

The NOHRE REPORT

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ECONOMIC STIMULUS ACT CASH REBATE PROVISIONS FOR INDIVIDUALS

On February 13, 2008, President Bush signed H.R. 5140, the "Economic Stimulus Act of 2008," into law. The Act provides for a refundable recovery rebate credit for 2008 to eligible individuals, including retirees receiving only Social Security income and dis-

abled veterans and their survivors. An advance rebate of this credit (based on information in taxpayers' 2007 returns) will be sent to most taxpayers during 2008 by check or direct deposit. The minimum credit for those qualifying is \$300 (\$600 for a joint return), and the maximum is \$600 (\$1,200 for a joint return).

The taxpayer's rebate credit equals the greater of:

- (1) his net income tax liability up to a maximum of \$600 (\$1,200 for a joint return); or
- (2) \$300 (\$600 for a joint return) if either:
 - (a) his qualifying income is at least \$3,000; or
 - (b) his net income tax liability is at least \$1 and gross income is greater than the sum of the applicable basic standard deduction amount and one personal exemption (two personal exemptions for a joint return).

There is an additional \$300 for each qualifying child for whom the child tax credit can be claimed. This is generally a child under age 17 at the end of the year.

Most taxpayers will receive the maximum rebate. The rebate is phased out for taxpayers with AGIs starting at \$75,000 for singles and \$150,000 for a joint return. The amount of the reduction in the rebate is 5% of any income over the \$75,000 and \$150,000 levels applied against the rebate. Examples of the rebate phase-out are as follows:

Illustration: A married couple filing jointly with two children has AGI of \$160,000, and net tax liability of over \$1,200.

Their rebate is \$1,300: [\$1,800 (i.e., \$1,200 basic + \$600 children rebate) - \$500 phase-out (i.e., 5% × (\$160,000 - \$150,000))]. (Treasury Fact Sheet)

Illustration: A single parent with two children has AGI of \$90,000, and net tax liability of over \$600. Her rebate is \$450: [\$1,200 (i.e., \$600 basic + \$600 children rebate) - \$750 phase-out (i.e., 5% × (\$90,000 - \$75,000))]. (Treasury Fact Sheet)

When Can You Expect Your Check?

Economic stimulus payments will be issued according to the last two digits of the main filer's Social Security number. People who use direct deposit also will be among the first to receive their payments starting May 2. Paper checks will be put into the mail starting May 16.

People who file after April 15 will receive their rebate, but probably later than the scheduled date. In order to receive a payment this year, a return must be filed by October 15.

Direct Deposit

<u>Last two SSN digits</u>	<u>Payment will be transmitted</u>
00 through 20	May 2
21 through 75	May 9
76 through 99	May 16

Paper Check

<u>Last two SSN digits</u>	<u>Payment will be mailed by</u>
00 through 09	May 16
10 through 18	May 23
19 through 25	May 30
26 through 38	June 6
39 through 51	June 13
52 through 63	June 20
64 through 75	June 27
76 through 87	July 4
88 through 99	July 11

ECONOMIC STIMULUS ACT PROVISIONS FOR BUSINESSES

Boosted Section 179 Expensing

Under prior law, taxpayers can expense up to \$128,000 for 2008 (as indexed for inflation). This annual expensing limit is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during 2008 exceeds \$510,000 (as indexed for inflation). The amount of the expensing deduction is limited to the amount of taxable income from any of the taxpayer's active trades or businesses. For tax years beginning in 2008, the Stimulus Act will increase the \$128,000 expensing limit to \$250,000 and boosts the overall investment limit from \$510,000 to \$800,000.

Bonus First-Year Depreciation

Bonus first-year depreciation was first allowed following the terrorist attacks of 2001, but under current law generally isn't available for property acquired after 2004. The Stimulus Act generally permits a bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property acquired and placed in service after December 31, 2007 and before January 1, 2009. The otherwise applicable "luxury auto" cap on first year depreciation will be increased by \$8,000 for vehicles that qualify.

The types of property eligible for bonus depreciation will be the same as those eligible under earlier bonus depreciation packages:

- (1) tangible property with a recovery period not exceeding 20 years;
- (2) purchased computer software;
- (3) water utility property; and
- (4) qualified leasehold improvement property.

Bonus depreciation will be allowed for alternative minimum tax (AMT) as well as for regular tax purposes.

These business depreciation rates do not apply to the various states until they pass their own laws to adopt these faster depreciation rates.

