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TMA Report

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FISCAL WAKE UP CALL FOR AMERICA

Last November, the Fiscal Wake Up Call for America Tour stopped in Seattle, co-sponsored by the Washington Society of Certified Public Accountants (WSCPAs). David Walker, Comptroller General of the United States and head of the U.S. Government Accountability Office (GAO), is leading the tour across the country with the mission of educating Americans about our nation's true financial condition. Walker is sounding the alarm about an impending fiscal meltdown that endangers the prosperity of our country and the future of our children and grandchildren.

The future will require many hard choices to be made, due to the country's large (and growing) fiscal imbalance. Social Security, Medicaid, and Medicare are not sustainable in their present forms. Medicare has an unfunded obligation of over \$30 trillion. The GAO calculates the present value of our country's "estimated fiscal exposures" to be about \$46 trillion. Interest payments on the federal debt each year are about double the cost of the war in Iraq. Aging baby boomers will further burden the retirement and health care systems.



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2007 SMALL BUSINESS TAX ACT

The Small Business and Work Opportunity Act of 2007, signed into law on May 25th, is good news for small businesses, but the revenue raisers to pay for the tax cuts may be bad news for individual taxpayers. The small business provisions are designed to help businesses absorb the cost of a higher federal minimum wage, which will increase from \$5.15/hr to \$7.25/hr over the next two years. The nearly \$5 billion in tax cuts over the next 10 years is expected to be paid for by tax increases in various areas.

Revenue raisers include changes in the kiddie tax. Until last year the kiddie tax applied to children under the age of 14 with unearned income. In 2006, the age was raised to under 18. The new law raises it to under age 19 (under age 24 for full-time students). Fortunately, unlike last year, the change is not retroactive, and taxpayers have until December 31, 2007 to adjust their tax planning. This is especially important if you or your child are planning to use investment assets to pay for tuition.

Business tax incentives include:

- Extending and expanding small business expensing to \$125,000 per year.
- The Work Opportunity Tax Credit to encourage employment of challenged individuals, targeting individuals receiving public assistance, high-risk youth, ex-felons, veterans and individuals in rural renewal counties.
- Preservation of the FICA tip tax credit.
- A package of S corporation reforms.

If you have any questions about the Small Business and Work Opportunity Tax Act of 2007, please give us a call today. We can sit down and review in detail the new law and how it affects you. ♦

SPEEDING UP YOUR PROPERTY'S WRITE-OFF WITH A COST-SEGREGATION STUDY

A cost-segregation study is a tool that enables taxpayers who currently own, are building or remodeling, or who are purchasing real estate to take advantage of earlier depreciation for cash flow benefit.

Prior to 1981, taxpayers could depreciate each component of a building separately (exterior depreciated over 40 years, roof over 20). The Economic Recovery Act of 1981 required all taxpayers to depreciate new or used real estate over 15 years with no componentizing. The Tax Reform Act of 1986 changed the depreciation time to 31.5 years for nonresidential property and to 27.5 for residential property. Today, it is 39 years for nonresidential property. As a result, real estate owners are now stuck with a long depreciation life with no ability to componentize.

Cost-segregation studies allow a property owner to identify (and thus reclassify) assets installed in a building using the modified accelerated cost recovery system (MACRS). These studies allow the taxpayer to depreciate these items over a much shorter time, ranging from three to twenty years (usually five, seven or fifteen), and can be performed on just about any property type, including office buildings, hotels, manufacturing facilities, warehouses, restaurants, automobile dealerships, etc.

To identify the segregated costs between building and personal property, six criteria are used:

- 1) Can the property be moved, and has it been moved?
- 2) Is the property designed or constructed to remain permanently in place?
- 3) Are there circumstances that show that the property may or will have to be moved?
- 4) Is the property readily movable?
- 5) How much damage will the property sustain when it is removed?
- 6) How is the property affixed to the land?

