

Black Business News

YOUR LINK TO BLACK BUSINESS ENTERPRISE IN SOUTHERN CALIFORNIA

The Official Business Journal of the Black Business Association

\$2.50



Clarence E. Harris, E.A.

If you own a vacation home (some boats and recreational vehicles also qualify) that you also rent out to others, keep track of who uses it during the year to maximize your tax breaks.

Meet the rules and receive tax-free income.

If your home is rented for 14 or fewer days during the year, you don't have to report the income. You can generally deduct mortgage interest and real estate taxes as itemized deductions, but you can't deduct any other rental expenses.

Limit your personal use and deduct all your rental expenses.

Taxes:

Use Your Vacation Home Wisely to Enjoy Tax Breaks

by Clarence E. Harris, E.A. July 2006

If you limit your personal use to not more than 14 days or 10% of the time the home is rented, all rental expenses are deductible.

Offset your rental income with your rental expenses.

If you use the property for more than 14 days or 10% of the number of days it's rented, the rules change. Your rental deductions (except for taxes and mortgage interest) are limited to the amount of your rental income. *Example.* You stayed in your vacation home 20 days last year. It was rented at fair market value for 190 days. In this example, your personal use exceeded the 10% limit (19 days). Your rental deductions are limited to the rental income you received.

Convert the property to your resident, and the gain when you sell may be tax-free.

If you use your vacation home as your principal residence for two out of the five years before you sell it, you may exclude up to \$250,000 of gain (\$500,000 for married couples) from your income. How-

ever, you will have to pay tax on any depreciation taken after May 6, 1997.

The rules are complex, but a basic understanding of the rules and good record keeping will help you get the best tax breaks from your vacation home. ☺

Clarence E. Harris, a BBA member, is National Tax Services Director for C. E. Harris & Company. He has more than thirty years of professional experience as a tax-oriented management consultant to industry, public, and non-profit sector clients. He has in-depth experience in virtually every aspect of federal and state tax services, tax advisory and planning.

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P.O. Box 43159

Los Angeles, CA 90043 USA

Tel: (323) 291-9334

Fax: (323) 291-9234

URL: www.bbala.org

E-mail: bbala@earthlink.net

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Taxes:

How the New Tax Law Could Affect You

by Clarence E. Harris, E.A. September 2006

2009, and reduced rates on long-term capital gains and dividend income (15% for the highest brackets) will remain in place through 2010.

Roth IRA conversions. Starting in 2010, you'll be able to convert a traditional IRA to a Roth no matter the amount of your adjusted gross income. You'll still have to include the conversion amount on your return and pay the tax, but you can spread that amount over two years for conversions made in 2010.

The kiddie tax. In the past when your under-age-14 child had interest, dividends, capital gains, and other unearned income over a specified amount (\$1,700 for 2006), you were generally required to pay tax on that income at your rate. At age 14, your child could file a separate return and pay tax at what was typically a lower rate. Under the new law, beginning with 2006 tax returns, your child's unearned income over the specified limit is taxed at your rate until age 18.

Working abroad. Changes include indexing the foreign earned income exclusion (raising the maximum exclusion to \$82,400 for 2006) and a limitation, on the foreign housing exclusion.

For details on how the law could affect your tax planning, contact me using the information show below. ☺

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Clarence E. Harris
C. E. Harris & Company
Management Consultants
3401 West 43rd Street
Los Angeles, CA 90008
(323) 294-4434
cehco@aol.com

The Tax Increase Prevention and Reconciliation Act, signed on May 17, 2006, provides benefits if you're subject to the AMT, or are an investor, business owner, or IRA holder. The new law is less generous when your kids have unearned income or if you work abroad. Here's an overview:

Alternative minimum tax (AMT). The law increases AMT exemptions for 2006. If you're married filing jointly, the amount you can use to reduce taxable income for AMT purposes is \$62,550 (\$42,500 for singles). In addition, you can apply nonrefundable personal credits such as Hope scholarship and lifetime learning credits to offset the AMT in 2006.

