



## Merry Christmas!

*All of us at Steffen Group  
Wish you a Blessed  
Christmas Holiday with  
Family and Friends and  
A Happy and Prosperous  
New Year!*



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# STEFFEN GROUP

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### IRS Social Security scam alert

The Social Security Administration (SSA) reported a new scam targeting elderly people.

According to SSA, someone approaches an **elderly** citizen and asks if they have **filed to get the tax back on their Social Security benefits**.

The scammer tells the victim (a Social Security beneficiary) to get a 1099 from Social Security so that they can file the income tax refund for the beneficiary. The beneficiary requests the last 3 years 1099 statements showing their Social Security Benefit.

The SSA has no choice except to give them the information because it gives them the total payments they have received. The Social Security Administration does tell them that what they are about to participate in is a scam. Few believe them -- or want to.

The tax preparer files three years' tax returns showing SS benefits as income. They put in the standard deduction and come up with a refund amount. The beneficiary

files the tax return. The Internal Revenue Service sends them a refund. The beneficiary pays the preparer between \$40 and \$100. IRS realizes the error and either takes the refund out of the beneficiary's bank account or sends a demand letter for the refund.

The scammer has gotten their money and moved on, while the victim loses the money they paid the preparer and must also pay the full amount of the "refund" back to the IRS.

For more information, visit: <http://www.ssa.gov/>. ■

### Before the End of the Year...

If you have a **flexible spending account** from your employer, check your balance to be sure its used before 12/31, or you may lose it.

The amount an individual can contribute to an **HSA**, Health Savings Account, has been increased for 2007 to \$2,850, plus \$800 if your over 55.

You can catch up the difference until April 15, 2008.

Remember, you can **deduct** expenses charged on a credit card in December even though you won't pay the card off until January 2008.

Alternative motor vehicle credits will help offset their higher price tags. But if you buy a Toyota hybrid after September 30, 2007 there is no more credit. Toyota reached its limit of 60,000 cars sold; but other manufacturers still have a ways to go - so check them out. ■

## Tax law changes for 2008

\* **Zero percent tax on capital gains.** Everyone needs to plan for how to profit when this tax is eliminated for *some* taxpayers next year. The capital gains tax rate drops from its current 5 percent to zero for those in the lowest income-tax brackets from 2008 to 2010. Congress enacted this change in the Jobs and Growth Tax Relief and Reconciliation Act of 2003 - and we're amazed it's still there. But with elections in 2008 it looks like it will stay - for at least one year.

Among those best positioned to profit are taxpayers with young adult children out of college but not yet pulling down a big salary. A pretty substantial tax benefit may be in the offing for those who give appreciated stock to these adult children to sell free of capital gains tax. A parent may transfer \$12,000 to a child (a couple may give \$24,000) without paying gift tax. No capital gains tax is owed if the child's income rate is below the top of the 15 percent bracket. However,

\***new kiddies tax rules** were put in place to keep parents from using their kids as a capital gains tax shelter,

The kiddie tax is a set of rules that taxes a child's investment income over a certain threshold - \$1,700 in 2007 - at the parents' income tax rate. Its reach widens starting in 2008 to include those under 18, dependent children who turn 18 and dependent full-time students ages 19 through 23. In the past years, only children under 14 were subject to the kiddie tax.

A final caveat for anyone contemplating giving a lot of stock to a child: Think about whether the child is responsible and what might become of the money after he or she sells the investments.

Taxpayers frustrated with the ins and outs of all this can blame Congress. Its zigzag approach to capital gains and the kiddie tax has created many wrinkles.

\***Also For 2008**, personal exemptions and standard deductions will rise, tax brackets will widen and workers will be able to save more for retirement, thanks to inflation adjustments announced by the Internal Revenue Service.

By law, the dollar amounts for a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits, affecting virtually every taxpayer, are being adjusted for 2008. Key changes affecting 2008 returns, filed by most taxpayers in early 2009, include the following:

- The value of each personal and dependency exemption, available to most taxpayers, is \$3,500, up \$100 from 2007.
- The new standard deduction is \$10,900 for married couples filing a joint return (up \$200), \$5,450 for singles and married individuals filing separately (up \$100) and \$8,000 for heads of household (up \$150). Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions and state and local taxes.
- Tax-bracket thresholds increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket is \$65,100, up from \$63,700 in 2007.
- The maximum earned income tax credit for low and moderate income workers and working families with two or more children is \$4,824, up from \$4,716. The income limit for the credit for joint return filers with two or more children is \$41,646, up from \$39,783.

