

Burke, Montague & Associates L.L.C.

Certified Public Accountants, Advisors & Auditors

Members - Partners: Charles R. Burke, CPA Jodi K. Bruer, CPA Raymond J. Raymond, CPA Kathleen C. Wilson, CPA

Professionals: Randall Hill, CPA Diane Thiele, CPA Carolyn Schimpler, CPA Sheila Hessler Richard Schiltz

Consultant: Robert J. Montague, CPA

253 West Broadway, Bradley, Illinois 60915 Phone 815.933.5641 Fax 815.939.0016

33 North Main, Manteno, Illinois 60950 Phone 815.468.8802 Fax 815.468.8805

Client Information Bulletin

August 2008

Should You Go "Solo" with a 401(k)?

Take advantage of generous tax law provisions

The retirement plan options available to sole proprietors have expanded in recent years. **Case in point:** If you file taxes as a self-employed individual, you can take advantage of a 401(k) plan the same as a corporation with hundreds of employees. Many of the obstacles to this arrangement, including the high costs for administering such a plan, have been eliminated.

With a "solo 401(k) plan," you can make contributions on your own behalf, up to the allowable tax law limits. What's more, these contributions can be combined with contributions by your employer—namely, yourself. Thus, you may be able to build up a nest egg for retirement in a relatively short span.

Background: The maximum deductible contribution an employer can make to a defined contribution plan in 2008 is the lesser of 25% of compensation or \$46,000. The maximum compensation that may be taken into account for these purposes in 2008 is \$230,000. For individuals who are not incorporated, the 25% cap is replaced by a limit of 20% of self-employment income.

The tax law also imposes a dollar cap on 401(k) elective deferrals. For 2008, an employee can defer up to \$15,500 of compensation to his or her account, plus a "catch-up contri-

bution" of \$5,000 if the employee is age 50 or older. Thus, an employee participating in a traditional 401(k) plan can make elective deferrals within these annual limits. Plus, the company may match a portion of the contributions (usually, up to a set percentage of compensation).

Key point: A company must deal with strict nondiscrimination rules in this area. As a sole proprietor, you generally do not have the same problems. Although the limits on deductible employer contributions still apply, there is a distinct advantage for sole proprietors. Thanks to a recent tax law change, elective deferrals to a solo 401(k) plan do not count toward the percentage cap on overall contributions. So you can combine contributions for even greater retirement savings.

For example, if your annual self-employment income is \$200,000 and you are age 50 or older, you can defer the maximum \$20,500 (\$15,500 + \$5,000) to your account in 2008 and combine it with an employer contribution of \$40,000 (20% of \$200,000). The total contribution for 2008 then totals \$60,500 (\$20,500 + \$40,000).

Generally, the contributions to a solo 401(k) plan grow tax-deferred until you are ready to retire. At that time, distributions are taxed at ordinary income rates. Alternatively,

Inside

Charitable Volunteers: Step Forward to Claim Deductions

Get Ready, Set ... Start Your Business

Ten Tips for Avoiding E-mail Mistakes

Don't Fall Prey to Corporate Identity Theft

Facts and Figures

you may roll over part or all of your account to an IRA without paying current tax.

Note: If you have other employees, they must be covered by the plan as well. In addition, there are administrative costs associated with the arrangement.

Of course, other retirement plan alternatives for self-employed individuals—including Simplified Employee Pensions (SEPs), Savings Incentive Match Plans for Employees (SIMPLEs) or traditional Keogh plans—may be more suitable for your situation. Consult with your professional advisers.

Charitable Volunteers: Step Forward to Claim Deductions

How to write off your unreimbursed expenses

Unfortunately, you cannot deduct the value of the time and effort you devote to charitable causes. However, if you incur expenses in the course of your charitable activities, you may be able to deduct your out-of-pocket costs on your personal tax return. Consider the following:

Local transportation: If you drive your car to charitable events or meetings, you may deduct your expenses—gas, oil, repairs, etc.—attributable to those trips. Instead of keeping track of actual expenses, you can deduct a flat rate of 14 cents per mile in 2008 (plus tolls and parking fees). Similarly, rail, bus or taxicab fares are also tax-deductible.