It's just an inch---

27.002 inches is the maximum circumference of a ball in professional bowling.

28 inches is the maximum circumference of a ball in Olympic soccer (minimum is 27 inches).

30 inches is the maximum circumference of a basketball, according to NBA rules (minimum is 29-1/2 inches).

PAYING INDIVIDUAL ESTIMATED TAXES

The federal and state income tax systems are "pay as you go" systems. In general, you're required to pay tax over the course of the year rather than waiting until April 15.

Most people meet the requirement by withholding tax from their wages or retirement accounts. If you have significant amounts of investment income or other types of income that aren't subject to withholding, you may incur a penalty if you don't make quarterly payments of estimated tax or adjust your withholding allowances.

To avoid underpayment penalties the general rule is you must make estimated tax payments if your withholding doesn't cover 90% of your 2008 tax liability, with the following exceptions:

- 1) No estimates are required if the amount due after subtracting withholding and credits will be less than \$1,000 for federal and \$500 for Minnesota; or
- 2) No estimates are required if your withholding and credits are equal to your prior year's tax.

However, if your adjusted gross income (AGI) for 2007 was more than \$150,000 (\$75,000, if married filing separately), then your withholding and credits must be equal to 110% of your 2007 federal and state tax liability.

Estimated tax payments are to be made in four equal payments. If the total tax paid through withholding and estimated tax payments does not meet one of the exceptions, underpayment penalties will apply.

The current penalty rate is 7% for federal, 12% for Wisconsin and 8% for Minnesota and is calculated only on the amount that should have been paid to meet one of the exceptions.

Estimated payment due dates for 2008 taxes: April 15, 2008, June 16, 2008, September 15, 2008 and January 15, 2009.

If you have any questions about the estimated tax payment rules, please call your Account Manager.

WORK OPPORTUNITY TAX CREDIT FOR BUSINESSES

The Work Opportunity Tax Credit (WOTC) is an often missed federal tax credit because the definition of qualifying employers can be difficult to determine. The employer may not be aware of the credit and the time line for requesting certification of the employee as being eligible for the WOTC is fairly short.

The WOTC provides a tax credit for qualified first or second year wages paid to or incurred for Targeted Group employees during the tax year. The business does not have to be located in an empowerment zone, renewal community, or rural renewal county to qualify for this credit.

The WOTC allows employers who hire members of Targeted Groups before September 2011 to claim a credit against income tax of a percentage of first-year wages up to \$6,000 per employee (\$12,000 for qualified veterans who begin work after May 25, 2007; and \$3,000 for qualified summer youth employees). If the employee is a long-term family assistance recipient, the credit is a percentage of first and second year wages, up to \$10,000 per employee.

Generally, the percentage of qualifying wages is 40% of first-year wages, for a maximum credit of \$2,400 (.4 x \$6,000). The employee must complete at least 120 hours of service for the employer to qualify. The credit isn't available for certain employees who are related to the employer or work more than 50% of the time outside of a trade or business of the employer (e.g., working as a maid in the employer's home). Additionally, the credit generally isn't available for employees who have previously worked for the employer.

Determining Eligibility

The business must request and be issued a certification for each employee from the State Employment Security Agency (SESA). The request for certification is Form 8850. Form 8850 is filed with the SESA no later than the 28th day after the job applicant begins work. In addition to completing Form 8850, the business must complete and file ETA Form 9061 with the SESA.

Members of Targeted Groups include:

1. Qualified IV-A recipients
2. Qualified veterans
3. Qualified ex-felons
4. Designated community residents

5. Vocational rehabilitation referrals
6. Summer youth employees
7. Food stamp recipients
8. SSI recipients
9. Long-term family assistance recipients
10. Hurricane Katrina employees

Targeted Group Number 4, Designated Community Residents, was added as a new target group in the summer of 2007. For Targeted Group 4, the credit applies to the hiring of any new employee age 18 to 39 who is a resident of selected rural counties. In Wisconsin, this includes the federal designated Enterprise Community (Northwoods Nijii – Lac du Flambeau, Mole Lake and Menominee Indian Reservations) or Renewal Community (Milwaukee). Credit is only for wages earned while the youth resides in the Enterprise or Renewal Community. The designated counties in Minnesota include Big Stone, Chippewa, Cottonwood, Faribault, Jackson, Kittson, Koochiching, Lac Qui Parle, Lincoln, Marshall, Martin, Murray, Norman, Pipestone, Red Lake, Redwood, Renville, Stevens, Traverse, Wilkin, and Yellow Medicine.

