

1040 news

MARCH 2008

IRS AUDITS ON THE RISE

Per the March 2008 edition of *The Practical Accountant*, the total individual returns audited increased by 7%, to 1,384,563, in 2007. This was the highest number of audits since 1998. The income group experiencing the highest increase in audits was the individuals with incomes of \$1 million or more. During 2007, one out of eleven individuals with incomes of \$1 million or more faced an audit, or 31,382 individuals.

As for businesses, the audits of S corporations increased to 17,681 during 2007, up 26% from the prior year. Similarly, the audits of partnerships increased to 12,195 during 2007.

OHIO INCOME TAX

NEW FOR THE 2007 FILING SEASON

- **Lower tax rates:** The 2007 tax tables include a 4.2 percent cut across all income tax brackets. The rate cuts mark the third year of a five-year plan to reduce state income tax rates by 21 percent across all brackets.
- **Larger personal exemption:** The personal and dependent exemption increased to \$1,450 for the 2007 tax year, up from \$1,400 for 2006.
- **Military Pay:** An Ohio resident service member can exclude military pay and allowances received while stationed outside of Ohio. The exclusion is for Ohio income tax; however, the amount must be included in the federal adjusted gross income.

OHIO'S RANKING IN TAX BURDEN

According to a recent report published by the Federation of Tax Administrators, the Ohio tax burden fell to 38th in the nation when ranked on a per capita basis. This represents a decline from 2005, when Ohio was ranked 27th. Additionally, the report indicates that Ohio's per capita state tax burden is now lower than any of our neighboring states; the closest, Indiana, is ranked 35th.

The Ohio Tax Commissioner, Richard Levin, said the decline in the ranking is a direct result of the tax cuts enacted in 2005 by the Ohio General Assembly and embraced by Governor Ted Strickland.

Economic Stimulus Act of 2008 Taxpayer Rebate

Over 130 million American households will be receiving a letter from the IRS reminding them to file a 2007 tax return in order to obtain a tax rebate. All eligible individuals are entitled to a tax rebate per recent enactment of the *Economic Stimulus Act of 2008*. **For more details, look for our special mailing regarding eligibility requirements, payment dates and tax return implications.**

TAX SEASON HOURS

Through Saturday April 12th, we will maintain our extended tax season office hours:
Monday – Friday 8:00-5:00
Saturday 9:00-3:00

We also have an "After Hours Drop Box" which is located just to the right of our glass doors.


Whalen & Company
C P A S
and consultants

NEW TAX LAWS

New laws with important tax changes were enacted in late December 2007.

The **Alternative Minimum Tax** relief for 2007 increases the maximum AMT exemption amount over the 2006 level by \$3,700 to \$66,250 for married taxpayers filing joint returns and by \$1,850 to \$44,350 for unmarried individuals and married persons filing separately.




The **Mortgage Forgiveness Debt Relief Act** excludes debt forgiveness income on a qualified principal residence from taxable income if occurring on or after January 1, 2007 and before January 1, 2010. Additionally, it allows for a deduction for **mortgage insurance premiums** to be extended through December 31, 2010.

A surviving spouse may exclude up to \$500,000 of **gain on his/her principal resident** if sold within two years of the deceased spouse's date of death.

IRS ANNOUNCES 2008 MILEAGE RATES

The IRS has released the 2008 optional standard mileage rates which are used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning January 1, 2008, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

-  50.5 cents for business miles driven
-  19 cents for medical or moving purposes
-  14 cents for charitable miles driven in service

WEB SITE FOR HOMES LOST DUE TO FORECLOSURE

The IRS recently added a new section to their Web Site for people who have lost their homes because of foreclosure. There are special relief programs designed to reduce or eliminate tax consequences associated with losing a home. The Web Site includes a worksheet to assist borrowers in determining whether any of the foreclosure-related relief provisions apply to them. Additionally, there is information to aid taxpayers in requesting a payment agreement with the IRS. For more information, visit www.IRS.gov.

SEASONAL TAX STAFF PROVIDES EXPERTISE

At Whalen, we are fortunate to have a talented and experienced group of professionals who provide us with assistance during each tax season. The returning seasonal tax professionals have an average tenure at the firm of seven years.

