

The Knightly News

The Kiddie Tax Extends to Age 23

In years past, several tax planning strategies existed for shifting income to children in order to take advantage of better capital gains rates. Most taxpayers pay 15% tax on any long-term capital gains, the exception being that taxpayers in the 10% and 5% tax brackets only pay 5% on any long-term capital gains. As a result, many taxpayers gifted appreciated stocks to their young children who could then sell the stock and pay the capital gains tax the low rate of 5%.

The kiddie tax has been around for many years, which limits the amount of benefit parents can receive from such income shifting.

"In 2008, Congress felt there was too much opportunity for income shifting and tax avoidance so they amended the kiddie tax once again."

The kiddie tax basically states that if a child makes more than a certain amount of unearned income (\$1,700 in 2007), that income must be taxed at the parents' tax rate, not the child's. In the past, this applied to children up to age 14. In 2006, the age limit was raised from 14 to any child who reached age 18 by the end of the year.

In 2008, the rules have grown more complex. With capital gains rates for taxpayers in the 10% and 5% tax brackets set to drop to 0% in 2008, Congress felt there was too much opportunity for income shifting and tax avoidance so they amended the kiddie tax once again. The new rules follow:

1) As of 2008, the kiddie tax now affects parents with children up to age 23.

2) The year the child turns 18, the kiddie tax doesn't apply if the child's earned income is more than half of the child's support.

3) The year the child turns 19, the kiddie tax only applies if the child is a full-time student.

4) The year the child turns 24, the kiddie tax no longer applies, even if the child is a student or living at home.

5) The kiddie tax never applies if a child's tax status is married filing jointly.

For those of you who have shifted investments into your children's names, or plan on doing so in the future, it is important to consider the impact this new law will have on the sale of those investments.



Tenant Screening: A Small Price to Pay for Piece of Mind, by Liz Burton

Know who you are trusting with your income and the safety of your building and other residents.

By offering a wide range of products at extremely competitive prices, we provide essential services to landlords and property managers that enable them to make informed decisions about leasing choices.

It is more important today than ever before to really know the behavioral background of your tenants. Too many landlords are finding out their tenant's background when they turn on the news and/or open the newspaper and read the horrid headlines.

We read and hear all the time that early detection has been ignored by law enforcement agencies as well as many psychologists – at least somewhat understandable given the total numbers they have to deal with. But unforgivable and amazing is the fact that so many Federal, State and City operated agencies have not embraced background screening until after it is

too late – not protecting the taxpayer's investment. At least you, as an entrepreneur, know that making sound choices works directly to protect your investment. Early detection is available to you; negative behavioral traits are documented and help you to make the best informed decision possible.

PBI believes in a different and far more effective approach to tenant screening. If you are running a simple credit report **BEWARE...YOU DO NOT KNOW YOUR APPLICANT!**

A credit check does not provide...

- History of evictions
- Record of bad check writing
- Criminal history records
- Sexual offender records
- Previous landlord feedback

"Tenant screening is a small price to pay for peace of mind & due diligence."

Note from Michele: After working with Liz Burton for many years, I am happy to recommend her services to any landlord who is searching for a new tenant or employer looking to screen employees. She is a dedicated professional, and you can reach her via these methods:

Professional Background Investigations, Inc. "PBI, Inc."

Employment & Tenant Screening

Website: www.pbiverify.com

Contact: Liz Burton

1.800.455.0774 Ext. 3 Voice

1.303.949.3900 Direct

1.970.336.9500 Direct



"Tenant screening is a small price to pay for peace of mind & due diligence."

Making Sense of the Mortgage Market, by Jeff Tompkins



“What’s really going on in the mortgage arena?”

It seems you cannot turn on the news these days without hearing something about the way the mortgage market is going – the fall of subprime mortgage lenders, foreclosures rampant across the U.S., banks taking out loans just to stay afloat, homes sitting on the market forever and their values decreasing, and the list goes on.

What is really going on in the mortgage arena? First of all, it’s never as bad as it sounds. Only about 4% of all loans are in default. As lenders tighten their belts and their underwriting criteria, not only on bad credit (subprime) loans but also on jumbo products (loans of more than \$417,000 generally), fewer and fewer people can

now qualify and get the financing they need for purchases and refinances. A huge number of subprime lenders have gone out of business altogether. In the purchase market, this shrinks the pool of potential buyers, and results in homes sitting on the market longer and more people returning to rentals. In the refinance realm, borrowers who once qualified for their home loan and now need to refinance to avoid an adjusting ARM (adjustable rate mortgage) loan can no longer qualify. The ensuing higher rate makes their home unaffordable, and often leads to delinquency and foreclosure. Experts have called the last few years “overspeculation in real estate”,

where lenders made loans they normally would not have made and that really made no sense, because people were investing in real estate hand over fist. What we see now is not a “credit crunch” per se; there is plenty of money out there, but lenders are becoming more conservative on who and what they will lend to. Watch the news for updates on this, as the White House is already pushing a freeze to ARM loans for those who are now unable to get out of them.

