



The Update

VOLUME 18 NUMBER 2

Spring 2008

Sannerud, Savarese & Associates, P.A. – “Certified Public Accountants”
1207 Constance Blvd. N.E. • Ham Lake, MN 55304 • (763) 434-5929 FAX (763) 434-8833



FROM SUE'S DESK

Are you getting an economic stimulus rebate? The rebate is actually an advance payment of a tax credit

for 2008. When taxes are prepared for 2008, we will reconcile the amount of the credit with the rebate you received. In most cases the tax credit will match the refund already received. If the result is a positive number, you will receive an additional credit (ex: a child born in 2008 will generate an additional \$300 rebate). If the result is a negative number, indicating that you received more refund than the credit allowed, you will not be required to repay the rebate.

Enjoy the spring!

FYI...

Starting May 26 – September 1, 2008
We will be closing at NOON on Fridays.

Summer Office Hours

Monday-Thursday 8:00 a.m.-4:30 p.m.
Friday 8:00 a.m.-Noon
or by appointment
763-434-5929

Tax Calendar for Small Business and Self-Employed

This tax calendar includes useful information on general business taxes, electronic filing and paying options, retirement plans, business publications and forms, common tax filing dates and much more.

View it online www.irs.gov/business/small/article/0,,id=176080,00.html, import information to your computer or order up to five copies free.



Where's My Refund?

You filed your tax return and you're expecting a refund. You have just one question and you want the answer now-*Where's My Refund?*

Whether you split your refund among several accounts, opted for direct deposit to one account or asked the IRS to mail you a check, you can track your refund through this secure web site www.irs.gov.

To get to your personal refund information, be ready to enter your:

- Social Security Number (or Individual Taxpayer Identification Number)
- Filing Status (Single, Married Filing Joint Return, Married Filing Separate Return, Head of Household, or Qualifying Widow(er))
- Exact refund amount shown on your return

If you don't receive your refund within 28 days from the original IRS mailing date shown on *Where's My Refund?*, you can start a refund trace online. If *Where's My Refund*, shows that the IRS was unable to deliver your refund, you can change your address online.

IN THIS ISSUE:

What's New	Page 2
Economic Stimulus Payments	Page 3
Sales Tax Reminder	Page 4
Tips To Avoid An Audit	Page 4
Property & Renter Tax Refunds	Page 5
Filing Past Due Returns	Page 6
What's Cooking	Page 7
Extension Reminders	Page 8

What's New!

MINNESOTA LAW CHANGES: INDEPENDENT CONTRACTORS in the CONSTRUCTION TRADE

Effective July 1, 2008, any persons performing work in the Minnesota commercial/residential construction or improvement industry will be considered employees of the company they are working for unless they obtain an Independent Contractor Exemption Certificate from the Minnesota Department of Labor and Industry.

If you do not obtain an exemption certificate; all individuals will be considered employees, will be covered under the "company's" workers compensation policy, will be entitled to minimum wage and overtime pay and be subject to OSHA rules and regulations.

Individuals must meet all of the following criteria in order to receive the Independent Contractor Exemption Certificate:

- Maintain a separate business with their own office, equipment, materials and other facilities
- Have, or has applied for, a federal employer identification number or filed a self-employment individual income tax return with the IRS for the previous year
- Has control of how services will be performed and operates under contracts to perform specific services for specific amounts of money
- Incurs the main expenses related to the services described in the contract
- Is responsible for the satisfactory completion of services and is liable for a failure to complete the service under the contract terms
- Receives compensation for service performed under a contract on a commission, per-job, or competitive bid basis only
- May realize a profit or suffer a loss under service contracts
- Has continuing or recurring business liabilities or obligations and
- The success or failure of the individual's business is relative to the business's receipts or expenditures.

Please contact us if you have any questions regarding construction workers as independent contractors or as employees.

New Local Taxes in Five Metro Counties...

Effective July 1, 2008, a new local *sales and use tax*, and a *vehicle excise tax* will begin in the following five metro counties: Anoka County, Dakota County, Hennepin County, Ramsey County, Washington County

Sales and use tax: Beginning July 1, 2008, the above five counties will have a one quarter of one percent (.25 percent or .0025) sales and use tax. The sales tax applies to retail sales made within the above five counties. The use tax applies to taxable items used in the above five counties if the local sales tax was not paid. The tax applies to the same items that are taxable under the Minnesota sales and use tax law.