According to partner, Richard Crabtree, "the seasonal staff undergo ongoing continuing education as well as rigorous pre-tax season training that enhance and re-fresh their skills. They bring a wealth of experience to the firm and are instrumental in the success of each tax season at Whalen."

The firm believes strongly in maintaining the tax preparation services in house. Many firms have resorted to international outsourcing (for example, utilizing a third party who has tax preparers in India). Whalen & Company, CPAs has made a conscience decision *not* to outsource return preparation outside of the firm. Our talented and select group of professionals helps us accomplish this goal.

We are very proud of our Tax Department and are happy to share the experience level we offer to you, our clients.

	<small>Years with Whalen & Co</small>
Richard Crabtree, Tax Partner	23 years
Patrick McClary, Tax Manager	4 years
Karen Botti, Tax Staff Manager	13 years
Patti Carey, Tax Specialist	2 years
Ann Knouff, Tax Specialist	1 year
Seasonal Tax Specialists	
Lindagrace Hickey	28 years
Trish Callis & Carolyn Royer	8 years
Karen Barr	6 years
Tax Administration	
Susan Ryzko	21 years
Marilyn McGuire	3 years

Strategy for 2008

Retirement Planning is important for all of us.

Make note that the IRA contribution limit rises to \$5,000 for 2008. For those over 50 years of age, the IRA contribution limit is now \$6,000. For 401(k) Plans, the contribution limit is \$15,500. For those over 50 years of age, the contribution limit is \$20,500.

New in 2008, you can authorize a direct rollover from your qualified retirement plan, such as a 401(k) or 401(b), into a Roth IRA. Taxpayers with adjusted gross income over \$100,000 are ineligible. It is important to be aware that with such a rollover comes income tax responsibility.

Consider the favorable impact of contributing to your plan at the beginning of the year to give your money more time to grow.

Investment Strategy is very individualized.

New in 2008, the long term capital gains rate is 0% for those in the 10% and 15% tax brackets. Remember that capital losses may offset capital gains dollar-for-dollar and other income up to \$3,000.

Additionally, the “wash-sale rule” prevents deduction of a loss on securities purchased 30 days before or after their sale.

Because both taxes and capital gains rates are low right now, make careful consideration of “like-kind exchanges” to defer gains on the sale of business or investment property.

The new “kiddie tax” rule may require a full-time student age 23 and younger to pay tax on unearned income over \$1,800 at their parents’ higher tax rate. In the past, the rule applied to students age 17 and younger. A popular college saving strategy was to shift assets to a child’s account. This change in the “kiddie tax” makes this savings approach less appealing. An alternative may be a 529 College Savings Plan, where the funds grow tax-free. Withdrawals for qualified post-secondary education costs are also tax free.

A Whalen Associate is available for your individualized tax planning. Call us at 614/396-4200.



Visit our Website at www.whalencpa.com

HOMESTEAD EXEMPTION NEWS RELEASE

The Ohio Department of Taxation has announced that the county auditors are now accepting applications for the expanded exemption, in which senior and totally disabled homeowners can shield \$25,000 worth of the market value of their home from property taxes. The new application period began on January 8 and will continue until June 2, 2008. This application will apply to property taxes for 2008, which are paid in 2009.

If you missed the October 1st deadline to claim the exemption for 2007, the new application includes a box, “Late application for prior year” that taxpayers may check.

OHIO RESIDENCY GUIDELINES

Ohio imposes income tax on all income of resident individuals but only imposes tax on the income of nonresident individuals that is earned or received in Ohio.

Thus, you are considered a resident of Ohio if you lived in Ohio for the entire year even if you were away temporarily. If you lived outside of Ohio all year, you are a non-resident. A part-year resident is defined as someone who either moved into or out of Ohio during 2007, not counting being away temporarily.

To be classified as a full-year non-resident, five conditions must be met.

- (1) During the entire taxable year you had at least one abode outside of Ohio,
- (2) You spent no more than 182 contact periods in Ohio during the taxable year,
- (3) You were not a part-year resident of Ohio during the taxable year,
- (4) You will file the affidavit of non-Ohio domicile by May 30th, and
- (5) The affidavit will contain accurate information. The required affidavit can be found at <http://tax.ohio.gov>