

PROVENCHER TAX SERVICE
5560 STARBOARD DRIVE
DISCOVERY BAY, CA 94505 ← (new ZIP!!)
(925) 634 - 5658 (925) 513-0241 FAX
E-Mail: protaxea@comcast.net

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HAPPY NEW YEAR !!!

Well, here we go again!! I'm ready to rock & roll. I'm rested. Some of you know that I had quite a rough tax season last year – *after* February. By mid-March I was burnt-out. Some significant things took place that added to my usual level of stress. (I lost my favorite Dog, *Presley*, to Cancer.) Mostly, as it turned out, I was sleep deprived and over-stressed. On March 23, 2007 I lost a whole day with an unexpected visit to the Emergency Room. I checked out OK, but sure got "lectured" from the ER Nurse...

For the first time, I couldn't get through all my complicated tax returns by April 15th and I had to ask a few of you for an "Extension". I learned that "Extensions" are pretty nice – I can deal with them later while not so sleep deprived!! Annually, I have about 20 regular clients who are "automatic extension" tax filers (can you say "*procrastinators*"!) I typically want to get them ALL done by April 15th, but I need to take my self-imposed deadline pressure-point off and go along with more of my procrastinators so I don't kill myself. Should you be willing to join the list, just let me know.

If you **READ** my Tax Newsletter (*and take it to heed*) it will help ME and YOU make it through another stressful tax season. I want to point out the areas that I expect will be most helpful. The very next session about my **Tax Organizers**, the areas about "**Verifiable Information**" and the new documentation requirements for **Charitable donations**.

"TAX ORGANIZERS"

The majority of my tax clients use my customized **Tax Organizer**. I either email it to you as a PDF attachment or mail it the old fashion way on paper. (*IF you have received this Tax Newsletter via the U.S. Mail, that mostly means I do not have an email address for you. Only about 10% of my clients have NOT provided me with an email address. So, if you now (finally) have one, please let me know!*) The Organizer is very useful, in that, it includes a column showing what the prior year amounts were that were claimed

on your 2006 tax return as a helpful reference. Then there is the 2007 column to enter your 2007 amounts. Many of you have your own routine of gathering your information documents, summarizing the data and getting them to me through email, U.S. Mail, FAX or dropping them off at my doorstep – whatever works best for you is Okay by me.

IRS AUDITS...

In my last year's Tax Newsletter I WARNED that more audits were coming. I had also mentioned how *I had been mostly* free of these audits with my tax clients – that is no longer true. I have been engaged with income tax audit matters with several clients non-stop since last April. As I predicted, the "Hot Button" areas are generally "**Self-Employed**" (**Schedule C**) businesses (mostly Realtors) and "**Charitable Contributions**". (more on Charitable Contributions follows later) It has been very interesting for me to see what techniques the IRS Auditors are employing to sniff out alleged cheaters. It can be very stressful for the client and very time consuming to come up with all necessary documentation and defend your position. You see, with the IRS, you are considered guilty until you prove you are innocent.

THOUGHER LAWS AGAINST PREPARERS

As a paid tax preparer and an IRS Enrolled Agent, I am subject to certain laws that require me to do, basically, "what is right". Another way the IRS puts it, is "I'm supposed to know better." Shockingly, there have been a few situations where the tax client has "winked" at me to go ahead and "fudge" a little here and there since it was very unlikely to get "detected". Should the IRS ever discover that I went along with that "wink", I could have gotten a minor "speeding ticket" of up to \$250. I never worried much about being put out of business, however, this IS NO LONGER THE CASE. Big-Brother has CHANGED things around a bit NOW! Now, I can be "ticketed" up to \$5,000 (per return), lose my "License", be put out of business and *even go to jail* if I'm a real bad-boy. If you don't believe me, please pay an internet visit to this interesting website: <http://www.usdoj.gov/tax/taxpress2007.htm>. It's the **Department of Justice's** website listing all the

Tax Preparers who have been “speeding” (more like drunk driving!) and are now “doing-time” in a cold cell some where’s... (Well, I LOVE MY FREEDOM too much to be put on their radar screen.)