Vehicle excise tax: A \$20 excise tax applies to sales of motor vehicles registered for road use, instead of the new local sales tax. The fee must be collected by any person in the business of selling new or used motor vehicles at retail when the sale occurs in the five-county taxing area.

Alternative Motor Vehicle Credit

Purchasers of certain large trucks, buses or other heavy vehicles running on alternative fuel can claim a credit of up to \$32,000 and purchasers of certain large hybrid trucks and other heavy hybrid vehicles can claim a credit of up to \$12,000 if they qualify for the Alternative Motor Vehicle Credit. The credit is also available for certain new qualified heavy hybrid vehicles with a gross vehicle weight rating in excess of 8,500 pounds.

To view the current list of vehicles that qualify as either Qualified Alternative Fuel Motor Vehicles (QAFMV) or Qualified Heavy Hybrid Vehicles go to: www.irs.gov/businesses/article/0,,id=175456,000.html .

CAPITAL GAINS FOR 2008

Almost everything you own and use for personal purposes, pleasure or investment is a capital asset. When you sell a capital asset, the difference between the amounts you sell it for and your basis, which is usually what you paid for it, is a capital gain or loss.

In the tax years beginning after 2007, the 5% maximum tax rate on qualified dividends and net capital gain is reduced to 0 (zero)%. Thus, qualified dividends and net capital gain are not taxed if the regular tax rate that would apply to them is lower than 25%.

Economic Stimulus Payments

You've heard about it. What is it and how and when do you get it? Starting in May, the Treasury will begin sending economic stimulus payments to more than 130 million households. It's not taxable, and it won't reduce your 2007 or 2008 refund or increase the amount you owe when you file your 2008 return.

You're eligible if you have a valid Social Security Number ("married filing jointly" and only one has a valid SSN, neither can receive payment), can't be claimed as a dependent on a tax return, have either an income tax liability or "qualifying income" of at least \$3,000 and file a 2007 federal tax return. Millions of retirees, disabled veterans and low-wage workers who usually are exempt from filing a tax return must do so this year in order to receive a stimulus payment.

Eligible people will receive up to \$600 (\$1,200 for married couples), and parents will receive an additional \$300 for each eligible child younger than 17. Payments will be issued according to the last two-digits of the main filer's Social Security Number. If you chose direct deposit when filing your 2007 federal tax return, your payments will be directly transmitted to your direct deposit account. All others will be mailed. See the schedule listed below:

DIRECT DEPOSIT

Last two SSN Digits:	Payment will be deposited by:
00 through 20	May 2
21 through 75	May 9
76 through 99	May 16

PAPER CHECK

Last two SSN Digits:	Payment will be mailed by:
00 through 09	May 16
10 through 18	May 23
19 through 25	May 30
26 through 38	June 6
39 through 51	June 13
52 through 63	June 20
64 through 75	June 27
76 through 87	July 4
88 through 99	July 11

If you are not eligible this year, but you become eligible next year, you can claim the economic stimulus payment next year on your 2008 return. For more information, check out the "Economic Stimulus Payments Information Center" at www.irs.gov.

Tax Trivia:

Question: Were Taxes always due on April 15?

Answer: No. Until 1955, returns were due on March 15. From 1913 to 1918, they were due even earlier, with taxpayers scrambling to meet a March 1 deadline. In 1954, Congress changed the date to give IRS employees a break. Most returns were filed near the deadline, swamping agency employees. Lawmakers hoped a later deadline would encourage taxpayers to file earlier. Human nature being what it is, returns continued to flood the agency just before the new deadline. In recent years, about 20 percent of returns have been filed in the last week of filing season.

**GREAT WORKS ARE PERFORMED
NOT BY STRENGTH,
BUT BY PERSERVERANCE.**

(Samuel Johnson)

What To Do If You Receive An IRS Notice

It's a moment many taxpayers dread. A letter arrives from the IRS – and it's not a refund check. Don't panic; many of these letters can be dealt with simply and painlessly.

