-managed fund. Just look for the words "tax managed" in the name.

Get A CLUE

Do you know what CLUE is? It's a database where insurers share claims information, and stands for Comprehensive Loss Underwriting Exchange, where "claims information" can also include mere inquiries as full-fledged claims

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Why is this of any interest to you?
Because information in your CLUE report is used to help set your insurance rates. If you are a homeowner you may want to get a free copy of your report from ChoiceTrust.com at 866-312-8076. You can get 1 free copy per year.

You should try to maintain a good CLUE score by being proactive about home maintenance, not making claims for less than \$1,000 or some similar threshold amount, and generally trying to stay off the record. That means not casually picking up the phone to make a problem inquiry to your insurance company.

I have a copy of a PowerPoint presentation made by Choicepoint, please contact me if you'd like me to send it to you. You can also find one on the Michigan Department of Treasury website.

Excel 2007 Note

For power users, the long time limitation of approximately 65,000 rows in a worksheet has been an issue. The most recent version of Excel does away with this limitation. There is still a limit but it's so large that it is almost like having no limit (around 1 million rows).

For More Information

For more information on anything covered in this Newsletter, please contact me. I provide tax, accounting, consulting, and other business services such as payroll and medical billing.

You can reach me at gregg@greggharveycpa.com, phone 248-650-2960, or cell 586-707-1077. You can also visit my website, greggharveycpa.com.

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