FEDERAL TAX BRACKETS AND RATES

Your “Federal Taxable Income” (income *after* all types of deductions) for 2007 is taxed as follows:

MARRIED:			TAX RATES	
\$0	to	\$16,050		10%
\$16,051	to	\$65,100		15%
\$65,101	to	\$131,450		25%
\$131,451	to	\$200,300		28%
\$200,301	to	\$357,700		33%
SINGLE:				
\$0	to	\$8,025		10%
\$8,026	to	\$32,550		15%
\$32,551	to	\$78,850		25%
\$78,851	to	\$164,550		28%
\$164,551	to	\$357,700		33%
HEAD OF HOUSE:				
\$0	to	\$11,450		10%
\$11,451	to	\$43,650		15%
\$43,651	to	\$112,650		25%
\$112,651	to	\$182,440		28%
\$182,441	to	\$357,700		33%

(For those above \$357,700, the rate is 35%)

NEW – “DISCLOSURE STATEMENTS”

With the new “crack-down” laws, tax returns that are now prepared must be done so with “**Verifiable Information**”. If a return is prepared with undocumented / unverifiable information, then it now must include a new IRS tax form (Form 8275) that “discloses” the short-comings of the tax return to the IRS. I can only prepare a tax return that convinces me that all information is, in fact, verifiable (*like - NOT MADE UP!*) So, for example, you show me ALL proper documentation requirements for your Charitable donations; or, show me your detailed “business use” of your car logbook that substantiates all your miles driven for business purposes; or all required documentation for your business travel and meals & entertainment; or proof of your “cost basis” of your IBM stock you bought 20 years ago. Get the idea, here??!! Can you figure out what is going on here?? Essentially, the IRS has placed a “Badge” on my chest to “pre-audit” you even before you file your tax return...! Otherwise, I can’t (or shouldn’t) prepare the return UNLESS we (tattle-tail) “disclose” it with the return. Just WHY is this happening?? Well – how

about to “raise revenue”? Or, do they not trust us for some reason? Have a few people been “cheating” on their tax returns and have spoiled it for the rest of us honest tax filers? Gee... Not much fun around here any more, I guess.

CHARITABLE CONTRIBUTIONS

NO TAX DEDUCTION is allowed for Charitable Donations UNLESS the taxpayer has **both proof** of payment (“cash” > check bank record – like a cancelled check or credit card receipt) **AND** a detailed “**written acknowledgement**” from the charity that documents the contribution **amount and date**. Many tax clients already provide me with detailed statements from the charitable organizations along with copies of their cancelled checks. < **Thank You** > -- this is perfect. Givers should be mindful as to where to “give” their “donations”. That organization should always be providing you with a receipt. Bona fide charitable organizations know they are *required* by law to provide the giver (you) a “written acknowledgement”. The law *requires* both the cancelled check proof **AND** the statement **no matter what the amount is**. All charitable organizations should provide a receipt - even if for only \$10.00.

NEXT – No tax deduction is allowed for “**clothing**” or “**household goods**” UNLESS the items are in “**good**” or “**better**” condition AND You have “verifiable evidence” for these non-cash donations. Any significant property / household item donated with a **value of more than \$500 must be appraised** before the taxpayer can take the deduction. The appraisal is supposed to be done by a “certified” appraiser and this appraisal is to be included with the filed tax return.

WHY all the documentation requirements? Other than for obvious reasons, -- but, in order to have “claimed” that deduction, you have, presumably all the verifiable documents right there at your finger-tips – ready to send at a moments notice to the IRS when they send you a **mail tax audit** on your Charitable contributions claimed on your tax return. YES! It is already happening to two of my clients as I write this!!

“KIDDIE TAX”

“**Kiddie Taxes**” have always been a confusing area. Now, Congress (*in order to “raise revenue”*) has made this a “mind”-field of complexities. Many taxpayers with “pre-teen” kids used to get snared by a “**Kiddie Tax**”. Certain investment income (Interest, Dividends and Capital Gains) can get taxed at the parent’s higher tax rate. This had been a tax issue for these children (**really their parents**) up through **age 13**. Congress has raised the age for which the tax problem continues **through age 17 for 2006 and**

2007. For tax years AFTER 2007, the “Kiddie Tax” age is now **up through 18** AND also through the **age of 24** (!!) if they are full-time College students. So, if you have these (*sneaky?*) “children” with incomes greater than **\$850**, you then need to send me all their “Important Tax documents” (W-2’s and 1099’s) – a tax return is probably required... Sorry. (*This is aimed at parent’s who allegedly “shift” income to their kids...*)

