



## IRS Provides Guidance on Taxation of Employer-Provided Cell Phones *Information Letter 2007-0030*

The IRS has issued a new information letter on employer-provided cell phones. The IRS says that an employer may exclude the value of an employer-provided cell phone from an employee's gross income, if the employer requires the employee to keep records that distinguish business from personal phone charges. If the employee uses the telephone exclusively for business, all use of the phone may be excluded from the employee's income as a working condition fringe benefit. The employer must include the value of any personal use of the cell phone in the employee's wages. Personal use includes individual personal calls, as well as a pro rata share of monthly service charges. IRC §274(d) requires employees to keep records of each call and its business purpose to ensure that the business use may be excluded from gross income. The business use is not taxable to employees if they do not use the cell phone to make personal calls, or their personal use of the phone is minimal.



*Source: RIA Payroll Guide Newsletter (pre-view) 11/09/2007, Volume 66, No. 23*

## Expanded Audit Procedures

The American Institute of Certified Public Accountants (AICPA) recently issued a suite of eight new auditing statements related to expanded audit procedures, that auditors will be required to follow as part of an audit of financial statements for years ending December 31, 2007 and later. These statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures whose nature, timing and extent are responsive to the assessed risks. Additionally, the statements establish standards and provide guidance on planning and supervision (audit risk and materiality), the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

The primary objective of these standards is to enhance the auditor's application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of where and how financial statements could be materially misstated based on that understanding.
- Improved linkage between the auditor's assessed risks and the nature, timing and extent of audit procedures performed in response to those risks.

We anticipate that most audits will require an overall increase in the effort by both the audited entity and the audit team, especially in the

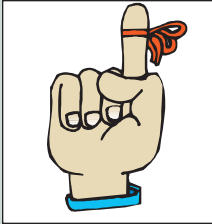
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## Reminder for 2007 Form 1099 Filings

With the end of the year approaching, now is the time to start gathering the information necessary to prepare your Form 1099s for



2007. The IRS can assess a penalty up to \$50 and the Wisconsin Department of Revenue can assess \$10 for each form not filed or filed incorrectly. The IRS may also subject the company to backup withholding.

1099 forms must be filed by you for each non-corporate entity to whom you paid \$600 or more for rent or services during 2007. "Services" include cleaning, lawn and building maintenance, machine and building repairs, legal services, subcontracting, etc. You can usually tell by looking at a company's invoice whether or not the business is incorporated. If the business is incorporated, the company name will include "Corporation," "Inc.," "Ltd.," or "S.C." In most cases, you do not need to issue a Form 1099 for incorporated businesses, with attorneys being one exception to this rule. All attorneys paid over \$600 for services must be issued a Form 1099, regardless of whether or not they are incorporated. Therefore, you will need to obtain the law firm's federal Tax Identification Number, which can be done by sending the firm a Request for Taxpayer Identification Number and Certification, Form W-9.

To file a Form 1099, you will need the individual's Social Security number or the company's Employer Identification Number, as well as the address.

The most common forms, which must be mailed to individuals by January 31, 2008

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## 2007/2008 Tax Facts

	2007	2008
FICA/Self Employment		
Maximum (OASDI) earnings limit	\$97,500	\$102,000
Tax rate	7.65%	7.65%
Maximum Deductible:		
IRA & Roth IRA Contribution	\$4,000	\$5,000
Catch-up Contribution (over age 50)	\$1,000	\$1,000
Maximum Deductible:		
401(k) Employee Contribution	\$15,500	\$15,500
Catch-up Contribution (over age 50)	\$5,000	\$5,000
Standard Deductions:		
Joint or qualifying widow(er)	\$10,700	\$10,900
Single	\$5,350	\$5,450
Head of household	\$7,850	\$8,000
Married, filing separately	\$5,350	\$5,450
Personal Exemption Amount	\$3,400	\$3,500
Gift & Estate Tax Credit Equivalent	\$2,000,000	\$2,000,000
Annual Gift Tax Exemption	\$12,000	\$12,000
Section 179 Depreciation Deduction	\$125,000	\$128,000
Standard Mileage Rate	48.5¢	50.5¢

## Year End Planning Tip!

If your firm is in need of a heavy SUV, you should purchase it prior to January 1, 2008. Under new potential Energy Legislation, the Senate and House of Representatives are considering reducing expense and depreciation deductions on SUVs with a gross vehicle weight of 6,000 - 14,000 pounds, purchased and placed in service after 2007. Currently, if you purchase a heavy SUV valued at \$50,000, you can expense up to \$25,000 and depreciate the balance of the cost. If this new legislation is enacted, the same vehicle purchased after 2007, would allow for a first-year write-off limited to around \$3,060.



## New in 2008

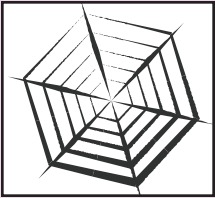


When making a charitable donation through a payroll deduction, donors should retain the paycheck stub referencing the deduction, and a copy of the donor pledge card. These two items are required as a receipt when claiming these donations as a tax-deduction.



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## Resources On the Web

### **Get Your Finances Organized**

[www.wesabe.com](http://www.wesabe.com)

Wesabe.com is a web-based community where members can securely share and receive advice, from other members, on how to make better financial decisions. The site also provides web-based tools that help members learn how to save money as well as better understand how they spend their money.

### **Small Business Solutions**

[www.smallbusinessedge.com](http://www.smallbusinessedge.com)

Thinking of starting your own business or refining the one you have? This website provides information on how to start, manage, grow or even save a small business. The site provides tools and information for the first time business owner as well as for the seasoned professional.