Each year, the IRS sends millions of letters and notices to taxpayers to request payment of taxes, notify them of a change to their account or request additional information. The notice you receive normally covers a very specific issue about your account or tax return. Each letter and notice offers specific instructions on what you are asked to do to satisfy the inquiry.

If you receive a correction notice, you should review the correspondence and compare it with the information on your return.

- Agree? If you agree with the correction to your account, usually no reply is necessary unless a payment is due. **But, be aware that you may need to file an amended state tax return.**
- Disagree? If you do not agree with the correction the IRS made, it is important that you respond as requested. Write to explain why you disagree. Include any documents and information you wish the IRS to consider, along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the upper left-hand corner of the notice. Allow at least 30 days for a response.

Most correspondence can be handled without calling or visiting an IRS office. However, if you have questions, call the telephone number in the upper right-hand corner of the notice. Have a copy of your tax return and the correspondence available when you call.

Sales & Use Tax Reminder...

You must notify the Minnesota Revenue online www.taxes.state.mn.us or call 651-282-5225 if you:

- Change your **legal organization** (from individual to partnership or LLC, partnership to corporation etc.).
- **Add or close** a location
- Begin making **sales in a city or county with a local tax**
- Are in locality that imposes a **new local sales and use tax**
- Begin selling a **product or service that is reported separately** such as liquor (on or off sale), car rentals, waste hauling services etc.
- Find your taxable sales have increased so that you are **required to file more often** (this may happen as a result of an audit):
 - Annual: Tax must average less than \$100 per month. You must file this even if there is no sales tax due.**
 - Quarterly: Tax must average less than \$500 per month**
 - Monthly: Tax averages more than \$500 per month**
 - Seasonal: Business not open year round**
 - One Time Filing: Tax for only one event or one month**
- Close your business

FYI... If your company has recently gone through a Sales and Use Tax audit some of these changes may have occurred due to the audit. Make sure to check the status of your business to avoid future tax bills or periods of noncompliance.

****IRS Mails Fewer Business Forms****

With less demand for paper tax forms, the IRS is decreasing the number of tax packages mailed, including Forms 1120S, 1065 and 941. If you need these or any business tax forms this year, look to www.irs.gov.

Also, taxpayers who e-file, e-pay, or use tax software to prepare/file a paper return will no longer receive 1040-ES vouchers and envelopes in the mail. Those who still receive vouchers and envelopes via mail, will only get one mailing for the entire year instead of quarterly mailings. More information is available on the Form 1040-ES instructions on the IRS website.

Tips To Help Avoid A “TAX AUDIT”

The IRS tends to focus on small-business income because much of it comes from cash transactions that are not reported to the IRS. Business owners can greatly reduce their chances of being audited and also keep costs to a minimum if it should happen. Here are some tips:

Good record keeping is essential. Keep accurate, well-organized financial records, expense records and how they relate to your business and properly prepared tax returns. Be careful to separate business from personal expenses. Pay particular attention to travel and entertainment expenses. A favorite target for auditors is “deduction for travel and entertainment expenses.” Keep an organized file of receipts with a note attached to each documenting who was entertained and for what purpose.

Don’t go at it alone. If possible, have a certified public accountant prepare your tax forms. If this is cost prohibitive, at least hire one to check over your forms once you complete it yourself. The IRS has more confidence knowing a professional did the return since he or she is up-to-date with the frequent tax law changes. Also, if you were to receive an audit notice, you don’t have to go at it alone. Your accountant maintains a sense of detachment. A professional can say, “I don’t know, but I’ll get the answer,” to the IRS, whereas the taxpayer must answer right away.

Act like a business. The IRS will generally give start-up businesses three years to turn a profit, but disallows business losses if it thinks a taxpayer is a hobbyist and not a business person. Use strict business methods to prove a profit motive. Among the criteria the IRS considers are: a formal set of books and records with strong internal controls; the use of accounting or financial software; and having separate bank accounts for business and personal income and expenses.

Remember...taxpayers have the right to take every deduction the law allows them, and the IRS has the right to say “show me.”

