

ORW News

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News and information from
Oliver, Rainey & Wojtek, L.L.P._____

CERTIFIED PUBLIC ACCOUNTANTS

Accessible financial guidance for businesses and individuals

8 2007, Oliver, Rainey & Wojtek, L.L.P.



Year-End Tax Planning

With 2007 drawing to a close, now is an ideal time to review your financial situation and evaluate what strategies are available to help reduce your 2007 income tax bill. With a little advance planning, you may be able to minimize or defer some of your taxable income, and thus reduce the taxes you owe. While tax planning for any taxpayers must be customized to their particular circumstances, there are several fundamental tax planning techniques, as well as new changes to the tax laws, that may prove helpful. ***As always, we will mail all our existing clients a tax organizer (or a blank one to any of you that are new to our firm) during the month of January 2008.***

Maximize Retirement Savings

Amounts you defer into retirement accounts will save taxes in the current year. The limits on various types of retirement accounts increase each year and it is generally wise to maximize your contributions. Self-employed individuals should consider setting up a self-employed retirement plan.

Defer Income to 2008

By delaying taxable income you defer taxes. Therefore, look to even-out taxable income between 2007 and 2008 by accelerating or postponing transactions that either produce income or yield deductible expenses. Delaying taxable income may also prevent you from losing lucrative tax breaks that can be reduced or eliminated altogether as your income level rises. If you think that your adjusted gross income will be higher this year than in 2008, or if you predict being in the same or higher tax bracket in 2007, you may benefit by delaying receipt of taxable income until 2008.

Accelerate Income in 2007

Under certain circumstances, it may be more advantageous for you to accelerate income in 2007. If, for example, you need additional income in order to take advantage of offsetting deductions or credits that are set to expire by the end of 2007, or you project being in a higher tax bracket in 2008, you may want to consider accelerating your taxable income in 2007 rather than deferring it until 2008.

TAX DUE DATES

January 15, 2008

Form 1040-ES

Final estimate of 2007 estimated tax.

January 31, 2008

Form W-2

Copies of wage withholding and employer tax statements must be given to employees. (Form W-3 Transmittal and media due to the IRS no later than February 28 or April 2 if filed electronically)

Form 1099 Information Returns

Statements of non-employee compensation and recipients of interest, dividends and certain distributions must be given to recipients. (Form 1096 Transmittal and Copy A due to the IRS and Social Security Administration via magnetic media by February 28 or April 2 if filed electronically.)

Forms 940, 941

Federal unemployment, social security and withheld income tax

Forms 943

Social security and withheld income tax for farmers.

Form 945

Report of income tax withheld on non-payroll items including pensions and backup withholding.

March 17, 2008

Forms 1120, 1120S

Last day to file 2007 corporate tax returns for corporations or file **Form 7004** for automatic extension.

April 16, 2008

Form 1040, 1041, 1065

Last day to file 2007 income tax returns for individuals, trusts and partnerships or file **Forms 4868, 2758, or 8736** for automatic extensions.

Form 1040-ES and 1041-ES

First installment of 2008 estimated tax.



Alternative Minimum Tax (AMT)

For 2007, the AMT exemption amounts have been slashed to only \$33,750 for individuals and \$45,000 for married couples filing jointly. Whether Congress will pass yet another AMT “patch” or more comprehensive reform by year end makes tax planning more uncertain and complicated for so many taxpayers who may be hit by the AMT. Therefore, year end tax planning must include calculating your potential AMT liability. While it is anticipated that Congress will enact another round of temporary relief, there is no guarantee that this in fact will happen.



Extended Office Hours

During tax season, the offices of Oliver, Rainey & Wojtek have extended work hours from 8am to 6pm Monday through Friday and from 8am to 12pm on Saturdays, effective January 2008.

We understand the importance of using convenient meeting times to help meet the demands of your schedules. We are available for appointments at our office or at your place of business.

Determine your Deductions . . .

Accelerating or deferring income from one year also impacts your ability to take deductions. Deduction planning can be complicated, as your ability to take deductions depends on your filing status (i.e. single, head of household, etc.) as well as income level.

As your income level rises, your ability to claim deductions is reduced or eliminated altogether. Determine whether taking the standard deduction, or itemizing deductions, will put you in the best tax position. For 2007, the standard deduction rates are: Single (\$5,350); Head of Household (\$7,850) Married Filing Jointly (\$10,700).