Investors and business owners. Increased Section 179 asset expensing (\$108,000 for 2006) is allowed through

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The "Tax Gap" is a concept developed by the Internal Revenue Service (IRS) to measure voluntary compliance with the tax laws by taxpayers. The tax gap is the difference between what taxpayers should have paid and the amount that is actually paid voluntarily and timely. About 85% of all taxes owed are paid as due. That leaves a 15% noncompliance rate for a tax gap in excess of \$300 billion per year. IRS enforcement activities, including tax return audits, will collect about \$50 billion of this tax revenue shortage.

There are three components to the tax gap: non-filing, underreporting, and underpayment. The tax gap does not include taxes that should have been paid on income

Taxes:

What is the "Tax Gap"?

by Clarence E. Harris, E.A. December 2006

from illegal activities.

Underreporting accounts for about 80% of the tax gap. The largest sub-component for underreporting involves individual taxpayers understating their income, taking improper deductions, and overstating business expenses. Noncompliance is highest where there is no third-party reporting and/or withholding such as there is with W-2s and 1099 information slips.

The current IRS measurement of the tax gap was done under the National Research Program. The study involved the review of over 45,000 tax returns. The information gathered will assist the IRS in selecting tax returns for audit. The intent is to select those tax returns that will lead to the greatest amount of additional tax. This not only improves IRS efficiency, but it also demonstrates to taxpayers that others will be paying according to the tax laws.

Total audits of all tax returns exceeded one million in 2004. That represents an increase of 37% over the number of 2001 audits.

What does all this mean to you? If a large portion of your income is

not subject to third-party reporting, you may be in a group that is on a potential tax return audit list this year. ☺

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Business Tax Management:

Use Your Vacation Home Wisely to Enjoy Tax Breaks

by Clarence E. Harris, EA

April 2007

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•Limit your personal use and deduct all your rental expenses. If you limit your personal use to not more than 14 days or 10% of the

time the home is rented, all rental expenses are deductible.

•Offset your rental income with your rental expenses. If you use the property for more than 14 days or 10% of the number of days its rented, the rules change. Your rental deductins (except for taxes and mortgage interest) are limited to the amount of your rental income. Example. You stayed in your vacation home 20 days last year. It was rented at fair market value for 190 days. In this example, your personal use exceeded the 10% limit (19 days). Your rental deductions are limited to the rental income you received.

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You get an annual checkup from your physician to monitor and manage your personal health. Shouldn't you do the same for your business? To keep your operation in top shape, consider an annual business review. The benefits of such a review are holding your company accountable and evaluating current performance to better plan and execute future operations.

Some things you should evaluate in annual business review:

Revisit your business strengths, weaknesses, and opportunities: Is your competitive position improving, or are you losing ground?

How did you perform relative to your business plan? Did you meet or exceed your objectives? Are sales, profit margins and cash improving?

Get a pulse on your customers. An annual customer satisfaction survey is a

Business Tax Management:

Conduct An Annual Business Review

by Clarence E. Harris, EA December 2007

great way to assess performance, obtain insight on potential new products or services and to let your customers know how much you value their business.

Evaluate your team. Are you developing a superior team, employing their unique talents, and training them to improve performance? Do you reward on merit or simply on seniority?

How effect is your marketing? Are your current methods and channels working well, or are you simply doing what you've always done?

Meet with your insurance agent. Is your coverage adequate and appropriate for changes in you business activities and acquisitions?

How is your scorekeeping? Do your measurements track your progress or do they measure things that don't matter? What are key performance measures that drive your business?

Is your value growing? Do you annually monitor the value of your business?

If you are serious about improving your business, consider a yearly assessment of your operation. For any assistance you need, give us a call. ☎

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SINCE 1970, the Black Business Association (BBA), a 501 (c)(3) non-profit organization, headquartered in Los Angeles, has contributed to and supported the development, progress and expansion of more than 10,000 African-American businesses. Nationally, we have access to and influence with more than 75,000 African-American owned and women/minority-owned businesses (WMBE's), through the formation of strategic alliances with trade associations and organizations nationwide.