Property Tax Refunds

Don't forget to bring in your 2007/2008 property tax statement to see if you qualify for a refund. Minnesota has two property tax refund programs for homeowners; the **regular property tax refund** and the **special property tax refund**. You may be eligible for one or both, depending on your income and the size of your property tax bill.

The regular property tax refund is for people who own and reside in their home on January 2, 2008 (January 2, 2007 for the 2006 filing). If the home is not "homesteaded," your application for homestead must be made before December 15, 2008. Your total household income for 2007 must be less than \$93,480 (for 2006, less than \$91,120). The maximum refund is \$1,750. **The special property tax refund** is for people who own and reside in their home on both January 2, 2007 and January 2, 2008. There is no limit on household income in this program. Your property taxes payable in 2008 must have increased by more than 12 % and be at least over \$100 over your 2007 taxes. The increase must not be attributable to new improvements. The maximum refund is \$1,000.

Filing due date: August 15, 2008. Returns can be filed up to a year after the due date. After that, you cannot claim a refund.

If eligible, you will receive your refund by the end of September if you file by August 1, or 60 days after you file, whichever is later. You may receive your return 30 days earlier if you electronically file your return by August 1, and choose the direct deposit option, and filed a M1PR last year.

Renter's Refund

You may be eligible for a property tax refund based on your household income and on the property taxes paid on your principal place of residence, even if you rent. For purposes of the property tax refund, 19% of the rent you paid during the year is considered the portion paid for property tax. Your landlord is required to give you a completed Form CRP, Certificate of Rent Paid, no later than January 31 of the following year. You will need the CRP when you apply for a property tax refund.

You may be eligible if your household income is under these limits (the maximum refund is \$1,430):

- For households with no dependents, the limit is \$50,430 (for 2006, less than \$49,160)
- For households with dependents the limit increases with family size, up to \$70,830 or households with five or more dependents
- Seniors or disabled homeowners may be eligible with household incomes up to \$74,230 with five or more dependents

Residents of nursing homes or other health-care facilities whose total rent is paid by medical assistance or supplemental assistance programs such as Supplemental Security Income (SSI) or Minnesota Supplemental Aid (MSA) are not eligible for a refund.

Filing due date: August 15, 2008. Returns can be filed up to a year after the due date. After that, you cannot claim a refund.

If eligible, you will receive your refund by mid-August if you file by June 15, or 60 days after you file, whichever is later. You may receive your return 30 days earlier if you electronically file your return by June 15, and choose the direct deposit option, and filed a M1PR last year.

If you had your 2007 taxes prepared here at our office, the property tax refund processing is a free service we provide our clients.

HELP YOURSELF

By Filing Past Due Returns

IRS research shows that sometimes people don't file in years their filing status changes, such as due to the death of a spouse or divorce, emotional or financial reasons, or it could simply be due to procrastination. But, not filing a federal tax return can be costly – whether you end up owing or missing out on a refund. The IRS may also impose a wide range of civil and criminal sanctions on those who do not file returns.

If you owe taxes, a delay in filing may result in a “failure to file” penalty, also known as the “late filing” penalty, and interest charges. The longer you delay, the larger these charges grow. It may result in penalty and interest charges that could increase your tax bill by 25% or more.

There is no penalty for failure to file if you are due a refund. However, you cannot obtain a refund without filing a tax return. If you wait too long to file, you may risk losing the refund altogether. The law provides most taxpayers with a three-year window of opportunity for claiming a refund.

Regardless of your reason for not filing, file your tax return as soon as possible. You can contact a tax professional or the IRS for help with filing delinquent returns. If you are unable to fully pay any tax due on the late returns, do not let this prevent you from filing as payment options may be available.

Various payment options (online or by phone using electronic funds withdrawal or credit card) offer taxpayers an easy and fast way to make a full or partial payment(s) with their returns. Alternatively, taxpayers can send the IRS a check made out to “United States Treasury.”

Taxpayers who need more time to pay can find out whether they qualify for a payment agreement with the IRS by going to www.irs.gov and clicking on the “Online Payment Agreement” link. By entering some basic information, eligible taxpayers can set up in a matter of minutes either a short-term payment extension or a monthly payment plan.

