

TAX NOTES & PERSPECTIVES

HIGHLIGHTS OF THE TAX ACT OF 2007

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While titled the Small Business and Work Opportunity Act, this 2007 tax legislation has components that affect families, small businesses and individuals.

For Families

The **Kiddie Tax** is a series of tax rules designed to keep parents from passing along taxable income to their children so that it can be taxed at the child's lower tax rate. Under the Kiddie Tax rules, if the child has unearned income over a certain level, the income is taxed at the parent's rate—not the child's.

For 2008 and beyond, the Kiddie Tax can potentially come into play **until the year during which a child turns 24.**

For 2007, the Kiddie Tax applies only when **all four** of the following requirements are met.

1. Living Parent Requirement: One or both of the child's parents are alive at year-end and in a higher marginal tax bracket than the child.
2. Filing Requirement: The child doesn't file a joint return for the year.
3. Unearned Income Requirement: The child's unearned income for the year exceeds the annual threshold. For 2007, the threshold is \$1,700. If the child's unearned income doesn't exceed the threshold, the Kiddie Tax doesn't apply. If the child's unearned income ex-

ceeds the threshold, only the amount in excess of the threshold is subject to the Kiddie Tax. That means the excess income gets taxed at the parent's higher marginal rate.

4. Age Requirement: The child is 17 or younger on December 31.

Note: The Kiddie Tax rules pay no attention to whether or not the child is claimed as a dependent by a parent or by anyone else, for that matter.

New Rules for 2008 and later years expand the fourth requirement (age) to include:

- A child has reached age 18 at year-end, and doesn't have earned income in excess of 50% of his or her support.
- A child that is age 19-23 at year end and: a) is a student and b) doesn't have earned income in excess of 50% of his or her support. A child is considered to be a student if he or she attends school full-time for at least five months during the year.

For Businesses

Expensing Business Assets

A taxpayer, other than an estate, trust, and certain non-corporate lessors, can elect under Code Section 179 to deduct as an expense, rather than depreciate, up to a specified amount of the cost

of new or used tangible property placed in service during the tax year in the taxpayer's trade or business (Code Sec. 179 property). The Act increases the maximum amount of Section 179 expense that generally can be deducted annually to \$125,000 for tax years beginning after 2006. For 2008-2010, the \$125,000 will be indexed for inflation.

Work Opportunity Tax Credit

This credit has two purposes:

- To promote the hiring of individuals who qualify as a member of a target group, and
- To provide a federal tax credit to employers who hire these individuals.

An employer may qualify for a tax credit of up to \$9,000 if the employee is a member of a designated target group and meets the group's specific requirements. This credit is extended to cover wages paid to employees who begin work before 9/1/11. In addition, the Act expands the list of targeted groups and makes other favorable changes for wages paid the affected employees who begin work after 5/25/07. (For more details, contact us directly.)

For Individuals

Take advantage of energy credits

(continued on page 4)

E-MAIL ETIQUETTE

E-mail can be an efficient and fast means of communication. It can also absorb time that used to be spent on other tasks. Here are a few tips to maximize your productivity and that of your e-mail recipients.

Keep it Short

Messages should be concise and to the point. Some people receive hundreds of e-mails a day and most deserve focused attention.

DO NOT USE ALL CAPITALS

This is the equivalent of shouting in someone's ear. ONLY use capitals to make a point, and even this should be used sparingly.

Plz don't Abbrvt

While this may be appropriate for personal e-mails or text messages, it can make e-mails very hard to understand. Business e-mails should be more formal. If you are not sure if the

recipient will know what the abbreviation means, it is better not to use it.

Avoid Becoming Too Attached

Attachments can often contain viruses and can also fill up in-boxes. Make sure to have a good virus scanner in place, and warn the receiver if you are sending large files (over 5MB).