Long-distance travel: You may also deduct your long-distance travel expenses on behalf of charity. This includes airfare and meals while you are away from home. But note that you cannot deduct these costs if there is a “significant element” of personal pleasure, recreation or vacation in the travel.

Charitable conventions: You may deduct the costs of attending a charitable convention if you are an official delegate of a qualified charitable organization.

However, even if you qualify for deductions, any personal expenses you incur while you are away from home—such as sightseeing or recreational activities—are nondeductible.

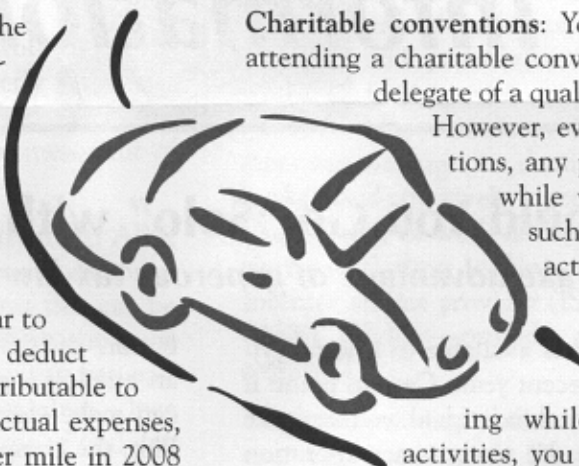
Uniforms: If you are required to wear a uniform or some other special clothing while you perform charitable activities, you can deduct the cost of the clothing. But the clothing cannot be suitable for everyday wear. In addition, the cost of cleaning the uniform is deductible as a miscellaneous expense. (Miscellaneous deductions are limited to the excess of 2% of your adjusted gross income.)

Telephones and faxes: You are entitled to write off the cost of long-distance telephone calls made on behalf of a charity. Similar rules apply to cell phone usage. **Even better:** If you install a second telephone line or fax in the home just for charitable purposes, the entire cost—not just your long-distance charges—is deductible.

Home entertainment: If you host a party or dinner for charitable purposes at home, all of your expenses are deductible. There is no 50% limit on entertainment and meal expenses under the charitable donation rules.

Charitable functions: When you attend a function for a charity, such as a fundraising dinner, you can deduct the cost minus the fair-market value (FMV) of the benefit received. **Example:** You and your spouse pay \$100 a plate each for a dinner with an FMV of \$35. Thus, you can deduct a total of \$130 (\$200 – \$70). Note that you must obtain written documentation for contributions exceeding \$75.

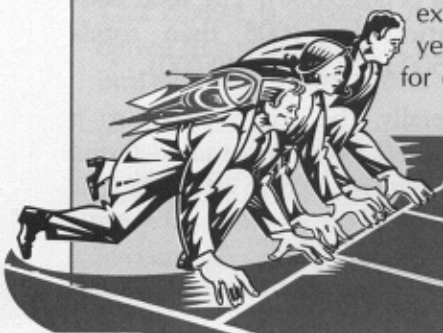
The IRS tends to scrutinize these types of deductions. Make sure you keep the records necessary to back up your claims.



Get Ready, Set ... Start Your Business

A new business can take advantage of a special tax election for start-up expenses. Instead of amortizing expenses over a 15-year period, you can currently deduct up to \$5,000 of your qualified expenses.

However, proper timing is essential. For instance, the election must be made for the year in which the business begins. In a new case, a taxpayer deducted start-up expenses in the following year without any authority for doing so. The Tax Court had no choice but to deny the current deduction. Consult with a tax professional on the timing of start-up expenses.



