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Client Information Bulletin

March 2008

Late AMT Reprieve for 2007 Filers

Congress creates another one-year patch

A tax law change enacted in the waning days of 2007 has saved a multitude of taxpayers from a dire tax fate. The new tax legislation increases the exemption amounts included in the complex alternative minimum tax (AMT) calculation on 2007 returns. It is expected to protect approximately 19 million taxpayers from the AMT and reduce the tax bite for over 4 million others.

Basic premise: The AMT runs on a separate track beside your regular tax liability. After you have figured out your regular taxable income, AMT liability is calculated using four basic steps:

1. First, you must add certain tax preference items to your taxable income and make other technical adjustments required by law.
2. Then you subtract the special exemption amount based on your filing status on your income tax return.
3. Next, you apply the AMT rate to the net amount. For the 2007 tax year, the applicable rate is 26% on the first \$175,000 of AMT income and 28% for amounts above \$175,000.
4. Finally, you compare your AMT liability with your regular tax liability. If the AMT amount is higher, you are required to pay the excess, in addition to your regular tax liability.

The list of preferences and technical adjustments is too long for the space allotted here. In brief, you are required to add back certain itemized deductions and personal exemptions. This is one reason why large numbers of taxpayers have become unsuspecting victims of the AMT. For instance, taxpayers who report high state income tax deductions are particularly vulnerable.

Ever since the monumental Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 was passed, Congress has tweaked the exemption amounts to account for inflation in a series of short extensions. The latest increase is effective only for the 2007 tax year. Unless subsequent legislation is enacted, the exemption amounts will return to the pre-EGTRRA levels. Thus, you could be facing similar challenges in 2008.

Under the new law, the exemption amount for joint filers in 2007 is \$66,250 (up from \$62,550). If you are a single filer, the exemption amount is \$44,350 (up from \$42,500). Finally, the amount for married couples filing separately is \$33,125 (up from \$31,275).

However, the benefit of these exemption amounts is reduced for certain high-income taxpayers. Each exemption is reduced by 25 cents for each dollar of AMT income over \$150,000 for joint filers; \$112,500

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for single filers and heads of household; and \$75,000 for married couples filing separately. These figures have not been adjusted in recent years.

Also, be aware that the change occurred too late for the IRS to include in its 2007 tax return packages. It will also take time for the IRS to reprogram its systems and make

changes in all AMT-related forms. Consequently, the new law is expected to result in delays in processing refunds for certain taxpayers.

Reminder: This is an extremely complex area of the tax law. It is recommended that you seek assistance from a professional tax adviser.

Danger Signs of Workplace Violence

Take precautions to protect your business

In the past, you might have discounted the possibility that one of your employees would commit bodily harm to others. Not anymore—not in the recent wake of violence at schools and places of business throughout the country. Don't think that your business is immune to this disturbing trend.

It may be difficult to head off potential problems in this area, but it does not hurt to try. You can start by learning to recognize the early warning signs of violence.

The following is a list of employee traits that should raise your suspicions, especially if a particular employee exhibits several of these characteristics.

- ◆ **Fascination with guns or other weapons.** Simply owning weapons is not necessarily a tip-off, but talking incessantly about them is.
- ◆ **Evidence of drug or alcohol abuse.** Take note of a worker who is habitually out on the Monday following a Friday payday. There is often a correlation between substance abuse and employee violence.
- ◆ **Severe depression.** In some cases, depression turns to anger, which can result in violence toward coworkers. Alternatively, the person may become suicidal. Severe personal stress can have the same effect.

◆ **Threatening actions.** Repeated verbal abuse—such as cursing or belittling other employees—can foreshadow an employee's violent actions.

◆ **Blaming others.** When “constant blamers” are backed against a wall, they often lash out at others in anger.

◆ **Violent history.** A person who has committed violent acts in the past may be predisposed to this type of behavior.

◆ **Attendance problems.** Employees who are often absent for no reason and show no remorse may have related problems, such as drug or alcohol abuse. This may also be the

case if the person is continuously tardy or makes excessive demands of his or her manager.

◆ **Decreased productivity.** Take note if a person's work output dramatically decreases for no apparent reason. A lack of concentration could also signal substance abuse.

◆ **Problems with coworkers.** Employees who have become loners because they have alienated everyone else at work may become violent.

