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Can You Benefit from Recent Tax Changes?

By Mark R. Patrick • CPA

As we approach the changing leaves of fall, we continue to see changes in tax law and regulation...almost daily. So we've started assembling an odds-and-ends list of updates and changes.

From the stimulus package passed earlier in the year, to the more recent housing rescue law, to the Wall Street bailout, Congress and the IRS found ways to "help" us...and if you own a business, you'll find some of the changes actually do. With the election upon us, we're certain Congress isn't done "simplifying" the tax code, so keep an eye out for additional changes later in the year. Here's what we've got so far:

50-Percent Special Depreciation Allowance

Depreciation is the reduction in an asset's value due to usage and outdating and enables a taxpayer to spread the cost of certain property over several years.

With the latest revision to the law, you're entitled to depreciate 50% of most tangible property during the initial year you place the property in service. To qualify for this 50% special depreciation allowance, you

must've placed the property in service in 2008 (anytime after Dec. 31, 2007 but before Jan. 1, 2009).

Section 179 Expensing

In general, you historically have been able to expense the cost of certain property and thus deduct it in the year you place the property in service, instead of depreciating it over several years.

The new Section 179 revisions enable you to expense up to



\$250,000 of property. Prior to the changes, the 2008 expensing would've been \$128,000. The \$250,000 amount is reduced if the cost of all section 179 property exceeds \$800,000.

New Depreciation Limits on Business Vehicles

Under the new depreciation limits on business vehicles, the total deduction your business may take

for a passenger automobile, which isn't a van or truck, first placed in service in 2008 is \$2,960-\$10,960. Additionally, the maximum deduction for a van or truck first placed in service in 2008 is \$3,160-\$11,160.

Kiddie Tax Age Limit Change

The Kiddie Tax age limit increased in 2008 to affect children's investment income through age 18 and full-time students through age 23. This change from the prior rule which affected children through the age of 17 is an unfortunate one. The Kiddie Tax applies only to unearned income held in the child's name, and doesn't apply to employment or other sources of income.

Standard Mileage Rate Increase

The IRS announced an increase in the standard mileage rates for the final six months of 2008. The rate increased to 58.5 cents per mile for business miles driven July through December. Your record-keeping here will be key: your accountant will need mileage records from Jan. 1-June 30 and then July 1-Dec. 31.

CONTINUED ON PAGE 7

Con-nec-tions

1. The act of connecting, or the state of being connected.
2. That which joins or relates, a bond or link.
3. Group of associates, often considered influential in some way.
4. **Small Business Resource Network.**

See page 8 for
details regarding the
October 24th
Entrepreneur's Law School

Summarizing Recent Tax Updates

CONTINUED FROM PAGE 1

New Home Sale Exclusion Rights

The home sale exclusion provides that homeowners who sell their long-term principal residence don't pay taxes on up to \$500,000 of their gain if they meet certain criteria.

Starting in 2008, the new law requires homeowners to pay taxes on gains made from the sale of a second home (rental or vacation home) to reflect the time the home wasn't actually used as the principal residence. The taxed amount will be based on the portion of time during which the taxpayer owned the home that was used as a vacation house or rented out. For instance, if a taxpayer owned a vacation home for 15 years, but lived in it as a principal residence only for the final three years prior to sale, the maximum available exclusion would be reduced by four-fifths.

Not a tax issue, but almost as appealing...

National/State Minimum Wage Rates Increased

The federal minimum wage rose in July to \$6.55 per hour. But if your employees work in Florida, the state minimum wage is now \$6.79 per hour.

Contact your accountant for help navigating these ever-changing waters. In the meantime, we hope you enjoy some of these beautiful fall days with friends and family. Before you know it, the hecticness of the holidays and the next tax season will be upon us. So stay cool and enjoy!

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Staying Afloat in the Insurance Storm

CONTINUED FROM PAGE 6

The common thread here is to take on more of the risk personally to reduce premiums. Abandon the mind-set that continually seeks to have someone else pay your medical bills for you. As you rely on your computer's firewall to avoid a data melt-down, also rely on your health insurance plan's deductible to shield your pocketbook. Pay for the "small stuff" out of pocket, via deductibles and co-insurance, and then rely on your insurance to handle the big bills.

Finally, recent legislation in Florida established two new health insurance related programs: Cover Florida and Florida Health Choices. Neither program was up nor running as of mid-October, 2008, however state and federal intrusion into the private economic sector has a poor record of success. Case in point: Florida's 1993 small group health insurance legislation mandating guaranteed issue to employee groups of 50 or less. That mandate took away the ability of the free market to work, tying the "invisible hand" (see economist Adam Smith) to a tree in Tallahassee. Many established small group health insurers simply withdrew from the state or exited the health insurance business, limiting the employer's choices and watering down competition, among a mountain of other negative results. While zealously chasing votes, too many politicians forget that the Law of Unintended Consequences is always in play.

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MEDIOCRE EMPLOYEE VS. NO EMPLOYEE

CONTINUED FROM PAGE 5

problems and not give a lick about the business issues. Ms. Mediocre will also work at a slower pace, thereby bringing productivity down. How much more does the high performer contribute to your bottom line as opposed to Ms. Mediocre? It may be hard to measure, but it's very easy to see.

Great companies are not built with mediocre people. Enough said.

The good companies must become very creative and forward thinking to attract the people they need to produce high quality work. Take the time necessary to find the type of person you need. Involve other employees and communicate the issues you're having with filling job openings. Ask them how they can redistribute the work or for ideas on others ways they can get the work done in a timely manner.

Hiring second rate employees means paying someone to bring your organization down. Let your competitors hire Mr. and Ms. Mediocre.

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