New employees living in many rural counties in Iowa, North Dakota and South Dakota also qualify for the WOTC.

The number of coins in a one-foot stack:

Pennies: 197
Nickels: 156
Dimes: 226
Quarters: 174
Half Dollars: 142
Sacagawea Dollars: 152



The number of coins in one pound:

Pennies: 181 (0.88 ounces each)
Nickels: 91 (.176 ounces each)
Dimes: 200 (.08 ounces each)
Quarters: 80 (.2 ounces each)
Half Dollars: 40 (.4 ounces each)
Sacagawea Dollars: 56 (.286 ounces each)

The diameter of U.S. coins:

Penny: .75 inches
Nickel: .835 inches
Dime: .705 inches
Quarter: .955 inches
Half Dollar: 1.205 inches
Sacagawea Dollar: 1.043 inches

"The Pig Stand" was the name of the first drive-in restaurant, which was also the first restaurant to employ carhops. It was opened in 1921 by Royce Hailey in Dallas, Texas.

"Pluto Platter" was the original name of the Frisbee.

"The Squeaking Door" is the original name of the radio series *Inner Sanctum*.

"Would I Lie to You?" is the original working title of the film *Tootsie*.

CONGRESS PASSES MORTGAGE FORGIVENESS DEBT RELIEF AND AMT PATCH LEGISLATION

In a flurry of activity at the end of 2007, Congress passed numerous laws which affect both individual and business taxpayers. The Mortgage Forgiveness Debt Relief Act of 2007 was signed into law by President Bush on December 20, 2007. The Tax Increase Prevention Act of 2007 was signed into law by the President on December 26, 2007.

Mortgage Forgiveness Debt Relief Act

With the Mortgage Forgiveness Debt Relief Act, a taxpayer can exclude from income up to \$2 million of debt forgiven on a loan secured by a principal residence. This exclusion applies when taxpayers restructure acquisition debt on their principal residence or lose their principal residence in foreclosure.

To qualify for the exclusion, the debt must be for the original purchase, plus any improvements made, for the taxpayer's principal residence. It does not apply to discharges of home equity loans or second mortgages unless the proceeds were used to improve the principal residence. Refinancing only applies for amounts that do not exceed the amount of debt being refinanced. So if you "cash out" when refinancing, that debt would not qualify. The exclusion applies for loan forgiveness in 2007, 2008 and 2009. Any debt that is forgiven reduces the basis in the property, so if the property is later sold, the gain will be higher.

Another provision of the Mortgage Forgiveness Debt Relief Act extends the mortgage insurance deduction through 2010.

This deduction allows taxpayers to treat payments made for mortgage insurance as mortgage interest, and thus be deductible on Schedule A for taxpayers who itemize. The insurance must be in connection with home acquisition debt for contracts issued after 2006. The deduction does have income limitations.

The Mortgage Forgiveness Debt Relief Act also contains legislation regarding penalties for partnerships and S corporations. The new law increases the penalty for failure to file a partnership return on time from \$50 to \$85 per month per partner. The maximum time the penalty is calculated increases from 5 months to 12 months. S corporations, which previously did not have a penalty for failure to file a return, now have the same penalty as partnerships. The penalty is \$85 per month per shareholder for a maximum of 12 months. These penalties apply to returns due after December 20, 2007.

AMT Patch

The Tax Increase Prevention Act of 2007, also known as the "AMT Patch", provides relief for more than 20 million taxpayers who would have been subject to the alternative minimum tax on their 2007 individual income tax returns. The new law extends for one additional year the increased AMT exemption amounts that were scheduled to expire after 2006.

For 2007, the AMT exemption amounts are \$44,350 for single taxpayers and \$66,250 for married taxpayers. The phase-out of the exemption remains the same, thus higher income taxpayers may still be subject to the AMT. The phase-out begins at \$112,500 of adjusted gross income for single taxpayers and \$150,000 for married taxpayers.

Other Recent Law Changes

Other provisions of recent laws include changes in the "kiddie tax" rules, changes to the Section 179 expense deduction, and simplification of the research and development credit. Under the kiddie tax rules, children with investment income over a specified amount (\$1,700 for 2007) have that income taxed at the parent's tax rate. Effective for tax years beginning in 2008, the kiddie tax is expanded to apply when the child turns age 18, or if a full-time student, turns age 19-23 before the close of the year. The child must also have at least one living parent at the close of the tax year and the child does not file a joint return.

