



# tax & business letter

## SUMMER TAX TIPS:

Summer is a good time to do business entertaining. Keep records of the cost, the date, the attendees, and the business purpose. Your deduction is limited to 50% of the cost.

Summer is the ideal time to create or update your estate plan as part of your overall tax-reduction efforts.

If you and your spouse work, the cost of sending your children to a summer day camp may qualify for the child care credit.

If you have an unincorporated family business, hire your children to work this summer. Their wages are deductible to your business and will be taxed in their lower tax brackets. There's no social security tax on wages paid to your children who are under age 18. ♦

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## IRS TAX NOTES

The 2008 first-year depreciation limit for trucks and vans is \$11,160 for new vehicles and \$3,160 for used vehicles. Limits for both new and used vehicles in year two are \$5,100, in year three \$3,050, and in each succeeding year \$1,875.

For details relating to your 2008 vehicle purchases, contact us.

### Tax scam warnings

The Justice Department's Tax Division recently announced the creation of a national "tax defier" initiative to "investigate, pursue, and, where appropriate, prosecute those who take concrete action to defy and deny the fundamental validity of the tax laws." The IRS reminds taxpayers to be wary of scams and promises to avoid paying taxes that seem too good to be true, saying, "There is no secret formula that can eliminate a person's tax obligations." Taxpayers also need to be alert to tax-related scams designed to steal their identity for fraudulent purposes. ♦

### Vehicle depreciation limits

The IRS has issued the depreciation limits for business vehicles first placed in service in 2008. Recent legislation allows higher limits for new vehicles that will qualify for 50% bonus depreciation.

The first-year limit for new cars is \$10,960; for used cars, it's \$2,960. Depreciation limits for later years are the same for both new and used cars: \$4,800 in year two, \$2,850 in year three, and \$1,775 in all following years.

*NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.*



**June 16**  
Second quarter 2008 individual estimated tax is due.

**June 16**  
Second quarter 2008 estimated tax is due for calendar-year corporations.

**July 31**  
2007 retirement and employee benefit plan returns are due for calendar-year plans.

**September 15**  
Third quarter 2008 individual estimated tax is due.

**September 15**  
Third quarter 2008 estimated tax is due for calendar-year corporations. ♦

## IRS audit focus is on worker classification

One of the biggest headaches for business owners is the classification of their workers. If the wrong choice is made, the IRS could step in and assess additional taxes, penalties, and interest.

### Employee or contractor?

Most employers would rather hire contractors, paying them as "independent" people and avoiding the imposition of any payroll taxes, worker compensation insurance, or other payroll-related benefits. This method is much cheaper for the employer and can be accomplished with much less paperwork. The IRS, on the other hand, stresses that workers that are truly employees must be classified as such, with the employer paying appropriate payroll taxes and benefits.

### Reasonable basis

Simply calling an employee a "contractor" isn't good enough. There must be a reasonable basis to treat a worker as a contractor. If the IRS reviews worker classifications, they will be looking at the amount and type of control an employer has over the workers. If the IRS determines that workers who were classified and paid as contractors are really employees,

additional payroll taxes (both the employer and employee portion), penalties, and interest can be assessed against the employer. Make no mistake: these can be serious amounts of money.

### Twenty factors

The IRS has developed twenty factors which are used on a case-by-case basis to determine if a worker is an employee or contractor. No one factor determines the classification. Instead, all of the factors are weighed, and the preponderance of those factors determines the correct classification.

Some of those factors include the instructions and training given to the worker, if the worker performs services for other clients, the location where services are performed, how the worker is paid (hourly indicates an employee), if the worker has his own tools, etc. You should review all of the factors for any of your questionable workers.

### IRS priority

The IRS is looking to reduce the tax gap (the difference between taxes owed and taxes paid). Therefore, the proper classification of employees (and the imposition of additional payroll taxes and penalties) has become a priority issue for the IRS. Don't get caught in their sights. Make sure that your workers are classified correctly. Call us for assistance in walking the tightrope to the proper classification of all your workers. ♦

## Take advantage of tax-saving opportunities

The tax law seems to change year-to-year. This year is certainly no exception. With careful planning, you can take advantage of new tax-saving opportunities in 2008 while avoiding potential pitfalls. Here's a summary of several key provisions.

### Investments

The maximum tax rate on net long-term gains and qualified dividends for taxpayers normally in the 10% or 15% regular income tax brackets is reduced from 5% to 0% for 2008. Under current law, the 0% rate will remain in effect through 2010.

This may be a good year to have your children sell securities that have appreciated in value. However, such sales may trigger "kiddie tax" complications. This tax break isn't strictly limited to lower-income taxpayers.

If you can push your taxable income for 2008 below the cut-off point for the regular 25% tax bracket – perhaps by increasing charitable gifts or 401(k) contributions – your long-term capital gains and dividend income could qualify for the 0% rate.

