

## HARE-RAISING ADVICE

### A Message from Joe Hare, CPA

Problems are wake-up calls for creativity! How true, if you happened to be my staff and me this past April 16th. You probably recognize this date as the eve of this year's tax deadline. But we also remember this date as an untimely Act of Mother Nature – a Nor'easter rain storm caused a power outage ... for E I G H T hours! Talk about terrible timing!

### Beat Goes On

We didn't let this disruption affect us. After all, we were in our newly refurbished office and we had major deadlines! We got generators and proceeded with our work and didn't miss a beat.

### Prepare for Unexpected

This experience taught us many lessons that we'd like to share with you. Of course none of us has a crystal ball to predict the weather or untimely interruptions, but we all need to be properly prepared for the unexpected.

We can all work together to avoid the crunch—otherwise known to us as “workload compression”—during the last weeks of tax season, and here's how:

1. Gather all of your documents EARLY and drop them off EARLY even if you are waiting for a few items. That way we can start the process and then hold it (if necessary) for any amended documents or late information.

For example, this year there was a delay in 1099 reporting, so many clients waited until they had the corrected 1099 to give us ALL their tax materials. Contrary to what you may think, partial info in EARLY is better than ALL of the items in at the last minute.

2. If you wait until the last four weeks of tax season to drop off your information, be open to the possibility that we MAY have to file an extension.

### What Can I Do?

While I sincerely hope this tax season's rain storm and power outage never repeats itself, I will commit to reviewing scheduling options to improve work flow. *Take that, Mother Nature!*

## Good News for Small Business Owners

Under IRS code, Section 179, small business owners can choose to deduct their purchases of certain FIXED assets—computers, equipment and machinery—in the year those items are purchased AND utilized, instead of having to spread the costs over several years.

The impact of new legislation—indexed for inflation through 2010—is as follows:

1. The maximum amount that may be expensed for 2007 has been increased from \$112,000 to \$125,000.
2. The provisions' phase-out threshold has been raised from \$400,000 to \$450,000.

In this case, change *is* good!

## Update on 529 Plans

As we reported in our previous issue, you will receive a state tax deduction for contributions to a QUALIFIED tuition account program. To build the fund, we suggest you automatically deduct a set amount from your checking account each month.

Let's say you contribute \$100 a month. At tax time, you'll save approximately \$37 in PA state income tax.

These programs will be gaining in popularity because of:

1. Last fall's legislation signed by Governor Rendell.
2. Recent changes in the “kiddie-tax” law (See page 1).

Even though contributions to 529 plans are made with after-tax dollars, the money can be withdrawn TAX-FREE for college, and therefore does NOT have to be reported on income tax returns.

## “Taxing” Issues: AMT, EMS, EIT, PIT, ACT 1

When you hear or read that “a situation is ‘taxing’,” it means burdensome. You can certainly understand the word origin. Not only are many taxes confusing and conflicting, but some are downright taxing.

Below, we share with you the latest taxing updates.

### AMT Tax

In my opinion, the AMT is a ticking time bomb. We need to fix this **permanently** and not tweak it for political gain. Congress needs to act by the end of this year on the inflation-indexed component of AMT computation. If not, many in the middle class will have an unexpected tax to pay next April. How much? Anywhere from \$1,000 to \$10,000 and up.



### JUST OUT! Changes to the EMS Tax

As we were going to press legislation was passed reforming the EMS tax. Renamed the “Local Services Tax,” this term more accurately reflects how the money will be used. The reforms will primarily benefit those who earn LESS than \$12,000/year who now will pay no more than \$1/week rather than a \$52 lump sum payment. You may be exempt from this tax if you expect to earn \$12,000 or less, but you'll need to prove it.

### EIT, PIT and ACT 1

By now you're aware Act 1 is dead (rejected by nine out of ten jurisdictions) and generally, most agree this is good news. Why? For numerous reasons that are far reaching. But for now, let's look at how our southern neighbors (Maryland and Virginia) handle their local taxes and we may learn a thing or two. First off, their LOCAL taxes are collected at the STATE level and returned to the LOCALITIES. Furthermore, they have uniformity and efficiency in **both** collecting and reporting. Why can't we?!

Did you know we have approximately 500 school districts and over 2,000 municipalities in the state of Pennsylvania? Each municipality has its own tax collector and each one could levy an EIT and force you to file THEIR form. Here's what we need in a nutshell:

- ✪ To design a UNIFIED local tax form.
- ✪ To develop an EFFICIENT collection system.

Regardless of how you feel about these taxes, currently the system is “taxing” to everyone. Contact your local rep and express your concern.

**If you wish to write your state representative about these “taxing” issues, we have compiled some letters for your use. Go to [www.protaxinc.com](http://www.protaxinc.com).**