For tax years beginning in 2007, taxpayers can elect under Section 179 to expense up to \$125,000 of qualifying property placed in service during the tax year. The phase-out of the expensing starts when the amount of property placed in service reaches \$500,000. For tax years beginning in 2008, the maximum amount of Section 179 expense is \$128,000, with the phase-out beginning at \$510,000.

The calculation of the research and development (R&D) credit has been simplified for tax years beginning in 2007 making it easier for businesses to qualify for the credit. The credit, called the alternative simplified research credit (ASRC), is equal to 12% of the excess of the current year R&D expenses over 50% of the average R&D expenses for the past three years. If the business had no prior year's R&D expenses the credit is 6% of the current year R&D expenses.

If you have any questions regarding these tax law changes or any other tax laws, please contact your Account Manager.

DID YOU KNOW?

IRS has \$1.2 billion for people who have not filed a 2004 tax return. To collect the money, a tax return for 2004 must be filed with the IRS by no later than Tuesday, April 15, 2008.

WISCONSIN QUARTERLY ECONOMIC OUTLOOK

According to the *WI Dept. of Revenue - Wisconsin residents will receive an estimated \$2.1 billion in federal economic stimulus payments, according to a special report issued as part of the Wisconsin Quarterly Economic Outlook* today released by the Department of Revenue. A total of 2.4 million federal rebates, averaging \$877, will be issued to Wisconsin residents, boosting consumer spending in the third and fourth quarters of 2008.

While Wisconsin economic growth will respond to the weakening of the national economy as housing market concerns and tight credit markets spread to other economic sectors, state employment will hold, with 0.5% employment growth in 2008 and 0.6% in 2009. The forecast shows an addition of about 15,000 jobs statewide over the two-year period.

Wisconsin personal income growth will slow compared to previous forecasts, but still post increases of 3.8% in 2008 and 4.0% in 2009. Wisconsin continues to outperform other states in the region in personal income growth.

The U.S. economy faces a slowdown through the first two quarters of the year, as high energy and food costs join with housing and credit market troubles. The national forecast shows exports will be the bright spot, increasing 7.9% in 2008. Wisconsin continues to hold a competitive advantage for exports as the dollar continues to weaken, particularly against the Canadian dollar. To view the entire Economic Outlook Report, go to: www.revenue.wi.gov/ra/0802/0802.htm.

MINNESOTA COURT RULING ON EARNED VACATION PAY

On November 15, 2007, the Minnesota Supreme Court ruled employees do not have a statutory right to payment of earned vacation pay. Prior rulings had determined that accrued but unused vacation or PTO time were wages due and payable in Minnesota.

In the recently decided case the employer had a policy that stated "if you do not give acceptable notice (of termination) or if your employment is terminated for misconduct, you will not be eligible for pay in lieu of notice or payment of earned but unused PTO unless required by state law." Basically the employer had two conditions which must be met. The recent decision affirmed that vacation/PTO benefits are wages but employers may set rules by which employees are eligible for payouts upon termination. Employers desiring to implement or change their policies per this recent decision should update employee handbook provisions accordingly.

If you need assistance navigating HR laws or if you need to update your employee handbook, contact your Account Manager.

WHO BEARS THE INCOME TAX LIABILITY LOAD?

The IRS has analyzed data from the 2005 returns, which is the most recent year available, and the data shows that upper-income earners are bearing the highest income tax load since the 1986 Tax Reform Act passed.

The top 1% of individual filers paid 39.4% of all income taxes, up from 36.9% the year before. The minimum AGI needed to be in the top 1% rose to a new high of \$364,000. The top 5%, those with incomes of \$145,300 or more, paid 59.7% of total income taxes. And the top 10% of all filers, those with AGIs of at least \$103,900, bore 70% of the income tax burden.

The bottom 50% of filers paid just 3.1% of total income tax. Their share is so low because payroll taxes aren't included in the figures and because many of them receive tax relief from the earned income credit.