Ten Tips for Avoiding E-mail Mistakes

Handle business communications professionally

If you are like many busy business people, you may send hundreds of e-mail messages each workweek. You are usually rushed to communicate promptly, so you might not take care to ensure your outgoing messages are properly worded. This could lead to miscommunication that jeopardizes your business relationships.

How can you avoid potential problems? Here are ten helpful hints:

1 Fill in the subject line. After the recipient sees who the sender is, his or her eyes will automatically go to this line. This is important if you want your message to receive prompt attention. Take time to describe the content of your message in a meaningful way.

2 Modify the subject line if the focus of the correspondence has changed. Do not automatically hit "reply" with each response. Start a new e-mail if the subject has changed completely.

3 Although e-mail is often informal, you should still include a greeting in a business context. Even if you simply put in the person's name, it is better than leaving it blank. Otherwise, you might appear to be cold or disrespectful.

4 Consider the tone of your e-mail. Unlike face-to-face meetings, e-mail has no body language. You cannot see the other person, so you must choose your words carefully. Put yourself in their shoes and anticipate what the reaction will be. Do not assume that the recipient would know you are kidding around or being facetious.

5 The current trend is to send e-mail messages without proper punctuation and grammar. Again, while this may be acceptable for e-mail to friends, it is discouraged in a business setting. Remember that your e-mail is a representation of both you and your company. Use the spell-checker to catch errors, and read over your message for any misuse of words.

6 Be concise. Write only a few paragraphs with just a few sentences in each paragraph. Remember that the reader is probably skimming the e-mail to pick out

the salient points. If you find yourself writing a longer message, pick up the phone and call.

7 Do not assume that your e-mail will not be passed along. Once you send it, you have no control over where it will end up. If the message would embarrass you or your company, do not send it. Instead, use other methods to convey personal or sensitive information.

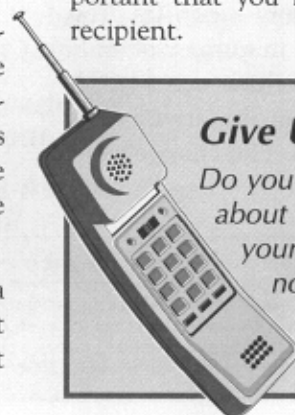
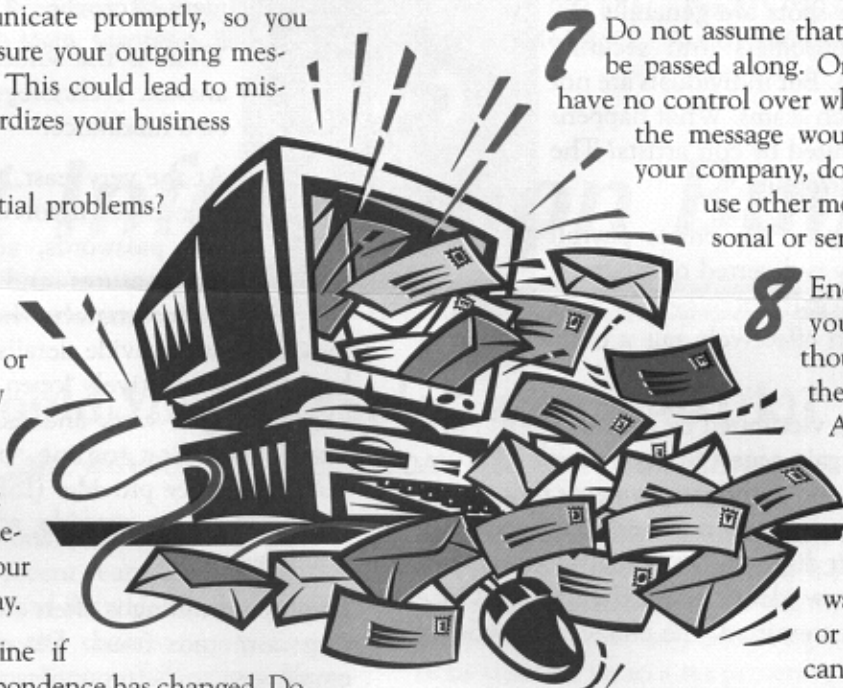
8 End the message with your name, even though it is included at the top of the e-mail. Add contact information such as your address, telephone and fax numbers.

