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Client Information Bulletin

September 2007

Roundup of New Small-business Changes

New tax law presents opportunities and pitfalls

On May 25, 2007, the president signed a new tax law as part of federal legislation tied to troop movements and an increase in the minimum wage. The new Small Business and Work Opportunity Tax Act of 2007 is more than a package of tax breaks for small businesses. It also includes several revenue-raisers that could have a significant impact on individuals.

The following are several favorable tax provisions in the new law:

Section 179 rules: Effective for the 2007 tax year, the new law increases the maximum amount that may be "expensed" (i.e., currently deducted) under Section 179 to $125,000. (It was scheduled to be $112,000 for 2007.) The new law also extends inflation indexing for the Section 179 limit and allows current write-offs for most off-the-shelf software through 2010. Finally, the phaseout threshold for the Section 179 deduction is generally increased from $450,000 to $500,000 for 2007 with indexing through 2010.

S corporations: The new law contains several provisions that benefit S corporations and their owners, including tax breaks for qualified subchapter S subsidiaries (Q-Subs) and electing S business trusts (ESBTs) for tax years beginning after 2006. Also, gains from certain security sales will no longer be treated as passive investment income effective for tax years beginning after May 25, 2007.

Work Opportunity Tax Credit: The new law extends the Work Opportunity Tax Credit (WOTC), which is available for hiring workers from certain disadvantaged groups, through August 31, 2011. It also expands the list of workers eligible for the WOTC, including disabled veterans.

Family business simplification: The tax filing requirements are eased for certain husband-and-wife teams operating an unincorporated business. This provision reducing paperwork applies to tax years beginning after 2006.

Employer tip credit: An employer can receive a tax credit for the portion of FICA (Federal Insurance Contributions Act) tax paid on tips in excess of the minimum wage. Despite the minimum wage increase over the next two years, the credit will still be based on the current minimum wage.

On the downside, the new law also includes the following provisions:

Kiddie tax: The kiddie tax applies to the unearned income above an annual threshold ($1,700 for 2007) that is received by certain children. The excess is taxed at the parents' top tax rate. In 2006, the age

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threshold was raised from age 14 to age 18. Now it's been raised again for 2008 to age 19 or age 24 for full-time students. This higher limit applies if the child's earned income does not exceed half of his or her annual support.

Suspended interest: The IRS now has 36 months before it must stop charging interest and filing related penalties if it fails to notify you about a tax deficiency. The previous limit was 18 months.

Due process hearings: The new law eliminates the requirement that the IRS must hold a collection due process hearing before issuing a levy on delinquent employment taxes. However, post-levy hearings are still an option.

Bad checks: Previously, the minimum fee for bouncing a check to the IRS was $15 for checks totaling $750 or less. That fee has been raised to $25 for checks totaling $1,250 or less.

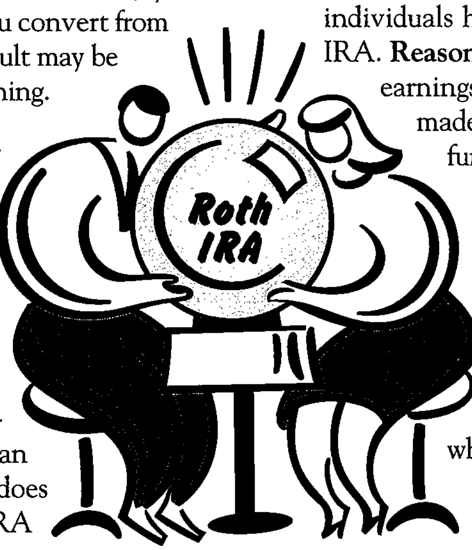
Of course, this is just an overview of some of the key changes in the new tax law. It is recommended that you consult with a professional tax adviser for your personal situation.

Planning Ahead for Roth IRA Tax Break

Avoid additional tax on future conversions

A tax break for Roth IRA conversions is looming on the horizon. However, if you are not careful, you could end up paying "extra" tax when you convert from a traditional IRA to a Roth IRA. This result may be avoided or minimized with advance planning.