### **Do Your Research**

[www.nasd.com/brokercheck](http://www.nasd.com/brokercheck)

Sponsored by the NASD, this website allows investors to check the professional background of securities firms, brokers and regulated Investment Adviser Firms that are either currently, or were formerly registered with the Financial Industry Regulatory Authority, FINRA. Investors may request comprehensive disclosure reports on firms and brokers, and also are allowed access to educational tools and services.

*Boomer's Going Out with a Bang, continued from page 3*

- Borrowers can get low rates with good terms;
- Labor shortages will only get worse in the future; and,
- Currently, there is a lot of activity in the mergers and acquisition area.

*So how do I sell? Plan, Plan, Plan!*

The first thing to ask yourself is "Do I have an exit or succession plan?" If you answered "no" to this question, you're not alone. Eighty-five percent of small and medium size business owners do not have an exit or succession plan in place; and 65% don't know what their business is worth. A succession plan will help you to transition out of your business more smoothly and guide you in preparing for your future.

The sooner you develop a plan the better. First, you need to have a valuation prepared to determine the fair market value of your business. Once you know what your business is worth, you'll have a better idea of what the plan for your future will entail. If you find that the value of your business is considerably lower than anticipated, take time to enhance and develop your business to increase its value prior to sale. We have business valuation professionals with decades of experience helping both selling and buying clients determine the values of their businesses.

An exit or succession plan not only helps guide you in determining the best route for you and your business, but also prepares you in the unfortunate instance of death, disability or temporary absence. Baby Boomers are said to be dying at a rate of around 1,500 per day. If you have a plan in place, you make it easier for family members and others involved in your business should something unfortunate happen to you.

The bottom line is, to get the maximum value for your business, you have to start planning NOW! There's no better time than the present to prepare for your future. If you need assistance in developing your exit or succession plan for your business, we are happy to help; or if you have any questions or need more information, feel free to give us a call.

Stay tuned for more information on this topic in future issues of the *Update*.

*Expanded Audit Procedures, continued from page 1*

initial year of implementation. This will, undoubtedly, increase audit fees as well. If you have any questions about these new standards and their implementation, please call us.



## Bill Aims to Eliminate Self-Employment Tax on Health Insurance

Federal legislation introduced in late September 2007 would level the playing field for 20.3 million self-employed Americans by ending a significant double-digit disparity in taxes paid on health insurance. This disparity may have contributed to the growing health care crisis. The Equity of Our Nation's Self-Employed Act (H.R. 3660), introduced recently in the US House of Representatives, would eliminate an inequity in the tax code that prevents the self-employed from receiving a full deduction for health insurance costs.

In addition to leveling the playing field for our nation's smallest businesses, the legislation would assist in making health care more affordable for millions of self-employed Americans who currently make-up a substantial number of the working uninsured. Today, more than 60% of the 47 million uninsured Americans are from families working for a small business or headed by a self-employed individual. In a 2005 National Association for the Self-Employed (NASE) study, more than two-thirds of micro-business owners said they were unable to afford health insurance for themselves or their employees, with costs cited as the chief reason.



### Payment of Self-Employed Tax on Premiums

The inequity lies in the payment of self-employment tax on health insurance premiums. While corporations are able to deduct health insurance premiums as a business expense and forego FICA (Social Security & Medicare) taxes on these expenses, sole proprietors are required to pay an additional 15.3% self-employment tax on these costs.

Studies have indicated that on average in the United States, a self-employed individual pays \$12,106 annually in health insurance premiums for family coverage. Since owners are unable to deduct their premiums as a business expense, as larger businesses do, they have a higher self-employment (FICA) tax liability. In this case a sole proprietor would be paying an additional \$1,852 (15.3%) in taxes.

*Source: Adapted from information provided by the National Association for the Self-Employed at www.NASE.org. Reprinted with permission.*

## Self-Employment Facts

**There are approximately 21.3 million sole proprietors in the United States.**

*(Source: Internal Revenue Service Statistics, 2005)*

**The self-employed produce more than three-quarters of a trillion dollars in annual economic activity.** U.S. non-farm sole proprietors reported revenues of \$830 billion in 2003.

*(Source: U.S. Census Bureau Report on Nonemployer Statistics 2003)*

**The self-employed are increasingly women and minorities.** There were about 4.7 million self-employed women in 2005. This is an increase of 77% since 1983, compared to an increase of 6% in the number of self-employed men. In 1996, about 676,000 African-Americans were self-employed, a 37% increase from 1988. Hispanic self-employed increased 30% during the same period, to 663,000.

**In 2005, 16.7 million self-employed individuals (sole proprietors) paid self-employment tax.**

*(Source: Internal Revenue Service, Statistics of Income)* Of those 16.7 million paying self-employment taxes in 2003, 3.9 million paid self-employment tax on their health insurance premiums.

**Eighty-four percent of self-employed business owners say they would be very or somewhat likely to purchase health insurance for themselves if they were able to deduct their health insurance premiums as a business expense.**

*(Source: National Association for the Self-Employed, Affordability in Health Care: Trends in American Micro-Business, June 2002 Study)*

*Reprinted with permission from the National Association for the Self-Employed*



**From all of us at WKMR, we wish you and your family a safe and joyous holiday season!  
We look forward to serving you in the New Year.**



Winter, Kloman, Moter & Repp, S.C.  
CPAs SUPPORTING YOUR SUCCESS

# UPDATE

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## In This Issue

### Elm Grove Office Has Moved

On October 1st, WKMR relocated their Elm Grove Office to Brookfield. Our Brookfield office is located at 235 N. Executive Drive, Suite 160, just west of Brookfield Square off of Bluemound Road. Stop by and see us!

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The goal of UPDATE is to provide our clients with timely financial and tax information. Since space limitations require generalizations, Winter, Kloman, Moter, & Repp S.C. encourages you to obtain specific personal advice before implementing any ideas presented in this publication.

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