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## How '07 Changes Affect Small Business

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Small-business owners take note: Changes in the tax code this year could add a few dollars to your coffers. But you could be in for colossal headaches if you've been sloppy in your record keeping.

This filing season, there are a few notable tax changes:

*AMT exemption increase:* For tax year 2007, the alternative minimum tax exemption reached \$66,250 for a married couple filing a joint return, up from \$62,550 in 2006. The exemption rises to \$33,125 for a married person filing separately, up from \$31,275, and rises to \$44,350 for singles and heads of households, up from \$42,500. Some small-business experts say the AMT can be a hassle for small firms because many small-business people are taxed on their personal income as self-employed workers. If an entrepreneur's income requires use of the AMT calculation, some business deductions aren't allowed.

*Standard mileage rate:* The rate for business use of a car, van, pickup or panel truck rose 4 cents, to 48.5 cents per mile. Darrel Shinn, president of SSB Tax Professionals in [Arlington](#) and Culpeper, said business miles can be deducted, but don't confuse them with miles driven for charity and medical purposes. The [Internal Revenue Service](#) treats those miles differently. Shinn said record keeping is essential. "If you keep the records, you get the deduction," he said.

*Self-employment tax:* The maximum amount of net earnings subject to the FICA portion of the self-employment tax for tax years beginning in 2007 has increased to \$97,500. All net earnings of at least \$400 are subject to the [Medicare](#) part of the tax.

*Husband-and-wife business:* Qualified husband-and-wife ventures are no longer required to be treated as a partnership. Alternatively, each spouse can choose to report his or her share of earnings or losses from the venture without filing a partnership return.

Shinn recommends that small businesses invest in an accounting software system such as [Intuit's QuickBooks](#) or [Microsoft's MS Money](#). He also advises that small firms pay bills as early as they can. "If you get a bill on Dec. 15 and it's due Jan. 15, pay it in December and you can take a tax deduction," he says.

Additionally, if a business is considering buying a piece of equipment, it's generally better to buy it in December rather than January to get the deduction.

Teddy Prioleau, a tax professional with the Tax and Mortgage Shop of America in White Marsh, Md., warns that small firms must be careful to correctly pay their payroll taxes, or face stiff penalties from the IRS. "Many small firms don't correctly withhold the 6.2 percent for Social Security and the 1.45 percent for Medicare and then unfortunately use those funds to run their business," he said. "That is a big no-no as far as the IRS is concerned."

At tax time, it may be a good idea to hire a professional preparer, especially if your business has undergone any significant changes during the year, said Keith Hall, who owns a small tax preparation business in [Dallas](#) and serves as an adviser to the District-based National Association for the Self-Employed.

"Many small firms balk at the cost of a pro, figuring they don't have the \$200 or \$300 to spend for someone to do their tax return," Hall said. "But remember you're going to spend a large number of hours working on that return rather than getting a new client or spending time with your spouse or kids."

Hall advises small-business owners to study the Schedule C tax form to understand the government's deduction categories, but they should also be alert for other items that may not be broken out into a specific category. For example, there's no category for deductions of computer software or trash removal; those would have to go in the "extras" itemized deduction on the second page of Schedule C.

Hall recommends that small businesses not forget to fund their retirement plans. "Nobody is going to call you or send you a bill to remind you to contribute to your retirement plan," he said. Some plans must be opened by Dec. 31 but don't have to be funded until April 15.

And, he said, it's not too early to start planning for next year. Hall offers these tips:

*Home office deduction:* If you didn't claim it before, think of a place in your home that you can set aside as your office. It must be used regularly and exclusively for your business, but it doesn't have to be a whole room. It can be part of a room that's partitioned.

*Retirement contributions:* If you didn't have the cash flow to do it in 2007, begin setting aside money monthly for a 2008 contribution.

*Hire a youth:* The wages of workers under 18 are not subject to FICA if they amount to less than \$5,350 annually. The money is fully deductible. "Maybe they can answer the phone, clean the office or help with outgoing correspondence," said Hall, who employs his daughter.

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