*He that fears not the future,
may enjoy the present.*

(Thomas Fuller)

Reporting “Miscellaneous Income”

While most people are aware they must include wages, salaries, interest, dividends, tips and commissions as income on their tax returns, many don't realize that they must also report most other income, such as:

- Cash earned from side jobs,
- Barter exchanges of goods or services,
- Awards, prizes, contest winnings and
- Gambling proceeds.

Taxpayers must report all income from any source and any country unless it is explicitly exempt under the U.S. tax code. Generally, the IRS considers all income received in the form of money, property or services to be taxable income. Below lists a few types of reportable income.

Self-Employment Income

It is a common misconception that if a taxpayer does not receive a Form 1099-MISC or if the income is under \$600 per payer, the income is not taxable. There is no minimum amount that a taxpayer may exclude from gross income. All income earned through the taxpayer's business, as an independent contractor or from informal side jobs is self-employment income, which is fully taxable and must be reported on Form 1040. Fees received for babysitting, housecleaning and lawn cutting are all examples of taxable income, even if the amount paid is less than \$600 for the year.

Bartering

Bartering is an exchange of property or services. The fair market value of goods and services exchanged is fully taxable and must be included on Form 1040 in the income of both parties. An example of bartering is a plumber doing repair work for a dentist in exchange for dental services. Income from bartering is taxable in the year in which the taxpayer received the goods or services.

Gambling Winnings

Gambling winnings are fully taxable and must be reported on Form 1040. Gambling income includes, among other things, winnings from lotteries, raffles, horse races, poker tournaments and casinos. It includes cash winnings as well as the fair market value of prizes such as cars and trips. Even if a W-2G is not issued, all gambling winnings must be reported as taxable income regardless of whether any portion is subject to withholding. In addition, taxpayers may be required to pay an estimated tax on the gambling winnings.

Losses may be deducted only if the taxpayer itemizes deductions and only if he or she also has gambling winnings.

Prizes and Awards

Subject to certain exceptions, the cash value of prizes or awards won in a drawing, quiz show program, beauty contest, or other event, must be included on the tax return as taxable income. Taxpayers must also report the fair market value of merchandise or products won as a prize or award, as taxable income.

What's Cooking?

White Chocolate Raspberry Cheesecake

- 1 cup chocolate cookie crumbs
- 3 tablespoons white sugar
- ¼ cup butter, melted
- 1 (10 ounce) package of frozen raspberries
- 2 tablespoons white sugar
- 2 teaspoons cornstarch
- ½ cup water
- 2 cups white chocolate chips
- ½ cup half-and-half cream
- 3 (8 ounce) packages cream cheese, softened
- ½ cup white sugar
- 3 eggs
- 1 teaspoon vanilla extract



In a medium bowl, mix together cookie crumbs, 3 tablespoons sugar, and melted butter. Press mixture into the bottom of a 9 inch springform pan.

In saucepan, combine raspberries, 2 tablespoons sugar, cornstarch, and water. Bring to boil, and continue boiling 5 minutes, or until sauce is thick. Strain sauce through a mesh strainer to remove seeds.

Preheat oven to 325 degrees F (165 degree C). In metal bowl over a pan of simmering water, melt white chocolate chips with half-and-half, stirring occasionally until smooth.

In a large bowl, mix together cream cheese and ½ cup sugar until smooth. Beat in eggs one at a time. Blend in vanilla and melted white chocolate. Pour half of batter over crust. Spoon 3 tablespoons of raspberry sauce over batter. Pour remaining cheesecake batter into pan, and again spoon 3 tablespoons raspberry over the top. Swirl batter with the tip of a knife to create a marbled effect.

Bake for 55 to 60 minutes, or until filling is set. Cool, cover with plastic wrap, and refrigerate for 8 hours before removing from pan. Serve with remaining raspberry sauce.

