

New Tax Issues and Laws that Might Affect Your Business

- **Expensing Capital Purchases (179 Election)** – The \$100,000 expense limit and \$400,000 purchase limitation amounts are increased to \$125,000 and \$500,000, respectively, for tax years 2007-2010. These amounts will be indexed for inflation in the years beginning after 2007 and before 2011.
- **50 Employees or More? New Fee & Reporting Requirements** – Effective January 1, 2007, California employers with 50 or more employees who work more than 500 hours per year are required to file an environmental fee return and pay a fee based on the number of employees in California unless specifically exempted. The return must be filed, with the payment, with the BOE. Businesses previously registered with the BOE should have received notice and a return from the board. The return and fees were due to the BOE on the last day of February. If they failed to file they are subject to a 10% penalty, plus interest. Additional information is available at www.boe.ca.gov/pdf/pub90.pdf. The fees start at \$262 and are capped at \$12,522 if the employer has 1,000 or more California employees working more than 500 hours annually.
- **Corporations and Passive Income** – The 2007 Small Business Act provides that passive investment income means gross receipts derived from royalties, rents, dividends, interest, and annuities. Thus, gains on sales of stock and securities are **not** passive investment income.

The 2007 Small Business Act retains the exclusions from passive income for:

- a) interest on accounts receivable acquired in the ordinary course of business on sales of inventory;
 - b) gross receipts derived directly from the active and regular conduct of a lending or finance business dividends from C corporations for which the S corporation satisfies the ownership test (generally, 80% owned subsidiaries) out of earnings and profits generated from the active conduct of a trade or business;
 - c) interest income of banks or depository institution holding companies and dividends on stock required to be held by the bank or holding company, including stock in the Federal Reserve Bank, the Federal Home Loan Bank, or the Federal Agricultural Mortgage Bank or participation certificates issued by a Federal Intermediate Credit Bank.
- **Confusion about reporting Health Insurance Premiums paid by S Corporation for a more than 2% shareholder** - The health insurance premiums should be included in Box 1 (Wages) on Form W-2. If these payments are made under a “plan” for the S corporation employees and their dependents, the amount would only be subject to income tax withholding, and would not be included in Boxes 3 or 5 of Form W-2 wages for Social Security or Medicare, nor would it be subject to the FUTA tax.

Form K-1 (1120S) and Form 1099 should not be used as an alternative to the Form W-2 to report this additional compensation.

The payments of the health and accident insurance premiums on behalf of the shareholder **may be further identified in Box 14 (Other) of the Form W-2**. The IRS code further holds that a 2% shareholder may deduct the health insurance premiums on their personal tax return as an adjustment to gross income.

- **Problems with tax agencies ignoring Power of Attorney** – If a representative from the IRS contacts you directly in regard to an audit, you should first ask if they have contacted our office. If they have not, recommend that they do so and contact our office so that we can assist with any items and or research that is needed.