If itemizing deductions may be more beneficial, remember that adjusted gross income limits on itemized deductions will affect your deduction planning. Consider "bunching" deductible expenses into one year or the next depending upon whether the standard deduction may be taken in one of the years, or whether the adjusted gross income limits for medical (7.5 percent) or miscellaneous itemized deductions (2 percent) may be more easily met.

Reminder: Personal and business deductions may be charged on a credit card in 2007 and deducted in 2007 even though they are not paid until 2008.

The 2007 Small Business Tax Act extends the reach of the "kiddie tax" by raising the age limit. This year, the kiddie tax rules apply to children under age 18; next year they will also ensnare most children age 18 and most full time students age 19 through 23. If your child holds appreciated stock or other assets, and isn't in kiddie tax territory this year but will be in 2008, consider having them sell the stock this year. In many cases this will result in a 5% tax on the gain, instead of 15% if the sale is postponed until next year.

Reminder: The "Kiddie Tax" causes children's investment (unearned) income to be taxed at their parent's rate, which is usually higher, if the amount of unearned income exceeds \$1,700 in 2007.

Businesses:

President Signs Small Business and Work Opportunity Tax Act

Small Business Tax Incentives

The *2007 Small Business Tax Act* targets nearly \$5 billion in tax incentives principally to small businesses but also to larger ones. It also includes tax incentives to help taxpayers recovering from Hurricane Katrina, as well as an important package of S-Corporation reforms. The small business tax incentives are designed to help businesses absorb the cost of higher federal minimum wage through dollar and investment limitations.

Section 179 Dollar Limitations - Under the new law, the write-off of equipment and other fixed asset purchases is increased to \$125,000 for tax years beginning 2007 through 2010. Note: 2007 may be the last year to write-off up to \$25,000 on the purchase of an SUV weighing between 6,000 and 14,000 pounds.

Employers

Federal wage increases were signed into effect on May 25, 2007 raising the minimum wage in three steps to \$5.85 per hour effective July 24, 2007. Rate increases to follow include \$6.55 per hour effective July 24, 2008 and \$7.25 per hour effective July 24, 2009. In compliance with the U.S. Department of Labor, posters with wage amounts can be obtained at www.wagehour.dol.gov.

Capital Gains and Dividend Income Tax Rates

If you have any capital gains or losses from sales of stock or other capital assets or you have stock or their capital assets that are ripe for sale, it may be advisable for us to meet to discuss how you can best coordinate timing your gains and losses to minimize tax on your gains and maximize the tax benefit from your losses. The following table shows tax rates applicable to capital gains and dividend income from now until 2011 provided there are no changes in the current law.

Description	2006-2007	2008-2010	After 2010
Capital gains rate generally	15%	15%	20%
Capital gains rate for taxpayers in the 10% or 15% income tax bracket	5%	0%	10%
Capital gains rate on five-year property	15%	15%	18%
Capital gains rate on five-year property for taxpayers in the 10% or 15% income tax bracket	5%	0%	8%
Qualified dividend rate	15%	15%	n/a
Qualified dividend rate for taxpayers in the 10% or 15%	5%	0%	n/a
Collectibles	28%	28%	28%
Unrecaptured gain on business buildings	25%	25%	25%

Estimate your AGI (Adjusted Gross Income)

A key component of fundamental tax planning involves estimating your 2007 and 2008 adjusted gross income. Estimating your AGI is essential because many tax breaks are tied to or limited by your AGI range. When you know your tax bracket, you can better predict the tax effects of certain planning strategies. You can get a good idea of what your 2007 AGI will be by looking at your 2006 income tax return and 2007 pay stubs.

2007 Rate Schedule (Based on Taxable Income)

Rate	Single	Head of Household	Married Filing Jointly	Married Filing Separate
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10 %	\$0 – 7,825	\$0 – 11,200	\$0 – 15,650	\$0 – 7,825
15 %	\$7,826 – 31,850	\$11,201 – 42,650	\$15,651 – 63,700	\$7,825 – 31,850
25 %	\$31,851 – 77,100	\$42,651 – 110,100	\$63,701 – 128,500	\$31,851 – 64,250
28 %	\$77,101 – 160,850	\$110,101 – 178,350	\$128,501 – 195,850	\$64,250 – 97,925
33 %	\$160,851 – \$349,700	\$178,351 – \$349,700	\$195,850 – 349,700	\$97,926 – 174,850
35 %	Over \$349,700	Over \$349,700	Over \$349,700	Over \$174,850

Texas Margin Tax



Texas has modified and expanded its franchise tax – transforming it into a dramatically different taxing structure. The creation of this “margin tax” is referred to by some as the largest tax increase in Texas history.