Think Twice about E-mailing Sensitive and Private Issues

The chance for miscommunication in e-mail can make sensitive matters worse. Also, because it is impossible for e-mail to be completely private, take care in sending sensitive information via e-mail. If you are debating whether to send something by e-mail or not, it is always better to pick up the phone or send it by 'snail' mail.

Reply to All

E-mails addressed to a group do not necessarily require a

'reply to all.' Consider replying to the original sender only.

Use a Meaningful Subject Line

Make subject lines short and informative. E-mails without subjects often get skipped. In a chain of e-mails, update the subject line with a new topic or initiate a new e-mail altogether when the information exchange becomes far removed from the original topic.

Respond to All Questions

Carefully read the e-mail and try to respond to all of the questions and/or acknowledge the questions for which you don't have an answer.

Remember. . .

E-mail is designed for convenience, not immediacy. If you need an instant reply, or are trying to schedule a meeting an hour from now, instant messaging or the telephone may be more appropriate.

On-Line Security

For more information on other internet security concerns see:

<http://www.occ.treas.gov/AntifraudBankers.htm>

INTERNET BANKING

If you have been thinking about going online with your bank or brokerage firm to manage your accounts, but have held back due to concerns about security, be assured that financial institutions take online security very seriously. Banks utilize several levels of security including firewalls, data encryption and passwords.

Secure passwords are alphanumeric, lengthy (8 or more characters), and have an automatic expiration date.

Secure websites disable access with too many incorrect login attempts or when there is a period of inactivity.

Banks don't store your actual password on their system.

The passwords are encrypted before they are stored, making them nearly impossible to crack.

Banks require your internet browser to establish a secure session which encrypts or scrambles the information being sent over the Internet. To identify when your browser is in secure mode, look for the closed **padlock** at the bottom right corner of the browser window. **Secure website addresses** will begin with <https://> in the URL.

Users of online services need to remain alert to a very real threat called **Phishing**, a form of Internet fraud that aims to steal valuable information

such as credit card and social security numbers, user IDs and passwords.

You may receive an e-mail that appears to come from your bank. The e-mail directs you to a website closely resembling the bank website, where you will be asked to enter confidential information. These e-mails and websites can be identified as fraudulent from incorrect grammar and spelling. They may also have unusual embedded icons. E-mails are often addressed to "Valued Customer". The best protection is to assume the worst about any links or attachments in unexpected e-mail. Contact your local bank branch before giving out information.

SAVING FOR COLLEGE

There are several ways to fund future college costs and take advantage of federal tax breaks aimed at families saving and paying for college. Depending on your circumstances, some or all of the following strategies may be appropriate for your family.

Qualified Tuition Programs (529 Plans)

These programs allow you to buy tuition credits or make contributions to an account set up to meet future education expenses. Contributions are not tax deductible. They are treated as a taxable gift, eligible for the annual \$12,000 gift tax exclusion. Everyone is eligible; there are no income limitations or age restrictions. The key benefit is that the distributions are tax-free.

Individual Retirement Accounts

Early withdrawal penalties are

waived when Roth IRAs and traditional IRAs are used to pay for qualified college expenses (However, taxes may still be due on withdrawals.)

Coverdell Education Savings Accounts

These accounts allow contributions of up to \$2,000 a year for children under the age of 18. Contributions are not deductible. Funds grow tax-deferred and distributions are tax-free when used for qualified education costs. Funds may be used for K-12 as well as college expenses. The right to make contributions phases out once AGI exceeds certain amounts. If the income limitation is a problem, the child can make a contribution to his or her own account.

U.S. Savings Bonds (Series EE and I)

The interest earned on savings bonds is not included in taxable income until the bonds are cashed in. Additionally, interest

may be exempt from federal tax if the proceeds are used for qualified education expenses. The exemption is gradually phased out if AGI exceeds certain amounts.

Tax Exempt Bonds

Investing in tax-exempt bonds or bond funds is another way to achieve economic growth while avoiding tax.