Background: The annual contribution limits for traditional IRAs and Roth IRAs are the same. For the 2007 tax year, you can contribute up to $4,000 to either type of IRA (or a combination of both). The contribution limit is $5,000 if you are age 50 or older. Contributions to a traditional IRA may be deductible if you do not actively participate in an employer's retirement plan and your adjusted gross income (AGI) does not exceed a specified level. Roth IRA contributions are never deductible.



The primary attraction of the Roth IRA is that qualified distributions are completely exempt from income tax. This includes distributions from an account in existence for five years that are made after age 59½, on account of death or disability or to pay first-time home-buyer expenses (up to a lifetime limit of $10,000).

In contrast, distributions from a traditional IRA may be taxed at ordinary income rates. Thus, there is a tax incentive to convert a traditional IRA to a Roth IRA, even though you must pay tax on the conversion.

Tax complications: Under current law, you can convert to a Roth IRA only in a year in which your AGI is less than $100,000. However, a recent tax law change removed the $100,000 AGI barrier, beginning after 2009. Furthermore, you can spread out the resulting tax over the following two years for a conversion taking place in 2010. In light of this pending tax break, some individuals have chosen to set up a nondeductible IRA. **Reason:** With a nondeductible IRA, only the earnings are taxable when distributions are made. This will enable you to shift more funds to a Roth IRA after 2009.

Caution: Be aware that you cannot simply take distributions from your nondeductible IRA if you have other IRAs. Any distribution is treated as coming on a pro rata basis from each IRA. This means that you might have to pay more tax than you think when you convert to a Roth IRA.

One possible solution is to roll over funds from traditional IRAs to your company retirement plan, such as a 401(k) plan (assuming the plan permits it). If it is handled properly, there is no current tax on the rollover. When you are ready to convert to a Roth IRA in 2010, you will be left with only a nondeductible IRA.

Similarly, you might have your spouse establish a nondeductible IRA if he or she does not have traditional IRAs funded with tax-deductible contributions. Of course, you still must pay tax on your 401(k) contributions after you retire, but you will have some flexibility over the distributions. Generally, distributions are required to begin by the year after the year in which you turn age 70½. Also, it is likely you will be in a lower tax bracket in retirement than you are while working full time.

Bottom line: *Advance planning in this area is a necessity. Obtain professional guidance for your particular situation.*

Four Ideas for Boosting Retail Sales

Focusing on the "individual average transaction"

One of the biggest challenges facing many businesses today is to improve profitability through sustained sales growth. Obviously, it is easier said than done. Nevertheless, though the task may be daunting, it can be accomplished through organization and perseverance.

Instead of viewing this objective on a grand scale, some small retailers and other firms have been successful by focusing on each sale to customers or clients. Specifically, they are concentrating on raising the individual average transaction (IAT) for the company.

Background: All too frequently, business owners dwell on customer sales as a collective entity. They do not measure the profitability of each individual transaction. However, even a modest increase in the average transaction can translate to a significant sales boost over the course of the year.

Can your company benefit from this approach? Consider the possibilities. The following are four ways that retailers may be able to increase IAT.

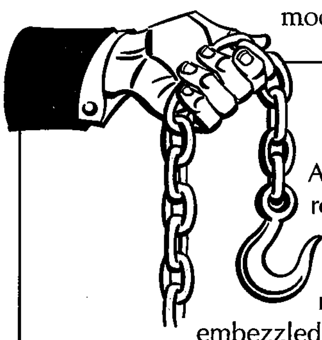
1. Pair up items on your shelves. When it comes to product placement, "togetherness" can be a valuable commodity. Try to package products that seem to go together naturally. For instance, a retailer that sells pants and belts might try to sell them in tandem. These combination items should be visible in high-traffic areas to further encourage sales. Make sure sales staff is educated about the pairings. In a similar vein, another type of business may attempt to cross-sell goods or services to customers or clients who have made similar purchases.