- The maximum Hope credit, available for the first two years of post-secondary education, is \$1,800, up from \$1,650 in 2007.
- The income limit for the savers credit is \$53,000 for joint filers (up \$1,000), \$39,750 for heads of household (up \$750) and \$26,500 for singles and married persons filing separately (up \$500). Low- and moderate income workers who contribute to a retirement plan, such as an IRA or 401(k), may qualify for the credit, which is available in addition to any other tax savings that apply.
- The contribution amount allowed for Roth IRAs begins to phase out for joint filers with incomes exceeding \$159,000 (up from \$156,000) and \$101,000 (up from \$99,000) for singles and heads of household.
- For contributions to a traditional IRA, the deduction phase-out range for an individual covered by a retirement plan at work begins at income of \$85,000 for joint filers (up from \$83,000) and \$53,000 for a single person or head of household (up from \$52,000).
- Participants in most employer-sponsored 401(k) plans and 403(b) plans for employees of public schools and certain tax-exempt organizations can contribute up to \$15,500, unchanged from 2007. Individuals, age 50 or over, can make an additional contribution of up to \$5,000, also unchanged from 2007.
- Individuals participating in SIMPLE retirement plans can contribute \$10,500, unchanged from 2007. Those, age 50 or over, can make an additional contribution of up to \$2,500, also unchanged from 2007.
- The annual contribution limit for most defined contribution plans rises to \$46,000 (from \$45,000).

## Kicker Checks From The State of Oregon

The "kicker" is paid when the amount of revenues the state receives during a biennium is at least 2 percent more than the amount of revenues to the general fund that were expected to be received for the biennium. The kicker law was changed during the 2007 legislative session. The changes made to the kicker include:

- The refund checks will be mailed by **December 15, 2007**.
- The kicker will be based on the tax before credits. You can find this amount on your 2006 Oregon return, Form 40, line 29; Form 40S, line 13; Form 40N, line 51; Form 40P, line 50. This is different from prior years when it was based on tax after credits. This means more people will receive refunds than would have received refunds under the old kicker law.

On August 31, the Office of Economic Analysis announced that the kicker will be **18.60 %**.

If you filed your return late, your kicker check may be mailed after December 15th.

## Small Business Expensing of Assets

Effective for tax years beginning in 2007 the new law increases the amount of fixed assets you can expense to \$125,000, but is phased out if you buy more than \$500,000 in one year. In the future these amounts are indexed for inflation.

## IRS Announces 2008 Standard Mileage Rates

The standard mileage rates for employees, self-employed individuals, or other taxpayers to use in computing the deductible costs of operating an automobile for business, charitable, medical, or moving expense purposes will be:

- Rate for Business Miles Set at 50.5 Cents per Mile.
- Rate for Medical and Moving miles will be 19 cents per mile
- Rate for Charitable miles remains at 14 cents.

## Partnerships

Under the new law, married couples who operate a joint venture together are not required to treat the entity as a partnership. Hence, no separate return on Form 1065 is required. Instead they can each report their income on Schedule C of Form 1040. However, the law requires that both spouses materially participate in the venture. As a reminder, Federal law only recognizes marriages between two people of opposite sex.

## Inflation-adjusted Tax Rates for 2008

- ADOPTION TAX CREDIT increases to \$11,650.
- TOP ESTATE TAX RATE remains at 45%, and the exemption amount stays at \$2 million.
- ANNUAL GIFT TAX exclusion remains at \$12,000.
- SECTION 179 expensing limit increases to \$128,000. Phase-out threshold increases to \$510,000.
- IRA contribution limit increases to \$5,000 (\$6,000 for 50 and older).
- SOCIAL SECURITY taxable wage limit increases to \$102,000. Retirees under age 65 can earn up to \$13,560 without losing benefits.
- NANNY TAX threshold increases to \$1,600.



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