PAYROLL RATES AND EARNINGS

	<u>2008</u>	<u>2007</u>
PAYROLL TAX RATES		
Social Security Rate - Employer	6.20%	6.20%
Social Security Rate - Employee	6.20%	6.20%
Social Security Wage Base	\$ 102,000.00	\$ 97,500.00
Maximum Social Security Tax - Employee	\$ 6,324.00	\$ 6,045.00
Medicare Rate - Employer	1.45%	1.45%
Medicare Rate - Employee	1.45%	1.45%
Medicare Wage Base	No Limit	No Limit
Maximum Medicare Tax - Employee	No Limit	No Limit
Self-Employment Social Security Rate	12.40%	12.40%
Self-Employment Social Security Wage Base	\$ 102,000.00	\$ 97,500.00
Maximum S.E. Social Security Tax	\$ 12,648.00	\$ 12,090.00
Self-Employment Medicare Rate	2.90%	2.90%
Self-Employment Medicare Wage Base	No Limit	No Limit
Maximum Self-Employment Medicare Tax	No Limit	No Limit
Federal Unemployment Rate	.8 %	.8 %
Federal Unemployment Wage Base	\$ 7,000.00	\$ 7,000.00
Maximum Federal Unemployment per Employee	\$ 56.00	\$ 56.00
Minnesota Unemployment Rates	.40-9.30% ⁽⁵⁾	40-9.30% ⁽⁵⁾
Minnesota New Employer Rate (Non-Construction)	1.98% ⁽⁵⁾	2.13% ⁽⁵⁾
Minnesota Unemployment Wage Base	\$ 25,000.00	\$ 24,000.00
401(K) EXCLUSION		
Maximum Contribution	\$ 15,500.00	\$ 15,500.00
Catch-Up Contribution ⁽¹⁾	\$ 5,000.00	\$ 5,000.00
IRA CONTRIBUTION		
Maximum Contribution	\$ 5,000.00	\$ 4,000.00
Catch-Up Contribution ⁽¹⁾	\$ 1,000.00	\$ 1,000.00
MINIMUM WAGE - HOURLY RATES		
Federal Regular Wage	\$ 5.85 ⁽⁸⁾	\$ 5.15 ⁽⁷⁾
Federal Opportunity Wage ⁽²⁾	\$ 4.25	\$ 4.25
Minnesota Large Employers (gross at least \$625,000)	\$ 6.15	\$ 6.15
Minnesota Small Employers (gross less than \$625,000)	\$ 5.25	\$ 5.25
Minnesota Opportunity Wage ⁽²⁾	\$ 4.90	\$ 4.90
PERCENTAGE WITHHOLDING FROM SUPPLEMENTAL WAGES		
Federal (total up to \$1,000,000)	25.00% ⁽⁶⁾	25.00% ⁽⁶⁾
Minnesota	6.25%	6.25%
FEDERAL BACKUP WITHHOLDING	28.00%	28.00%
MAXIMUM EARNINGS UNDER SOCIAL SECURITY BEFORE LOSS OF BENEFITS		
Under Full Retirement Age ⁽⁴⁾ (\$1 lost for every \$2 over limit)	\$ 13,560.00 \$1,130/mo ⁽³⁾	\$ 12,960.00 \$1,080/mo ⁽³⁾
Full Retirement Age ⁽⁴⁾ and Above	No Limit	No Limit

⁽¹⁾ Maximum additional exclusion for age 50 and over

⁽²⁾ Special "training wage" for first 90 days of employment for employees under 20 years of age

⁽³⁾ Applies in year of retirement

⁽⁴⁾ 65 years and 10 months in 2007; 66 years in 2008

⁽⁵⁾ Before additional assessments

⁽⁶⁾ 35% on excess of \$1,000,000 total supplemental wages

⁽⁷⁾ \$5.85 (effective 7/24/07)

⁽⁸⁾ \$6.55 (effective 7/24/08)

Meet the Nohre Staff



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In 1985, Clara obtained her Bachelor of Science in Business Administration at the University of Nebraska at Omaha. She is a Certified Public Accountant (CPA).

Her public accounting career began in Phoenix, Arizona where she spent five years with a Big-8 public accounting firm specializing in accounting and automation services, and then moved to Wisconsin in 1990 where she and Dirk formed Nohre & Co., S.C. in 1992. Clara specializes in construction, software development, manufacturing and loan mortgages.

Areas of Expertise

Year-End Financial Reporting
Accounting Services

Compliations, Reviews and Audits
General Business Consulting

Organizations

American Institute of Certified Public Accountants (AICPA)
Wisconsin Institute of Certified Public Accountants (WICPA)
Minnesota Society of Certified Public Accountants (MNCPA)
Eau Claire Chamber of Commerce
St. Olaf's Church

The
NOHRE
REPORT

NEWSLETTER POLICY

This newsletter is designed to present information on business and tax matters in general terms and is not intended to be used as a basis for specific action without obtaining further advice.

Editor: Deb Stange

Please forward comments to newsletter@nohre.com