The recipient may want to talk at length or send documents that cannot be e-mailed. **Best**

approach: Create a formal signature block with the critical data.

9 Fill in the e-mail address of the recipient. This should be the last thing you do, not the first. Scan your message for tone of voice, meaning, etc. Were you being overly emotional when you wrote it? Does it accurately communicate your thoughts? Could it be misinterpreted? This is your last chance to right the wrongs. If you enter the recipient's name first, an inadvertent slip can send the message before you intended.

10 Finally, wait for a response. Not everyone constantly monitors their e-mail in-boxes. People do it at their own convenience. If the response is so important that you must hear back right away, call the recipient.



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.

Don't Fall Prey to Corporate Identity Theft

Protect your company against a growing threat

You have probably seen television commercials or heard radio ads depicting identity theft. These spots are generally designed to coerce consumers into securing credit card protection. But individuals are not the only targets of such scams. What happens if a business is victimized by con artists? The results could be catastrophic.

Case in point: Suppose the entire payroll deposit of a company is diverted or quarterly tax payments are illegally obtained by outsiders. The losses can effectively put a business "out of business."

How are corporations victimized by identity theft? All it takes is the ability to gain access to a company's database, create false accounts and authorize payments that can be kited from one destination to another. With the huge sum of money at their disposal, the perpetrators can easily pay to establish new identities for themselves. Once the crime has been committed, the chances of undoing the damage are slim.

As with most other crimes against corporations, it is likely that the corporate officers will ultimately be held responsible. Sometimes, they may even be involved in wrongdoing or participate in a cover-up. In many cases involving corporate fraud, the victims do not choose to report the crime or seek to have it prosecuted. Furthermore, the murky laws applicable to corporate theft may encour-



age deception. All these factors have contributed to a noticeable increase in corporate identity crimes.

What is the solution? There is no clear-cut answer. Technology may help, but it also can be a hindrance.

At the very least, a company should establish procedures involving personal identifications and passwords, authorization forms, countersignatures and other tracking features. Unfortunately, however, certain security

measures may provide details for sophisticated criminal hackers and effectively "open the doors" to theft or fraud. Outsourcing of work and recent technological innovations—including online banking, shared systems, Internet service provider (ISP) and Active Server Pages (ASP) services—provide additional opportunities to criminals.

Employee training is often cited as a key aspect of deterring corporate fraud. Develop written guidelines so employees can better understand their roles in the organization, the values and assets of the organization, and the security measures that are needed. Most significantly, employees must realize that the old way of doing things will not suffice in this electronic age.

Do not think that your company is immune from corporate identity theft. Take steps to protect your livelihood. Consult with your professional advisers for the best course of action.

Facts and Figures

Timely points of particular interest

➔ **Treasury Securities**—The U.S. government has made it easier for investors to buy Treasury securities. You can now purchase securities for a minimum of only \$100. Previously, the minimum purchase was \$1,000. This change is expected to open up this investment option to a wider range of investors. The change went into effect on April 7, 2008.

➔ **Not So Charitable**—A board chairperson actively participated in the daily management of a tax-exempt hospital. For example, he had authority to sign checks and hire and fire employees. The chairperson became aware of the hospital's failure to deposit payroll taxes on time. **Result:** The district court held the chairperson *personally liable* for the failure.

This newsletter is published for our clients, friends and professional associates. It is designed to provide accurate and authoritative information with respect to the subject matter covered. It is distributed with the understanding that the publisher is not engaged in rendering accounting, legal or other professional services. Before any action is taken based upon this information, it is essential that competent, individual, professional advice be obtained. In accordance with IRS Circular 230 any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of 1) avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions, or 2) promoting, marketing or recommending to another party any transaction or matter addressed herein. © 2008