◆ **Poor personal hygiene.** Be wary if a worker suddenly stops caring about his or her appearance.

◆ **Unusual or changed behavior.** This may indicate a personal crisis that could lead to violence at work.

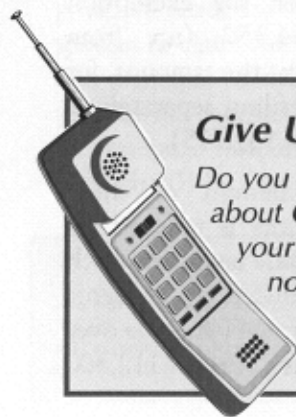
Of course, potential problems can be avoided by using strict preemployment standards—including reference and background checks—that do not violate any legal standards. Nevertheless, there are no guarantees.

Practical advice: Educate your supervisors to recognize the early warning signs. They should report their findings to a crisis management team or another party that can monitor the situation. When it is required, intervention may be able to defuse a potentially explosive situation.



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.



Putting a Mortgage Into Reverse

Pros and cons of technique for homeowners

For some homeowners in a tough spot, it may make sense to “back into” a reverse mortgage. In brief, this financial-planning technique allows you to tap the equity that has been building up in your principal residence over the years. It may be used to help pay expenses of elderly people during retirement or to free up cash for medical procedures or other unexpected emergencies.

Instead of a conventional mortgage where you pay the bank (or another financial institution) each month, the bank pays you. That is why it is called a “reverse” mortgage.

How it works: A reverse mortgage is the direct opposite of a conventional mortgage. With a conventional mortgage, you receive a lump sum that is combined with your down payment. Then you repay the loan principal, plus interest, through installments over a period of time (e.g., 15 or 30 years).

Conversely, with a reverse mortgage, the lender provides you with monthly payments based on the appreciated

value of your home. Thus, you can benefit from your build-up in equity on the home while you are still living there.

Note that a homeowner must be at least age 62 to qualify for a reverse mortgage. If you are married, both you and your spouse have to meet this age requirement.

The actual amount you are eligible to receive each month depends on a number of factors, including:

- ◆ Your age and life expectancy, or the ages and life expectancies of a married couple;
- ◆ The current value of the residence;
- ◆ The amount of the total equity

you are relinquishing;

- ◆ The length of the loan term; and
- ◆ The annual interest rate charged by the lender.

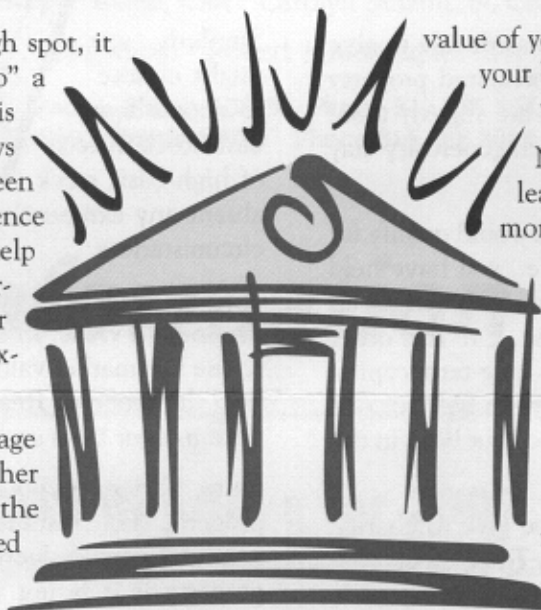
As you might imagine, the older you are and the more your home is worth, the more money you are likely to receive.

Because reverse mortgage payments are considered payments on a loan, they are not subject to federal income tax. In addition, the payments should not affect eligibility for Medicare or Social Security benefits.

Of course, there are various other considerations for homeowners. For instance, be sure to check out all the costs (e.g., points, appraisal fees, etc.) that are part of the deal. As an alternative, you may also want to consider a reverse mortgage that lets you retain some of the appreciated value in your home.

In addition, you might not be so quick to dip into the home equity you have worked so hard to establish. You might also consult with other family members who could be affected by this technique. Clearly, it could have long-term ramifications. Thus, this technique is *not* right for everyone.

Final words: You are legally required to have financial counseling before you embark on a reverse mortgage. Make sure you understand all of the implications before you commit to this type of arrangement.