Carefully crafted to avoid imposing an income tax, which would require approval by the voting public, the legislation was enacted to offset a property tax reduction that resulted from a court-ordered change in the property tax scheme.

January 1, 2007 is the effective date for this change and returns will be due May 15, 2008. The rate started at 1% (5% for “wholesalers” and “retailers”) with discounts for companies with total revenue of less than \$900,000.

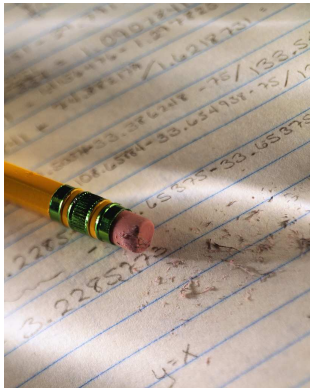
In terms of taxable entities and effected business, the margin tax will be imposed on many entities currently protected by Texas limited liability statutes. For example, entities subject to the tax will include limited partnerships, limited liability partnerships, professional associations and joint ventures. Exemptions exist for sole proprietorships, general partnerships composed of natural persons, passive entities, most tax-exempt organizations and insurance companies subject to gross premium taxes.

A tax system change this sweeping is bound to create winners and losers. The likely winners include capital intensive businesses, such as oil and gas companies, which will benefit from reduced property taxes. Manufacturers are likely to fare better than service industry companies due to their high cost of goods sold deductions. Sole proprietorships and passive entities now exempt under the margin tax should also emerge as winners.

Potentially disadvantaged under the margin tax will be service providers, especially those previously exempt under the franchise tax. Professionals such as lawyers, accountants and

architects are also likely to see increased liabilities. Similarly, businesses with high non-deductible costs – such as transportation and rental companies – are also likely to fair poorly under the margin tax. Lastly, limited partnerships that fail to qualify for passive entity status are likely to see an increase in Texas taxes.

Significant planning opportunities exist. Please give us a call. We can assess your individual situation and identify opportunities created by this new legislation. In addition to explaining implications of the law, we can assist with implementing and properly documenting any tax changes.



Oliver, Rainey & Wojtek now offers Business Process Consulting

What is a Business Process? This term describes a broad range of accounting procedures within a business that function together and result in the overall accounting output. Examples include:

- 1 Accounts Receivable
- 2 Accounts Payable
- 3 Payroll Setup and Processing
- 4 Inventory Design and Maintenance
- 5 Quarterly Tax Processing
- 6 Sales Tax Processing
- 7 General Ledger Maintenance
- 8 Internal Controls
- 9 Fraud Protection and
- 10 Monthly Financial Reporting

By involving those in the business who are most familiar with the these processes, we can identify and improve product, service delivery and information flow gaps and eliminate non-value added processes, antiquated or redundant steps, ineffective process flow, and other process gaps that lead to wasted time and resources. We provide planning, analysis and recommendations that accomplish results. We offer customization of reports, processes, and schedules tailored to best meet goals specific to your organization. Please call one of our Partners if you believe these services may be helpful to you.

Let Us Help You with your Sales & Use Tax Issues Before You Hear from a State

Auditor

The complexity of sales tax issues is increasing as businesses expand services across the borders of their home state and increase the volume of business transactions over the internet. At the same time, states are generally increasing the complexity of the taxation laws and audits of taxpayers as they seek tax revenues to fuel the cost of running state governments. We are here to help. Let us perform an internal analysis on your business. We can help you determine if you:

- 1 Are meeting your tax obligations
- 2 Have correctly identified which transactions are taxable
- 3 Can increase efficiency when tracking, collecting and submitting Sales and Use Tax
- 4 Are claiming the exemptions/exclusions your company is entitled to
- 5 Are not overpaying/underpaying Sales and Use Tax
- 6 Are "audit ready"

New – QuickBooks Classes

In our firm, we have seen an increased demand for personalized local QuickBooks services.

We believe QuickBooks will continue to be a prevailing leader in small business accounting software and the need for trained users will build exponentially as the acceptance of QuickBooks as a viable accounting package expands. However, what a large number of businesses discover is that experienced users do not always translate into trained users. Experienced users are those that have used the program to the best of their abilities for a certain amount of time. Trained users are those that have extensive knowledge and understanding of the program.

