

## Congress Passes More 2007 Tax Changes

By Steve Enz

For the fourth time in the last 13 months, another major act, the "Small Business and Work Opportunity Act of 2007," took effect. While the increase in the minimum wage and appropriations for Iraq overshadowed passage of this the measure, other changes are worth summarizing:

- **Taxpayer Penalties.** For returns prepared after January 1, 2008, the IRS can impose sanctions on preparers and tax practitioners giving advice if the advice is "less likely than not" to be successful. This raises the standard from a one-in-three possibility of success to a better than 50% standard. Why should anyone other than a practitioner care? Taxpayers will see higher fees for research, and practitioner will require more documentation from taxpayers before adopting a position.
- **"Kiddie" Tax.** This tax, which makes a child's unearned income over an inflation-adjusted amount (now app. \$1700) taxable at the parent's highest marginal rate, does not apply to a child 18 or over in 2007. Next year, however, it will extend to a child who will be age 18 or age 19-23 if the child's earned income for the year doesn't exceed half of his or her support.
- **Section 179 deduction is increased from \$112,000 to \$125,000, subject to restrictions.** This deduction has been extended until 2010, but there's a catch: this provision is available only to small businesses which can't purchase more than \$500,000 of equipment in a single year without incurring a reduction in the amount they can depreciate upfront.
- **Creation of a tax credit for small businesses setting up new retirement plans.** The credit equals 50% of the start-up costs, up to \$500 (per plan) per year for each of the first three years. This, along with other measures covered by the Pension Benefit Protection Act, is designed to hedge against the declining reliability and value of the Social Security system.

There are other changes involving husbands and wives in partnership situations and Subchapter "S" modifications, for example. Other 2007 changes to revisit include:

- **The federal tax credits for energy-saving improvements to commercial real estate have been extended through 2008.** Qualifying improvements can result of credits of up to \$1.80/sq. ft., but the structure must meet a 50% energy reduction standard. A \$2,000-per-dwelling-unit federal tax credit is also available through 2008 to home construction contractors building energy-efficient dwellings.
- **Significant changes to the deferred-compensation rules under Internal Revenue Code §409A.** Deferred compensation agreements and other company plans that provide for additional forms of compensation should be reviewed before the end of 2007 to comply with regulations which will take effect in January 2008 and which include significant interest and penalties.

For more information on 2007 tax savings, please contact Steve Enz or your CPM attorney.