Using these criteria, assets such as carpeting attached to the floor with latex adhesive (easily removed), vinyl floor and wall coverings can be reclassified and depreciated over only five years.

Taxpayers must have appropriate documentation to reclassify with a cost-segregation study which supports the claim that part of an investment in a building is

eligible for depreciation under MACRS. A proper study will include the following:

- ✓ A review of architectural/engineering drawings and specifications to determine structural versus nonstructural components of the building.
- ✓ An onsite visit and inspection of the property.
- ✓ Discussions with the engineers and contractors regarding the purpose and function of the property and related equipment.
- ✓ Review of invoices and analysis of all costs.
- ✓ Allocation of indirect costs to project assets.
- ✓ Classification of final costs.
- ✓ Authority for allocations made.

Another advantage is that there is no closed year for this benefit. Taxpayers can use a catch-up depreciation deduction to be claimed in the year the study is completed, for assets purchased, built or remodeled in earlier years. Look-back studies can identify personal property that would have qualified as well.

With such benefits, it is expected that many will take advantage of this tax-deferral strategy. The IRS demands the highest level of professional expertise in performing these studies. ♦



ANNUAL NOTICES FOR SMALL NONPROFIT ORGANIZATIONS

Small nonprofit organizations (annual receipts of \$25,000 or less) are exempt from filing an annual tax return. Beginning in 2008, however, they will need to file an annual notice with the IRS. There is no monetary penalty if the organization fails to file the annual notice, but if the organization fails to file the notice three years in a row their exemption will be revoked. ♦

FISCAL WAKE UP CALL

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This generation is bestowing to their descendents budget deficits, crushing national debt and staggering unfunded liabilities from entitlement programs.

Walker says our future challenges are about more than just numbers and dollars. Rather it's more about values and people.

To bring Americans out of the dream-world, the WSCPA has a financial literacy program covering subjects such as: budgeting, investing, credit cards, and the benefits of education. Another tool is the 360 Degrees of Financial Literacy website (www.360financialliteracy.org). This web site offers information on managing your personal finances and has timely articles, including a video interview of David Walker on *60 Minutes* with his prescription for how the U.S. can heal Medicare while remaining financially strong. One link takes you to Ask The Money Doctor, where you can pose a question for help regarding personal financial matters. Another link, called Life Stages, focuses on financial issues pertinent to specific age groups, such as "Caring for Your Aging Parents" for the Sandwich Generation. Or you can check out "Deciding what to do with your 401(k) plan when you change jobs" in the Career section. ♦

PAPERLESS IN SEATTLE

How good are you at hiding private information from identity thieves and hackers? How safe is your computer? Are you so careful that even your family would not be able to locate your financial records and accounts, but your data could be lost with one miss stroke on the keyboard? Even in a paperless world, some things need to be written down. The information you will need to share includes your assets, location of safes or safe-deposit boxes, your estate-planning documents, passwords, and a list of all the people your heirs will need to contact, such as lawyers, accountants, executors or guardians to care for any minor children. Explain where to find your will, trust documents, life insurance policies, power of attorney, and other estate documents.

To preserve your information, periodically back up your computer data externally. USB flash drives are easy, inexpensive and very portable (available for as little as

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NOT FOR PROFIT CORNER

RECORDKEEPING REQUIREMENTS FOR CHARITABLE CONTRIBUTIONS

The following documents and receipts are now required for contributions reported on annual tax returns:

Cash contributions of less than \$250

To be deductible, the donor must have bank records, cancelled checks or written communication from the charity that includes: name of charity, date and amount of contribution.

Non-cash contributions

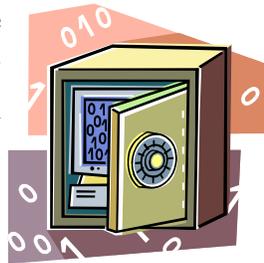
Donations of clothing or household items must be in good used or better condition. The IRS can deny a deduction for items with minimal monetary value. These requirements do not apply if the item is valued at more than \$500 and the taxpayer includes a qualified appraisal with the tax return. For donations valued at less than \$250, the donor must generally obtain a receipt from the charity with the following information: name of charity, date and location of the gift, and description of the property donated. If obtaining a receipt is impractical, the donor must keep reliable written information about the contribution.