Have questions? Contact Jeff Tompkins at Teacher’s Funding Group, 720-872-2382, jeff@teachersfunding.com, www.teachersfunding.com

Restrictions on Charitable Contributions

If this article looks familiar, you’re not losing your mind...this is a reprint from my January 2007 newsletter, but I believe that it bears repeating!

C A S H
Gone are the days when you could drop \$10 each week into the Sunday collection plate or claim amounts donated to the bell ringers outside the grocery store and take the deduction on your tax return. Beginning January 1st, 2007, only cash donations which are substantiated by a cancelled check or a receipt from the organization showing their name and the date and amount of the contribution are allowed.

N O N - C A S H
Beginning August 17th, 2006, the Pension Protection Act changes several laws regarding the deduction of non-cash donations to charity, such as clothing and household items. Only items that are considered in “good” used condition or better are allowed in your calculation of your deduction for charitable donations. You heard it right: sweaty old gym socks are no longer tax deductible (subject to one caveat, of course)! As long as you file a qualified appraisal with your return, you can donate items in any condition.



The IRS is cracking down on charitable contributions and audits are on the rise...taxpayers take note!

IRS Audits on the Rise

In the past two years, IRS audits have increased in frequency, thanks to additional computer audit techniques and greater consistency among forms such as K-1’s. Schedule C filers showing a loss

over consecutive years are being targeted by the IRS, although S Corporations are the most popular target right now, given their rise in popularity and the risk that owners will not pay proper amounts of self-employment taxes. How should you prepare yourself for the risk of an audit? Document, document, document!!! You

should save all receipts and documents related to your taxes for seven years, and never use estimates on a tax return. While Knight Accounting & Technology is available during the time of an audit, there is no substitute for good recordkeeping. Without it you could face a stressful meeting with the IRS.



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**[We're On The Web!
www.cpamichele.com]**

**Serving Individuals & Small Businesses in
Greater Denver & Summit County**

Numbers to Know

	2007	2008
Social Security Wage Limit	\$97,500	\$102,000
Mileage—Business	48.5 cents/mile	50.5 cents/mile
Mileage—Medical & Moving	20 cents/mile	19 cents/mile
Mileage—Charitable Purpose	14 cents/mile	14 cents/mile
Contribution limits for 401(k), SEP plans and 403(b) annuities	\$15,500	\$15,500
Workers aged 50+ catch-up provision for 401(k), SEP & 403(b)	\$5,000	\$5,000
IRS Contribution Limits	\$4,000	\$5,000
Aged 50+ catch-up for IRA's	\$1,000	\$1,000
1099-MISC Reporting Limit	\$600	\$600

AMT & the IRS: A Mess On All Our Hands

If you picked up a newspaper or turned on the news in December, chances are this is not news to you...once again, Congress delayed the passage of an AMT patch until the last minute, and the IRS has a mess on its hands.

To give you the quick background, the Alternative Minimum Tax (AMT) was instituted decades ago to ensure that the highest income earners couldn't avoid paying taxes by taking too many deductions. When written into law, the AMT did not include adjustments for inflation and in 2007 it was set to penalize twenty-three million taxpayers with incomes ranging from \$100,000 and up.

Congress had until December 21st to change the law and reduce its penalties on millions of taxpayers, and it did so just in the nick of time. Unfortunately, the story doesn't end there. Once the new law was passed, the IRS still needed seven to ten weeks to update the fifteen forms and 6 publications affected by the change in AMT. As a result, the IRS will not be ready to receive and process any returns with AMT calculations until mid-February, as opposed to the usual January timeframe when they begin processing returns.

For early filers, such as those who receive the Earned Income Credit, this may mean a delay. For all other filers who don't normally file until mid-February or later, or who do not file

AMT forms each year, this could still mean a significant backup in the IRS's processing capabilities. If it is any consolation, the whole country is in this together. All returns will face the same delays, whether filed by paper, electronically by a tax professional or using an off-the-shelf tax software.

If you want to ensure the fastest refund, the IRS still encourages filing electronically for the fastest processing, but patience is the word for the year. Even direct deposit refunds, which usually take two to three weeks, may take up to four weeks, and may not be available until mid to late-February.

Knight Accounting & Technology will keep you up to date on this issue, and details will be posted daily at www.irs.gov.