Suspicious E-mails and Identity Theft

The Internal Revenue Service warns taxpayers to beware of several e-mail and telephone scams that use the IRS name as a lure. *Remember...the IRS does not initiate taxpayer communications through e-mail nor do they gather information by telephone. In addition, the IRS does not request detailed personal information through e-mail or ask taxpayers for their PIN numbers, passwords or similar secret access information for their credit card, bank or other financial accounts.*

Phishing is a tactic used by Internet-based thieves to trick unsuspecting victims into revealing personal information they can then use to access the victims' financial accounts and commit identity theft. Phishing scams often take the form of an e-mail that appears to come from a legitimate source-like the IRS.

Tax Refund, Rebates or Audits scams often come in the form of an e-mail that appears to come from the IRS, or a phone call from someone identifying himself as an IRS employee. The scam artist lures victims in by telling them they are due for a tax refund/rebate or that his or her tax return will be audited. Victims are then instructed to complete forms or provide personal and financial account information.

Economic Stimulus Payment scams involve scam artists contacting individuals (either by phone or e-mail) and falsely telling them to reveal personal and/or financial information in order to get their "rebate" payment.

If you receive an unsolicited e-mail communication claiming to be from the IRS, please forward the original message to: phishing@irs.gov

Complete Payroll Services

Sannerud, Savarese & Associates, PA.'s full payroll service includes:

- Payroll Processing
- Direct deposit available
- Electronic deposit of all payroll taxes
- Preparation of all payroll reports & filing electronically as required
- Preparation of yearend payroll reports and required forms including Form 940, W-2's, W-3, 1099's and 1096
- Providing copies for corporate files
- Reporting new hires to the state

Sannerud, Savarese & Associates, PA. can take the worry out of payroll for you by:

Applying for payroll related identification numbers
(Federal, State, and State UC)
Providing you with W-4s and I-9s.

Accurate – Cost Effective – Timely

*“Let us help you use your time
to do what you do best!”*

**Contact our office for details and a quote:
763-434-5929**

*I FINALLY FIGURED OUT THE ONLY
REASON TO BE ALIVE IS TO ENJOY IT.*

(Rita Mae Brown)

Reminder...

For Those Who Have Filed An EXTENSION

Corporations who are on extension for 2007 have until September 15, 2008 to file their return. Individuals who are on extension for 2007 have until October 15, 2008 to file their return.

Please don't wait till the last minute. The months of June, July and August are the perfect time to get caught up on your taxes!

Summer Office Hours

Monday – Thursday	8:00 AM – 4:30 PM
Friday or by appointment	8:00 AM – Noon
Or by appointment	

E-Mail: staff@sannerudsavarese.com

Web Site: <http://www.sannerudsavarese.com>

Have a topic you would like to read about in
"The Update?"

Send us an email at: staff@sannerudsavarese.com

The Update is published for our clients and friends. It is designed to provide accurate information with respect to the subject covered. Before any action is taken based upon this information, it is essential that competent, individual, professional advice be obtained.

The Update

Sannerud, Savarese & Associates, P.A.
1207 Constance Blvd. N.E.
Ham Lake, MN 55304

ADDRESS SERVICE REQUESTED

PRESORTED
FIRST-CLASS MAIL
U.S. POSTAGE PAID
PERMIT #4190
MINNEAPOLIS, MN

* Education *

The staff has or will be attending the following classes:
Sue Savarese: Preparing & Reporting On Tax Basis
Financial Statements
(PPC Thompson)
Paulette Hynes: Tax Aspects of the Self-Employed
(Provided by: The Tax School)

* Upcoming Community Education Classes *

Taught by Sue Savarese, CPA

Class: **Small Business Recordkeeping**

Date: October 9, 2008

Location: Staff Development Center, Anoka, MN

For information about the class or to register,
call 763-506-5766

* Staff *

A.M. Sannerud, Founder Certified Public Accountant (Inactive)
Susan E. Savarese, Managing Partner Certified Public Accountant
Rae-Ann Rothmeier Certified Public Accountant
Pauline Mittelstaedt Firm Administrator
Robin J. Schnaidt Senior Accountant
Paulette Hynes Enrolled Agent
Ruth Hunter Staff Accountant
Jody Newlander Accounting Clerk
Tracy Slepica Receptionist, "Update" Editor
Betty Sannerud Custodial Services
Mary Lou Michels Custodial Services