All contributions of \$250 or more

The donor must obtain a receipt from the charity containing the following information: whether the donor received any goods or services in exchange for the contribution, and a good faith estimate of the value of any goods or services received in exchange for the contribution. ♦

NEW REQUIREMENTS FOR CONTRIBUTIONS TO CHARITIES THROUGH PAYROLL DEDUCTIONS

The Pension Protection Act of 2006 changed the recordkeeping requirements for taxpayers claiming deductions for cash contributions to charities, including contributions made by payroll deductions. Starting January 1, 2007, taxpayers who make charitable contributions by payroll deductions should retain a pay stub, Form W-2, or other document furnished by the employer that shows the total amount withheld for payment to the charity, along with the pledge card that shows the name of the charity. Without this proof, the donor might lose the deduction. ♦



PAPERLESS IN SEATTLE

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\$25 a gigabyte). Store your backed-up data in a fire-resistant safe and/or a safe-deposit box. Another option is to burn your data onto a recordable CD or DVD. These can last for decades as long as they are stored in a location that will protect them from significant changes in temperature and humidity. For an annual fee you can store your data in safe off-site locations. You can get the service for free from internet service providers such as Yahoo and AOL, but these offsite storage providers may not be secure enough for your financial records.

There are ways of recovering data that has been lost to a dead hard-drive, but at a significant cost. In this case, prevention is the best cure, so back up, store safe, and provide your heirs with the information they will need. ♦



CHEAP ADVICE

Low-cost and free financial services are now becoming available for consumers to help put together a financial plan. Some financial firms require investors to have an account before giving out free recommendations, but there are now a few free on-line tools that may be just as helpful. You may want to consult some of these tools in coordination with your financial advisor.

Free

Morningstar (www.morningstar.com) – An online tool, called Portfolio Manager, to analyze your holdings to see if they are properly diversified. Recommends changes and suggests funds.

Charles Schwab (www.schwab.com) – Goal Planner is a customized report with suggested asset allocations put together by a personal adviser. Free for clients and prospective clients.

Fidelity (www.fidelity.com) – With an online tool called Portfolio Review, you can get an analysis of your portfolio and recommendations on investments that include Fidelity and third-party mutual funds. Free for clients and prospective clients.

Low-cost

T. Rowe Price (www.troweprice.com/advisoryservices) – An adviser will put together a customized retirement plan and portfolio assessment that is based on responses to a questionnaire. Clients get free reviews. Cost: \$250. Fee is reimbursed for clients who bring \$100,000

in new assets to the firm and is waived for existing clients with a minimum of \$500,000 invested.

Other resources

Many 401(k) plans offer workers access to advice, free or at a discount, through online computer programs. For do-it-yourselfers, Schwab has the Portfolio Checkup tool that analyzes holdings at Schwab and elsewhere, providing investment recommendations. Fidelity Investments also has free website tools for saving for retirement and a tool to help ascertain how much investors can spend in retirement.

Our website (<http://www.tma-cpas.com/tools.html>) also has these financial tools:

- Personal Finance
- Debit and Credit Cards
- Retirement Calculators
- Business Calculators
- Savings Calculators

ALWAYS FEEL FREE TO CONTACT US!

Call or e-mail us with your ideas for future articles on topics of interest or with names of others who may want to receive *TMA Report*. Also note that previous issues of all our newsletters, which include *On The Not-For-Profit Front* and *Small Business Outlook*, are included in the newsletter section on our website.

THE MYERS ASSOCIATES, P.C. STAFF DIRECTORY

Following is a listing of our e-mail addresses and telephone extensions. To reach us, dial (206) 623-6116, wait for the greeting and press the extension of the person you would like to reach.

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