Transferring Ownership of Assets

You and your spouse can transfer \$24,000 a year in cash or assets to each child with no gift tax consequence. For children over age 17, the income from the assets is taxed at the child's lower rate (subject to the Kiddie Tax rules).

For additional information on saving for college, see www.savingforcollege.com

TIME TO CHECK IN WITH YOUR INVESTMENT ADVISOR?

Many investors go through an exhaustive selection process when initially engaging an investment advisor. Investors are interested in knowing about a potential manager's investment philosophy and process, historical performance, and fees. However, fewer investors revisit these issues with their investment advisors on a regular basis.

If it is time for you to check in with your investment advisor, here are some questions worth asking.

- 1) What is your current investment philosophy?
- 2) Is it time to revisit the asset allocation for the portfolio?
- 3) Who makes the decisions for my portfolio?
- 4) What is your historical performance and how has it compared to appropriate alternatives and benchmarks?
- 5) Why have some assets been allocated to alternative asset classes (such as real estate venture capital, leveraged buyouts, or hedge funds)? What role does this class play in overall asset allocation?
- 6) How many outside investment managers do you use and how do you select and monitor their performance?
- 7) What are the total fees I am paying for management of my portfolio? Do you receive compensation from other sources (e.g., mutual fund 12B(1) fees, mark-ups, private investment syndication fees, stock and bond bid/ask spreads)?
- 8) When recommending investments, do you accept compensation from a third party?
- 9) Would you provide me with a copy of your most recent "Form ADV?"

For a College Savings Calculator,

Go to

*[http://
apps.collegeboard.com
/fincalc/
college_savings.jsp](http://apps.collegeboard.com/fincalc/college_savings.jsp)*

SMALL BUSINESS AND WORK OPPORTUNITY TAX ACT OF 2007 (CONTINUED FROM PAGE ONE)

Energy Credits

Credit for energy saving improvements to an individual's primary residence are for items placed in service during 2006 and 2007 only. If you plan to make energy saving improvements in the next year or two, consider accelerating your plans to take advantage of these credits.

Hybrid Cars and Alternative Motor Vehicles

Tax credits continue to be available to the original purchaser of a new, qualifying vehicle. The credit is available for qualified fuel cell motor vehicles, advanced lean-burn technology motor vehicles, qualified hybrid motor vehicles and qualified alternative fuel motor vehicles. The amount of allocable credit is only available up until the time a manufacturer records its sale of the 60,000th hybrid or advanced lean-burn technology car. Toyota and Lexus have already reached this threshold. Consumers seeking the credit may want to buy early in the year before the thresholds on other qualified vehicles are met. Other auto makers with qualified hybrid vehicles include Chevrolet, GMC, Saturn, Ford and Mercury.

The 2005 and 2006 Honda FCX are the first two vehicles the IRS has acknowledged as qualified fuel cell vehicles. The 2007 Honda Civic GX, which operates solely on compressed natural gas, is the first qualified alternative fuel motor vehicle.

More Exposure to Alternative Minimum Tax

You pay Alternative Minimum Tax (AMT) only if your AMT exceeds your regular tax bill. The AMT rate is 26% or 28% depending on your taxable income. For 2007 (absent a law change), the **AMT exemption amounts will drop**. Taxpayers with large deductions for real estate taxes, state and local taxes, or miscellaneous itemized deductions are more likely to be subject to AMT. This increased exposure to AMT will be mitigated for some taxpayers. New provisions allow the Work Opportunity Tax Credit and Employer Tip Credit to offset both individual and corporate AMT liabilities. This favorable change applies to credits for tax years beginning after 2006.

As this newsletter goes to press, Congress has legislation in the works to provide a one-year AMT patch that would keep exemptions at the 2006 level.

Tax Penalties

Preparer penalties now apply to estate and gift tax returns, employment and excise tax returns, and exempt organization returns. If you self-prepare these types of returns, close attention should be paid to new rules that stiffen preparer penalties.