Our one-day classes are designed for true hands-on training of the attendees. The samples and processes taught mirror those used in businesses everyday. We instruct using a sample data file along with sample paperwork from a typical business setting. By using actual examples, students gain a sense of security in knowing how to process daily activities, an actual understanding of the process, and a contact for continued, local support when needed. Our classes are instructed by a Quickbooks Certified Professional in a local classroom environment and followed up with support services.

In addition to classes, we offer:

- 1 Installation and setup
- 2 Data and software conversion
- 3 Data evaluation
- 4 Data cleanup
- 5 Point of Sale
- 6 Setup
- 7 Training
- 8 Support
- 9 Ongoing support

Classroom sessions are now being formed and class size is limited. Register today by contacting Cecily Miller at (325) 942-6713 or by emailing cecily@orwcpa.com.

Tax laws remain onerous and ever changing. Following are some notable bits of information that may help you to make some tax-saving decisions or just help prepare you for your next tax return. We are available at anytime to help you with your tax or other financial needs.

Individuals

The sales tax deduction was extended for one more year – 2007. You are allowed the greater deduction of actual sales taxes paid, provided you have receipts to back up the amounts, or the amount from IRS tables with sales tax paid on vehicles, boats, motor homes, airplanes, mobile and prefabricated homes, and substantial home improvements added.

If you purchased a home in 2007 and paid premiums for qualified mortgage insurance, you may be entitled to an additional deduction. Bring us a copy of your closing statement with your tax data in 2008.

Parents and students paying college tuition are eligible for either a credit or deduction. Be sure to provide us with your form 1098-T forms.

If you turn age 70 on July 1, 2007 or later, you are not required to begin your minimum required distributions from your IRA until April 1, 2009. You are not considered to be age 70½ until January 1, 2008. Minimum required distributions from your IRA must begin no later than April 1 of the year following the year you reach age 70½. The opportunity for taxpayers who reach age 70 ½ to make a donation of up to \$100,000 from their regular or Roth IRA is still available this year but is scheduled to expire December 31.

More restrictions on charitable contributions take effect this year. First, you must have a written receipt or other documentation for all contributions, regardless of the amount. A cancelled check or other bank record will validate contributions for less than \$250 but not for those that are \$250 or more in a single day to one organization. The higher level contribution will require a written acknowledgement from the recipient. Second, noncash contributions of household items must be in "good or better" condition to qualify for a deduction. A single household item valued at \$500 or more qualifies as a deductible contribution regardless of its condition, provided you obtain a qualified appraisal of the item.

The deduction for teacher's out-of-pocket costs up to \$250 was extended to 2007. Aides, counselors, principals and other eligible educators who worked at least 900 hours in a school qualify but home-school teachers do not.

Certain energy efficient improvements to your existing home may qualify for a lifetime tax credit of up to \$500. The credit applies to expenses paid through the end of 2008.

The hybrid vehicle credit is no longer available for vehicles manufactured by Toyota (including the Lexus) but is still available for the IRS-approved Honda, Ford, GM, and Nissan vehicles.

Gifts

You can save gift and estate taxes by making gifts sheltered by the annual gift tax exclusion before the end of the year. The maximum exclusion is \$12,000

per gift.

Employers

The Texas Workforce Commission is encouraging employers to begin filing taxes electronically by using TWC's free online tool (Employer Tax Information Online or QuickFile) or by using approved magnetic media. Effective July 1, 2007, employers who have filed a report on more than nine (9) employees in any one calendar quarter must file the Employer's Quarterly Report (Form C-3) electronically instead of using paper forms.

Retirement and Health Issues

If you offer a Roth 401(k) to your workers, take note of a glitch in the law. It bars employees with adjusted gross incomes over \$100,000 from rolling the funds in their Roth 401(k) accounts over to a Roth IRA. This curb applies through 2009. Lawmakers should fix the problem this year. Note that rolling a payout into an IRA first and then converting it to a Roth IRA won't get around the problem if your gross adjusted income exceeds \$100,000.

You may be allowed to make a one-time transfer of an amount from your health flexible spending arrangement (Health FSA) or your health reimbursement arrangement (HRA) to your health savings account (HSA). This rollover option is only available until December 31, 2011. Also, beginning this year, but for only one time in your life, you may withdraw funds from your IRA and transfer them tax-free to your HSA. The amount is limited to the maximum deductible HSA contribution for the type of coverage (individual or family) in effect at the time of the transfer.