



4th Quarter 2007

DEDUCTION or NO DEDUCTION?

Test your knowledge about deducting expenses on your individual or business tax return. Your prize if you know the correct answers? You might pay fewer taxes!

As 2007 comes to a close, you'll want to round up all your various tax deductions. But are you really sure which items are allowable...and at what percentage or amount? **You may be surprised and what you don't know could cost you.**

That's why our Honeck•O'Toole team of experts put together this list of the most common questions we receive throughout the year. Browse and see if you can find a hidden gem or two for your next tax return. And as always, please call us if you have a question about what is and isn't deductible.

- **Social club dues? No deduction.** You cannot deduct dues paid to the following social organizations, even if business connections are made as a result: golf and athletic clubs, country clubs, airline clubs, hotel clubs.
- **Business association dues? Deduction with a caveat.** Business association dues are deductible as long as they're not tied to lobbying. If a business organization has a lobbying arm, most organizations will break out the lobbying portion of the bill so you can deduct the non-lobbying percentage of your dues.
- **Business gifts? Deduction with a caution.** Business gifts are deductible up to \$25 per recipient per year. An exception is a gift that can be considered entertainment, such as tickets to an event. In this case, you can deduct it as either a gift or entertainment—whichever is most beneficial. If you attend the event with the client, then it must be considered an entertainment expense. (Be careful. If you send a client or prospect a thank-you basket of goodies, it's not a marketing expense. The correct category is

Important Dates for Tax Year 2007

- **Fourth payment of 2007 estimated tax by 1/15/08.** This is if you're not paying your income tax for the year through withholding (or will not pay enough tax that way).
- **File 1099s by 1/31/2008.** A 1099 form must be filed if:
 - Your business paid \$600 or more to individual vendors for non-employee services
 - Your business paid a landlord rent totaling \$600 or more
 - You made payments to attorneys
- **Send W-2 Forms and Year-End Payroll Statements to Employees by 1/31/2008.** Each of your employees (and the IRS) must receive a year-end statement of their total wages and deductions. This includes payments made for personal use of a business car, shareholders' health insurance premiums (if you're an S Corporation), etc. Your payroll service can prepare these statements for you. If you don't use a payroll service, we can help.
- **Report Sales and Use Tax.** If your business purchased business items in tax-free New Hampshire or through a catalog, you're required to report these purchases on the Maine Sales & Use Tax Form. Call us for more details.
- **OPTIONAL: Pre-pay part of your tax prep fee for a 2007 deduction.** Honeck•O'Toole will mail you a 75% pre-bill of your estimated 2007 tax preparation fee. If you pay this before December 31, 2007, you may be able to deduct it as a business expense or miscellaneous deduction on your 2007 tax return.

"I owe the government \$3,400 in taxes. So I sent them two hammers and a toilet seat."

- Michael McShane

◀ DEDUCTIONS continued...

business gift, and it's only deductible up to \$25 per person per year.)

- **Parking or speeding tickets? No deduction.** It doesn't matter that you forgot to feed the meter while meeting with a client or you were racing to an important business luncheon.
- **Penalties or interest on income tax liability? No deduction.** A penalty is a penalty in every sense of the word. There are no benefits from an income tax penalty.
- **Professional clothing? No Deduction.** Unless it's a required uniform or required safety clothing, it's not deductible. Some real estate agents are not happy with this. Neither are people who work from home but have to buy suits for professional conferences.
- **Gifts to employees? Deduction up to \$25.** More than that is a big NO unless it's included in their compensation. Then it really isn't a gift anyway. It's wages. So go ahead and give that holiday ham or turkey.
- **Political contributions? No deduction.** Politicians are not charities. No matter what they tell you.
- **Charitable contributions? Deduction.** But be careful. If you pay for raffle tickets or purchase something at an auction, that's not deductible. In those instances, you're gambling and shopping, not donating.
- **Gifts to individuals (children, friends)? No deduction.**
- **Alimony payments? Deduction.** The recipient has to report them as income.
- **Child support payments? No deduction.**
- **Attorney's fee concerning divorce? No deduction.**
- **Attorney's fee concerning collection of alimony? Deduction.**
- **Attorney's fee drawing up a will? No deduction.**
- **Attorney's fee concerning tax planning for estate and inheritance? Deduction.**
- **Cost of improvements to your personal residence? No deduction.**
- **Cost of improvements to rental property? Deduction:** depreciation is deductible over the life of the property. ■