IRS Authorizes Late S Corporation Elections

As a general rule, you must elect S corporation status for a business entity by the 15th day of the third month of the tax year.

Therefore, an election for 2008 must be made by March 17 (March 15 falls on a Saturday). Otherwise, you have to wait until next year.

However, under certain conditions, you may be able to obtain tax relief for a late election. Previously, the IRS required taxpayers to request a private letter ruling. Now it has authorized a simplified method for certain taxpayers.

To qualify for this special tax relief, you must have “reasonable cause” for failing to file in a timely manner, among other requirements. In addition, shareholders must treat their returns in a consistent fashion. A professional tax adviser can provide the necessary guidance in this area.

How to Give Stock to Charity

Special rules apply to appreciated property

Depending on your situation, you may decide to give a gift of stock or some other appreciated property instead of cash to a charity. The rules are slightly more complicated, but the tax benefits for such generosity may be well worth it.

Basic premise: If you donate stock that would qualify for long-term capital gain if you sell it (i.e., you have held the stock for more than one year), you can deduct an amount equal to its fair-market value. On the other hand, if the stock would not qualify for long-term capital gain treatment if it is sold (i.e., it has been held for one year or less), your deduction is limited to your basis in the stock.

Of course, this could affect the way you give to charity. For instance, let's say John owns Fast Track stock that cost him \$5,000 11 months ago. The stock is currently worth \$8,000. If John gives the Fast Track stock to charity, his deduction is limited to an amount equal to his \$5,000 basis. However, if John waits just one more month and a day to donate the stock, his deduction is increased to its \$8,000 fair-market value.

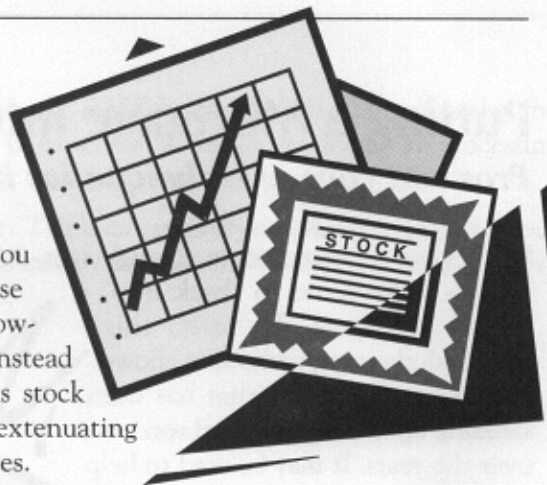
In other words, you get the tax benefit of appreciation in value when you donate property held more than one year. You are never taxed on the \$3,000 appreciation in value.

Similarly, you might choose to donate low-basis stock instead of high-basis stock absent any extenuating circumstances.

Suppose the stock you are donating to charity has declined in value. In that case, your deduction is limited to the fair-market value, regardless of how long you have held the property. **Reason:** You cannot deduct the difference in your basis and the stock's fair-market value.

Note: Other special rules apply to gifts of appreciated property. For instance, if you donate artwork to a museum, your deduction is limited to your basis in the property if it is not used to further the charity's tax-exempt function. **Suggestion:** Stipulate that the artwork must be displayed where it can be viewed by the public.

Whether property has appreciated or depreciated in value, you should obtain an independent appraisal of the property's current worth. This is the best proof you can have if your deduction is ever challenged by the IRS. Also, you are required to attach an appraisal to your return for property donations exceeding \$5,000.



Facts and Figures

Timely points of particular interest

➔**Homeowner Tax Breaks**—Congress passed legislation late in 2007 granting relief to homeowners in debt. For a three-year period, joint-filers may exclude from tax up to \$2 million of debt forgiveness on a mortgage for a principal residence. The new law also enables widowed spouses to claim the full \$500,000 exclusion on the sale of a principal residence if the home is sold within two years of the deceased spouse's death. Finally, deductions for mortgage insurance premiums have been extended through 2010.

➔**Gear Up for 2008**—The IRS recently announced an increase in the standard mileage rate for 2008. The new rate is 50.5 cents per business mile, plus business-related tolls and parking fees (up from 48.5 cents per business mile in 2007). On the other hand, the standard mileage rate applicable for medical or moving expense deductions has been reduced from 20 cents per mile to 19 cents per mile. The rate for charitable driving remains at 14 cents per mile for the 2008 tax year.

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