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Tax Update - 2008

Jim Gage & Co., C.P.A.'s L.L.P.

www.gagecpa.com Toll free (877)295-9426

Algona (515)295-9426 and Bancroft (515)885-2723

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2008 Standard Mileage Rates

January 1–June 30	
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Medical and Moving	.19
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July 1–December 31	
Business	.585
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Charity	.14

Almost everyone knows about the tax legislation passed in February 2008. This Act created the stimulus rebate that many of you have or will be receiving soon. In addition, the Economic Stimulus Act of 2008 includes tax incentives aimed at encouraging businesses/farms to increase their investments in new equipment by the end of 2008. There is again for **ONE YEAR (2008) 50% bonus depreciation** on qualifying capital assets. Qualifying assets include all 3, 5, 7, 10, 15 and 20 year property (virtually all farm assets qualify) and the original use of the property begins with the taxpayer (brand new) and the asset is acquired (paid for or debt incurred) and placed in service between 1-1-08 and 12-31-08. So for assets that qualify, 50% of the cost can be deducted in 2008 and the remaining 50% goes over

***Social Security tax** will not be assessed on CRP money received in 2008 for any one receiving Social Security

the life of that asset. This means for farmers a **machine shed** (which always had to be depreciated over 20 years previously) can be 50% deductible in 2008 with the remaining 50% deducted over 20 years.

Also, included in the Act was an increase in **Section 179** (fast depreciation/ write-off all in one year) to \$250,000. This amount is phased out if more than \$800,000 of assets are placed in service in 2008. Machine sheds do not qualify for Section 179, just the bonus depreciation. We encourage all farmers to come in this summer before harvest to do tax planning as well as after harvest. If you are interested in building a machine shed or grain bin (which does qualify for Section 179), you need to have it up and ready for use before 12-31-08.

Also, the maximum write-off for **cars** has increased with the new stimulus package.

Misc Farm Tax Topics

ty or Social Security disability payments. Active farmers still must pay Social Security tax on CRP money received.

The first year depreciation limit is now \$10,960. This is a big increase from the 2007 limit of \$3,060. **SUV's** have also increased for first year depreciation. With \$25,000 of section 179 available and bonus depreciation on the remaining cost of the vehicle, it is possibly to write off \$40,000 of a \$50,000 SUV placed in service during 2008.

There are also some **self-employed retirement plans** that could take contributions of up to \$46,000 which need to be set up before October 1, 2008 in order to use them for 2008.

Knowing your tax status before harvest is essential this year. Business owners with increased profits this year should also come in to plan early. The same 50% bonus depreciation and Section 179 rules apply to you also.

***1099's** will be mandated for farmers who repay CCC loans at a discount with cash or CCC certificates.

Sales Tax

For any taxpayer that has a business form (Schedule C) done with his/her tax return and not collecting **sales tax**, you need to be SURE you are not to be collecting sales tax and remitting it to the State of Iowa. The state and IRS are sharing information that gives

the state notice of who and for what type of business entity a business schedule is being filed for on their tax return. The State of Iowa has very complex sales tax laws pertaining to each type of business. We encourage you to call (1-800-367-3388 or 515-281

-3114) or email (idr@iowa.gov) and explain your business and be sure you are not to be collecting sales tax. Document who you talked to and the date you received your information in case you need to refer to it later.

Obama vs. McCain—Current Tax Positions

Obama

- *A payroll tax credit of \$500 per person or \$1,000 for family for the first \$8,100 of earned income (new).
- *Seniors with income under \$50,000 would be exempt from income tax (new).
- *High income tax payers would pay a higher marginal rate of 39.6%.
- *AMT would hit only high income tax payers.
- *Tuition refundable tax credit of \$4,000 per student.
- *The 15% capital gains tax would be increased to 20%.
- *All hi-bred vehicles would qualify for credits. Currently the law limits the number of vehicles which qualify per vehicle type.
- *Estate tax would be a 45% maximum rate for estates over \$3,500,000 per individual with any unused portion of the exemption passing through to a surviving spouse.

McCain

- *The personal exemption would be doubled to \$7,000.
- *Would maintain Bush's cuts including max 35% marginal rate, 15% capital gain rate, and \$1,000 child tax credit.
- *AMT would be scrapped.
- *Health insurance credit for premium paid on open market (not through employer) of \$2,500 single or \$5,000 married.
- *Dividends taxed as ordinary income thus no capital gains rates.
- *Estate tax would be a 15% maximum rate for estates over \$5,000,000 per individual with any unused portion of the exemption passing through to a surviving spouse.

Additional Topics

IRA Rollover to HSA Account

An individual can elect to make a one-time direct trustee-to-trustee transfer from his/her IRA (other than Simple or SEP IRA) to his/her HSA. The transfer, which cannot exceed the individual's HSA contribution limit for the year, reduces the amount he/she is allowed to contribute to the HSA for the year. The transfer is neither a taxable IRA distribution nor a deductible HSA contribution.

You can make the rollover only once in your lifetime, and only up to the maximum HSA contribution limit for the year which is \$2,900 for individuals or \$5,800 for family coverage for 2008 (plus an extra \$900 for people age 55 or older), minus any HSA contributions you've already made for the year. You must already have an HSA, which requires having a health insur-

ance policy with a deductible of at least \$1,100 for individuals and \$2,200 for family coverage and the annual out-of-pocket expenses cannot exceed \$5,600 for an individual and \$11,200 for a family, including the deductible and co-payments (but not premiums).

Disaster Unemployment Assistance (DUA) Through Iowa Workforce Development

The Iowa Workforce Development is now offering disaster unemployment assistance for counties in Iowa that were affected by floods, tornadoes, etc. Some of the counties in our area that are eligible are Hancock, Kossuth, Webster and Wright. This unemployment assistance is available to self-employed agricultural individuals living in disaster counties. Please contact your local Iowa Workforce Development office to see if you qualify for DUA.