NEW TAX DEDUCTION - “PMI”

Private Mortgage Insurance -- Beginning in 2007, PMI payments will be tax deductible for **NEW mortgage loans taken AFTER 2006 and if** the taxpayer’s income is **less than (>) \$100,000 for Married couples or > \$50,000 for Single filers.**

ROTH & IRA PLAN LIMITS FOR 2008

Workers can now contribute up to **\$5,000** into their IRA plans for 2008. Those born BEFORE 1959 can kick in an extra \$1,000, or up to \$6,000. Note, for Roth contributions to be allowable, incomes for couples must be below \$159,000 for 2008 (below \$156,000 for 2007) while those who file single must be below \$101,000 for 2008 (below \$99,000 for 2007). Also note, there are further income restrictions as to whether IRA contributions would be “tax deductible” or not.

401(k) & 403 (b) PLAN LIMITS FOR 2008

During 2007 the participating employee 401(k) and 403 (b) retirement plan contribution limits increased to **\$15,500 and remains the same for 2008.** For employees born BEFORE 1959 the contribution ceiling is raised to **\$20,500** – a special “Catch-Up” provision.

DEDUCTIBLE MILEAGE RATES

<u>TYPE OF TRAVEL</u>	<u>2007</u>	<u>2008</u>
Business Mileage	48.5 cents	50.5 cents
Medical Mileage	20 cents	19 cents
Charitable Mileage	14 cents	14 cents
Job Moving Mileage	20 cents	19 cents

ESTATE (DEATH) TAX/GIFT TAX CREDIT

The Gross Estate “tax exemption” is \$2.0 million for individuals who pass away in **2008. In 2009, the Estate Tax exemption increases to \$3.5 million.** Remember, this is PER PERSON. For those who pass away in **2010** – it’s **“FREE”** of any death / estate taxes. (*MY guess is that this would most likely be tinkered with by Congress before then...*)

Gifts - are free from “Gift Tax” rules providing they are no more than **\$12,000** per person per year.

(Married couples can gift up to **\$24,000** per year per child, or to any other individual.)

SOCIAL SECURITY UPDATES

The Social Security “**wage base**” for the “**FICA**” Tax application increases in 2008 to **\$102,200** (Wow!). This is up from \$97,500 in 2007.

Social Security retirement benefits have been in a “transition period” of **lengthening** the age where retirees are eligible to begin collecting those earned “**full benefits**”. Those born in **1943** will turn **65** in 2008. However, they are unable to collect “**full benefits**” until they hit **66 years**. This will continue to extend out until those born **after 1959** (reach 67 years of age) are able to collect full benefits -- *Providing Congress doesn’t change the law again to extend it out even further...*

“Early retirees” can still elect to receive “**early benefits**” at age **62**; however **the benefits are significantly reduced forever...** Additionally, those who elect to collect reduced early benefits AND continue to work between **age 62 and 66** must be aware that their (part-time) earnings should not exceed **\$13,560**.

KEEP AN EYE OUT FOR MORE TAXES

If you are unaware of **Charlie Rangel**, Chairman of the House Ways and Means Committee, you best keep an eye on him. He has been proposing all sorts of tax (raising) plans and has the support of House Speaker **Nancy Pelosi**. One of his many taxing ideas is to eliminate the “AMT” Tax (nice, BUT) to pay for it would be a 4.0% “surtax” on couples who earn more than \$200,000 and on Individuals earning more than \$150,000 while increasing this surtax rate on those who’s incomes exceed \$500,000.

Additionally, he has floated ideas of:

- Eliminating State Income and Property tax deductions...
- Eliminating mortgage interest deductions for owning a second home...
- Restricting mortgage interest deductions to loans of no more than about \$350,000...

He clearly expects the “wealthy” to pay a much heavier tax burden. I don’t consider myself to be wealthy (WHO does!?), but these sure would hurt ME and MOST of MY clients!!

The Democrats, as an election year strategy, plan to keep a low-profile on these proposals for fear of the Republican candidates pointing this out. I predict MANY tax increases coming AFTER 2008 elections.

***Otherwise - Happy NEW YEAR !!
Chris Provencher, E A***