2. Eliminate straight aisle runs. In some stores, the layout enables a customer to enter the premises, walk up one aisle and then turn down another aisle straight to the checkout or door. This may encourage an "I'm just looking" mentality. You might redesign the floor to avoid the possibility for such quick exits. For example, the layout might require customers to weave in and out of aisles, giving them increased opportunities to view your wares.

3. Improve checkout sales. The store checkout is often a focal point for increasing the IAT. Don't make the common mistake of cluttering the checkout area with so many trinkets and other small items that the customer is overwhelmed. Instead, select one or two special items or product pairings. Focus on those categories that are prime candidates for more sales. **Another idea:** Stock the shelves by the checkout with "impulse buys" that can grab the eye of a customer.

4. Offer convenience to shoppers. Some of the elements that can support your basic items are gift-wrapping services, assembled gift bags, alterations (where appropriate), etc. By adding these conveniences at a small price, you can improve the IAT while you reduce the time for your customers. Make sure employees are aware of the sales pitch that is needed.

Incremental increases in your transactions will show up in the bottom line. This is often a sensible way to try to build up your business.



Employment Taxes: Are You on the Hook?

A pediatrics practice hired a payroll service to handle its accounting matters. Subsequently, the firm discovered that the payroll service's principal had embezzled funds that were supposed to be paid to the IRS. The principal was eventually prosecuted for the crime. He was sentenced to 37 months in prison and ordered to pay more than $840,000 in restitution to the medical firm.

But a new Third Circuit court case says that the practice can still be held liable for the unpaid employment taxes. The reliance on the payroll service does not absolve the business of its tax responsibilities.

This case points out the need to use reputable parties to handle payroll matters. You should also confirm that tax payments have been made in a timely manner.

Update: New proposed legislation would waive penalties for payroll agents who have registered with the IRS, posted a bond to cover deposits or have agreed to submit to audits.

How to Improve Web Site Accessibility

Designing modifications for disabled individuals

The federal law that protects disabled individuals in the workplace—the Americans with Disabilities Act (ADA)—could have a greater reach than you expect. For instance, to be in compliance with the ADA, a business may be required to ensure that its Web site is accessible by individuals who are visually and/or hearing impaired.

Independent of the potential legal consequences, an employer may decide to implement modifications to the Web site that address these concerns. In fact, you may have received inquiries relating to this issue.

Fortunately, recent initiatives in this area have provided some much-needed guidance for the business sector. Here are a few general guidelines to follow:

♦ When encoding information, use relative font sizes instead of absolute font sizes. This will enable users to adjust the font size as needed. Visually impaired users may prefer to view larger font sizes.

♦ Ensure that blinking, scrolling or moving objects can be paused or frozen. At best, these items cannot always be read. At worst, they could trigger adverse reactions among those at risk for seizures.

♦ Present a useful site map. It should offer a general description of the Web site. Make sure the map is easy for visitors to find.

♦ Be consistent in your presentation between pages. Use a consistent navigation structure with bars to provide easy access.

♦ Try to avoid the use of color to convey information unless it is clear from the context. Certain text-readers for the blind cannot distinguish between colors.

♦ Use contrast between the foreground and background. That will be easier on everyone's eyes.

♦ Test your Web site with various browsers. What works well for one browser does not necessarily work for all.

Note: *These concerns are not only applicable to outside users. Your Web site should also be designed to accommodate the needs of disabled employees or others accessing it from inside the workplace.*

Give Us A Call!

*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

Facts and Figures

Timely points of particular interest

➡**Discrimination Signs**—The Equal Employment Opportunity Commission (EEOC) recently published employer guidelines on workplace discrimination. Among the "red flags" the EEOC will be looking out for are race-related statements made by company decision-makers, incidents of unfair treatment through comparative results and other facts revealing how employees, applicants and clients are treated differently because of racial or ethnic background.

➡**Unmarried with Children**—The IRS has issued new proposed regulations that could be significant for divorced and separated parents. The regulations clarify the rules for claiming dependency exemptions for children after a couple splits up. For instance, the new regulations establish requirements relating to a waiver of an exemption by the custodial parent. Consult with your tax adviser for an application for your personal situation.