

# Common Sense

**Financial News and Tips for Clients and Friends of Albertz & Associates**

## Important Dates & Reminders

### December 31, 2007

Last day to contribute to college plans for 2007.

### January 15, 2008

4th quarter Federal and State estimated tax payments due.

### January 31, 2008

4th quarter Local estimated tax payments due.

4th quarter payroll tax forms due.

### Reminder:

Don't forget to call Albertz & Associates to schedule your tax preparation appointment.

## Thanks to All Who Attended Our 3rd Annual "Doggy Pow-Wow"

Thanks to all our clients and friends who made our third annual dog event a big success! We had excellent weather this year, and one lucky pooch was adopted from the Animal Friends Humane Society on site!

If you weren't able to make it, we're sorry we missed you. Hope to see you all next year!

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*"It's not what you earn,  
it's what you keep."*

## IRS Random Audits Return— Are You At Risk?

The IRS has quietly reintroduced the controversial practice of random audits, targeting thousands of taxpayers nationwide. The new audits come in response to allegations from the Government Accountability Office (GAO) that many sole proprietors under-report their income.

The first random audits began in October, targeting approximately 13,000 unincorporated 2006 income tax returns from a range of income categories and 5,000 S corporations.

### Who Is Being Targeted?

The IRS's primary targets are who file Schedule C (used to report profit or loss from business) or Schedule F



(used for profit or loss from farming) with their federal tax return.

To minimize your risk of being targeted or penalized by a random IRS

**Continued On Other Side...**

## New Homebuyers Can Get Short-Term Relief From Private Mortgage Insurance (PMI)

If you purchased a new home in 2007 with less than a 20% down payment, you may be eligible for a special tax deduction next April.

Private Mortgage Insurance (PMI) is a form of extra insurance that is required from most homebuyers who obtain loans for more than 80% of a home's purchase price (i.e. with less than 20% down). If you are paying PMI for a home purchased in 2007, you may be able to deduct some or all of your premiums from your 2007 tax return.

To qualify for the deduction, your mortgage insurance must have been issued after December 31, 2006, and the premiums must have been paid during 2007.

You can deduct the full amount of your premiums if you have an adjusted gross income of \$100,000 or less in 2007. If your income is higher, the amount you can deduct is reduced by 10% for each additional \$1,000 you made, phasing out completely at \$110,000. This deduction is currently available only for 2007.

**See other side for additional news and tips...**

# IRS Random Audits, continued

audit, we recommend that you pay close attention to the following items that are coming under increased IRS scrutiny:

- Make sure your business is using the correct accounting method (cash or accrual) for your unique situation
- Document all company vehicle expenses
- Document all meal and entertainment expenses, and make sure that these deductions can be reasonably defined as business-related
- Verify that all home office deductions are in compliance with current regulations
- Make no improper payments to family members
- Make sure all of your employees are properly classified (i.e. either as full-time employees or independent contractors)

Despite IRS claims that the new wave of audits will be less hassle than the aggressive random audits conducted in the 1990s, *any* audit can be a burden resulting in lost time and profits. Contact our office today if you have any questions or concerns.

## More IRS Crackdowns On Charitable Giving (Even Your Underwear Is Now Regulated)

Last year we alerted you that the IRS was getting tough on charitable contributions used as tax deductions as a result of the Pension Protection Act of 2006.

Effective August 17, 2006, the IRS requires a written record of all charitable contributions claimed as tax deductions, regardless of the amount. (Yes, you even need a receipt from the Salvation Army Santa if you want to claim that pocket change as a deduction.)

Now the rules are getting even tighter for donations of clothing and household items. Why? Because in the past, donations of up to \$500 in value (even old boxer shorts) didn't have to be documented. So many taxpayers claimed deductions of \$499 or less that the total amount added up to \$9 billion nationwide!

Under tougher new standards, all items donated with a value of less than \$500 must be in good used condition or better. However, the

IRS has issued no guidelines for what will be considered acceptable proof of such condition. Therefore, we predict that all deductions of such items will be declined.

You can still donate items worth more than \$500 in any condition, but you'll have to attach a qualified appraisal to your 2007 return.



## Keep Your 2007 Taxes Low By Funding Retirement Plans

One of the best ways to minimize your 2007 tax bite is to maximize your contributions to tax-exempt or tax-deferred retirement plans. The maximum amounts you can contribute for each year are listed at right.

Contributions to these plans work on a "use-it-or-lose-it" basis, so you'll want to carefully evaluate your contributions compared to other alternatives (contact our office with questions). If you automatically contribute a portion of the total each month, be sure to note the increased limits for IRA plans that will take effect in 2008. You'll also want to take full advantage of any matching funds available from employer-sponsored plans.

### 2007-08 Contribution Limits

	Taxpayers Under 50	Taxpayers Over 50
IRAs (2007)	\$4,000	\$5,000
IRAs (2008)	\$5,000	\$6,000
Elective Deferrals*	\$15,500	\$20,500
SIMPLE Plan Contributions	\$10,500	\$13,000

\*Includes 401(k) plans, 403(b) annuities, Simplified Employee Pension plans (SEPs), and Section 457 plans.

Don't worry if you can't contribute the full amount by December 31... you can still fund the amount you claim on your 2007 return as late as April 15, 2008.

Need more help with retirement planning? Call our office today!