To avoid a preparer penalty on an undisclosed position, it must now meet a "more likely than not" standard, instead of the previous "realistic possibility" standard. To avoid a preparer penalty on a disclosed position, it must now meet a "reasonable basis" standard, instead of the previous "not frivolous" standard.

ANNUAL GIFTING AS AN ESTATE PLANNING STRATEGY

The current federal estate tax exemption is \$2 million, will increase to \$3.5 million in 2009, and will be repealed in 2010—but just for that one year. A likely scenario is that we will continue to have a federal estate tax, but possibly with a somewhat larger exemption. Planning to minimize federal estate tax should still be part of your overall financial game plan.

Making annual gifts continues to be a tax-smart strategy. You can

give any person up to \$12,000 a year. Your spouse can do the same. These gifts will reduce your estate tax exposure without any adverse gift tax effect. Making regular gifts over multiple years can dramatically reduce your taxable estate.

Contact us for more information on the best ways to plan for annual exclusion gifts.

SIMPLIFY MAKING TAX PAYMENTS WITH EFTPS

The Electronic Federal Tax Payment System (EFTPS) is an easy, safe and convenient way to pay your federal taxes via the Internet or over the phone.

Enrolling in EFTPS is easy and eliminates the necessity of writing a check and mailing it to the IRS. Other benefits include:

- Tax payments can be made 24 hours a day, 7 days a week.
- Payments can be made from anywhere that has a phone or Internet connection.

- Payments can be scheduled up to 120 days in advance for businesses and 365 days for individuals.
- Scheduled payments can be cancelled up to two business days in advance of the settlement date.
- Up to 16 months of EFTPS payment history can be accessed online or by phone. Every EFTPS transaction receives an immediate EFT Acknowledgment Number that is a receipt of the transaction.

To enroll simply visit the website – www.eftps.gov

FINANCIAL LITERACY: TALKING TO KIDS ABOUT MONEY

At King & Oliason, we advise families on financial and tax issues at every stage of life. As parents of children and young adults ourselves, one of the tough issues we face is how to talk to our own kids about money. Like other parents, too often we assume our kids will learn about money just by living life, and we don't make time to talk about it. Talking about money can be stressful, awkward, and very easy to push down the priority list. But just as we teach our kids to ride a bike, or to drive a car, we also need to give them the tools for success in earning, managing, and gifting money.

Below, we excerpt key points from books by three outstanding authors in the field of educating financially literate children. They are Joline Godfrey, author of "Raising Financially Fit Kids" and Eileen and Jon Gallo, authors of "The Financially Intelligent Parent: Eight Steps to Raising Successful Generous Responsible Children" and "Silver Spoon Kids: How Successful Parents Raise Responsible Children."

In her book "*Raising Financially Fit Kids*", author Joline Godfrey outlines ten Basic Money Skills:

1. How to save
2. How to keep track of money
3. How to get paid what you are worth
4. How to spend wisely
5. How to talk about money
6. How to live within a budget
7. How to invest
8. How to exercise the entrepreneurial spirit
9. How to handle credit
10. How to use money to change the world

When talking about general money issues (#5 on her list), Godfrey gives specific examples of age appropriate topics for starting a discussion.

For Ages 5-8

- Discuss what food drives and homeless shelters are for
- Never be afraid to say "we can't afford it."

Eileen and Jon Gallo in their book "*The Financially Intelligent Parent*," suggest several tactics for responding to 'awkward' money questions. "Responding to a difficult question with a question of your own—rather than a pronouncement—often increases your child's willingness to both talk and listen" (p. 193).

For example, your child asks "Are we rich?" You respond with "Why do you want to know?" Or "How much did the house cost?" to which you reply "Why are you interested?" Both responses give you the opportunity to find out a little more about the context that prompted your child to ask the question.