### Kiddie tax

Under the kiddie tax, a child's investment income above an annual

threshold (\$1,800 for 2008) is taxed at the top tax rate of his or her parents. Prior to this year, the kiddie tax applied to children under age 18. But now the rules have changed.

Beginning in 2008, the kiddie tax generally applies to your children who are under age 19 or full-time students under age 24 if they can be claimed as your dependents.

To minimize the tax damage, try to keep investment income of children below or near the \$1,800 threshold. For example, you might have a child switch funds into tax-deferred or tax-free investment vehicles.

### Small business assets

Under the new economic stimulus law, your business can currently deduct up to \$250,000 of business assets placed in service in 2008. Previously, the inflation-indexed amount for this Section 179 deduction was \$128,000. In addition, a business may elect bonus depreciation in 2008 equal to 50% of the cost of qualified assets.

If handled correctly, your business can combine the enhanced Section 179 deduction with bonus depreciation. Regular depreciation deductions may be claimed for any remainder.

### Mortgage insurance

Congress previously approved a one-year deduction for mortgage insurance premiums in 2007. A full deduction was available for taxpayers with an AGI of \$100,000

or less. Once income exceeded \$100,000, the deduction was phased out.

The new mortgage relief law extends this tax break for three years through 2010. Therefore, you may qualify for a 2008 deduction for amounts paid or accrued this year.

### IRA contributions

If you contribute to an IRA, the contributions may be fully or partially deductible. Although deductions are generally not available to high-earning taxpayers if either spouse participates in an employer's retirement plan, contributions may still grow on a tax-deferred basis until withdrawn.

The contribution limit for the 2008 tax year increased from \$4,000 to \$5,000. Plus, if you're age 50 or older, you can add a catch-up contribution of \$1,000. The contribution deadline for 2008 is April 15, 2009, but you may earn more by contributing earlier.

### Tax rebates

Finally, a word about the new economic stimulus payments the IRS has been distributing: These rebates aren't available until you've filed your 2007 return, so taxpayers with extensions have to wait. Certain individuals who normally aren't required to file returns – such as those receiving social security benefits – may follow a simplified filing procedure.

Contact our office for details or guidance with your 2008 tax planning. ♦



## Do you just say or do customer service?

Many companies know how to SAY customer service; they just don't know how to DO customer service. Yet, good customer service leads to repeat sales and referrals, which lead to higher revenues and profits. The result is a stronger, more secure business.

Your sales staff knows this well. Their results are directly affected by customer perceptions. Other employees, such as those in support and back office functions, may not think of themselves as serving the customer. But the fact is that every employee has an impact, direct or indirect, on the customer's experience. An incorrect shipment, a late delivery, or a mistake on an invoice, all result in poor service. A goal of your business should be to meet, and preferably exceed, customer expectations as often as possible.

How do you teach every employee that customer service is part of their job? The answer is a combination of communication, training, and good management.

### Communication

Make all employees aware of the importance of customer service to the business as a whole. Explain the role they play in achieving good service. Consider posting measures of sales for all to see. If appropriate, develop measures of accuracy or error-free performance and track and share the results.

### Training

Every employee with customer contact should be trained on good service, whether it's a salesperson, a receptionist, or a delivery driver. For those in support roles, emphasize how cooperation and teamwork can contribute to good service. Instill a culture that serving the customer is everyone's job.

### Good management

As the owner or manager, your actions and your priorities set the tone for the company. Employees will follow

your lead and pay attention to the things you consider important. Look for ways to measure customer satisfaction and show your employees that you're monitoring it. And don't overlook the other way to improve customer service – minimizing the things that go wrong. Make sure you're aware of errors and complaints. Set goals for improved performance and hold people to them.

Finally, involve your employees. Make it clear that better service is a shared goal and ask for their suggestions. You might be surprised how well they respond. ♦



## A complaint is an opportunity

Nobody in business wants an unhappy customer, but when a customer complains, think of it as three opportunities in one.

1. An opportunity to get free feedback on something that's not working right in your organization.
2. An opportunity to convert a disgruntled customer into a loyal customer.
3. An opportunity to head off negative publicity as the complainer shares his gripe with others.

How do you turn a complaint to your advantage? Here are the four steps you need to take.

- **The initial response.** The initial response to a complaint should be respectful and helpful, not defensive or "it's not our fault."
- **Understanding the complaint.** Make sure you really understand the true complaint. This is perhaps the most important part of the process.

By allowing the customer to vent, you'll defuse a large part of the hostility and ill will. Also, this step provides valuable feedback to pinpoint the exact problem and find out exactly what went wrong.

■ **Fixing the problem.** Employees must know clearly who has the responsibility and the authority to fix a problem. You may choose to compensate the customer for inconvenience, but at a minimum, you must remedy the customer's immediate concern.

■ **The follow-up.** A supervisor or higher-level manager should always follow up with the customer to make sure that the problem has been resolved. This is a key step in turning the customer from "disgruntled" back to "loyal."

For assistance with this or any of your business concerns, contact our office. ♦