In "*Silver Spoon Kids*", the Gallos provide some alternatives to those statements that just seem to unconsciously come out of a parent's mouth when an awkward question is asked.

1. 'We can't afford it.' Try explaining your values— it is overpriced, poorly made, or overindulgent.
2. 'We'll talk about it later.' You say this and don't follow through. Make a point of following through at a more comfortable time.

For Ages 9-12

- Talk about the things that interest your child (sports, music, clothes) and how to spend wisely so they can enjoy their passions.
- Set a time to talk about a family money vision

For Ages 13-15

- Talk about ads shown on your kids' favorite TV shows. Ask them to critique for qualities such as accuracy, honesty, and value. This discussion helps teach critical thinking about advertising and not to take advertising messages at face value.
- Discuss the difference between accumulation (saving) and consumption (spending). Talk about the environmental and human implications of each.

For Ages 16-18

- Discuss dating etiquette and how your son or daughter can handle the issue of who spends money for what on dates.
- Have your teen write budgets for three to five rites of passage such as a prom, spring break trip, or other celebration.

3. 'Don't ever let anyone know how much money we have.' Explain that certain issues, like family finances, should stay within the family.

The Gallos emphasize the importance of being conscious of the money messages you model for your children. For more on their techniques, visit www.galloinstitute.org

Other Resources:

Pigs Will Be Pigs: Fun with Math and Money, Amy Axelrod

The Monster Money Book, Loreen Leedy

Money Troubles, Bill Cosby

It Pays to Talk: How to have the essential conversations with your family about money and investing, Carrie Schwab-Pomerantz and Charles Schwab
Green Talk: Money: How to Get it . . . Keep It . . . Avoid Getting Ripped Off!, William R. Hegeman

For older kids: PBS Online NewsHour website for students with information about savings, jobs, investing, entrepreneurship, and funding a college education www.pbs.org/newshour/on2/money.html



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Learn more about the range of tax consulting services we offer, our people, and our firm. Use the links to access tax forms, financial information, past newsletters and more.

FIRM NEWS

Our firm is growing. We are pleased to introduce four permanent staff members.

Cindy Bailey, CPA, is returning to King & Oliason. She graduated from the University of Washington with a B.A. in Business Administration – Accounting. She is a member of the WSCPA. An avid music lover, she plays with a flute ensemble and enjoys attending classical, jazz and Baroque concerts. Cindy works with clients in our High Net Worth Group.

Adriane Villaneuva, CPA, has a B.S. in Managerial Economics from the University of California at Davis. Since moving to the Northwest, she worked as an accountant for a publicly traded corporation and a local public accounting firm. She is an avid cyclist who has completed the Seattle to Portland bike race several times. Adriane works with individuals and closely-held businesses.

Greg Olbekson, Bookkeeper, has twenty years of accounting and benefits management experience with national and international organizations. In his spare time, Greg enjoys travel, reading, and remodeling his house.

Andrea Kastner, Receptionist, is the welcoming voice who answers your phone calls and provides front desk support. In addition to her work with us, she is going to school full-time to get an accounting degree.

Professional Services . . . Personally Delivered

Did you know that King & Oliason serves over 60 private foundations, corporate foundations, and supporting organization clients with assets ranging from \$100,000 to over \$100,000,000? We consult with these clients regarding:

- choice of entity
- application for exemption as a non-profit organization
- federal and state filing requirements
- domestic and international grant-making
- customized education and training of board members and employees

Contact Karol King or Norma Oliason if you are considering establishing a foundation or supporting organization or are currently involved with a foundation.

Other News:

King & Oliason received regional and national recognition for excellence during 2007. The firm was recognized as a 2007 Wall Street Journal Small Business Winning Workplaces™ nominee, and earned Seattle Magazine's Five Star Wealth Management, Client Satisfaction Award™.

Our Mission:

To serve clients in the Pacific Northwest who value exceptional and ethical management of their complex tax situation.