Small-business deductions: "ordinary and necessary," "reasonable and customary"

According to the IRS, small business deductions you claim on your tax return have to be:

1. directly connected with your business, such as a copier or dedicated phone line
2. "ordinary," meaning customary or accepted in your line of work
3. "necessary," meaning helpful to your ability to conduct business

It must also be reasonable (think Cincinnati business trip, not Cancun snorkeling trip). ■

It's not too late for Honeck•O'Toole to help you with your 2007 year-end tax planning. Call us immediately if you have questions about your situation.



HAPPY HOLIDAYS

Everyone here at Honeck•O'Toole wishes you and yours a joyous holiday season and a very prosperous new year!



More Tax Deductions You May Not Know About

These are brief overviews. Please call us to discuss your particular situation.

Casualty Losses

If you experience certain types of major personal casualties, you may be able to benefit from tax savings. An itemized deduction may be available for personal losses from fires, storms, car accidents, and similar “sudden, unexpected, or unusual” events, including theft. The deduction is only available for physical damage or loss to your property. Thus, if you are in an automobile accident and pay for the damage done to the other driver's car, the cost does not qualify. Similarly, if you're injured in the accident, your medical bills do not qualify as part of your casualty loss (although, of course, they may result in a medical expense deduction). The loss figure is reduced by three amounts first (so you may not end up with a deduction):

1. To the extent you're insured, you must reduce your loss by your reimbursement.
2. For each casualty, you must reduce your loss amount by \$100 per “event,” and not per item damaged. [If a storm knocks over a tree which damages your car and home, you have three property losses (tree, car, house) and only one \$100 reduction.]
3. After combining all your losses under the above guidelines, you must reduce them by 10% of your adjusted gross income (AGI). Only the loss amount above this “floor” can be deducted.

Rental of Vacation Property

If you rent property for any part of the year, the tax treatment depends on how many days it's rented and your level of personal use. Personal use includes vacation use by your relatives (even if you charge them market rate rent) and use by non-relatives if a market rate rent is not charged.

- If you rent the property for fewer than 15 days a year, it's not treated as “rental property.” This can produce significant tax benefits. Any rent you receive isn't included in your income for tax purposes (no matter how substantial the amount). On the other hand, you can only deduct property taxes and mortgage interest—no other operating costs or depreciation.
- If you rent the property for more than 14 days, you must include the rent you receive in income. However, you can deduct part of your operating expenses and depreciation, subject to a number of rules.

Home office expense deduction for self-employed individuals

If you're self-employed and work out of an office in your home, and if you satisfy strict IRS rules, you will be entitled to favorable “home office” deductions for the following:

- the “direct expenses” of the home office (the costs of painting or repairing the home office, depreciation deductions for furniture and fixtures used in the home office, etc.), and
- the “indirect” expenses of maintaining the home office (a share of utility costs, depreciation, insurance, etc., for your home, as well as a share of mortgage interest, real estate taxes, and casualty losses).

Tests for home office deductions: You may deduct your home office expenses if you meet any of the three tests described below: the “principal place of business” test, the “place for meeting patients, clients or customers” test, or the “separate structure” test. You may also deduct the expenses of certain storage space if you qualify under the rules.



ChIME



ChIME

(Chaplaincy Institute of Maine)

At this time of year, when so many of us are hoping for peace on earth, we'd like to profile a client focused on spiritual learning and healing.

Portland's ChIME organization is an

Interfaith wisdom school and open community committed to transformation of the self and planet earth through education, ordination, support, celebration and service. Opened in 2002, it's a non-profit educational organization offering learning opportunities in meditation, spiritual prayers, body prayers, art-as-meditation, academic study and community service. The organization's Abbot, Rev. Jacob Watson, DMin., told us, "We support individuals seeking to deepen their spiritual growth and practice, and perhaps also achieve ordination as interfaith ministers. Through our two-year program, individuals can not only deepen their spiritual lives, but do so in community with other spiritual seekers. They can become proficient in leading interfaith community ceremonies and rituals, such as baptisms, weddings, organizational meetings, worship services, end of life care, funerals, and memorials. We find ourselves creating a community of Interfaith ministers, planetary chaplains, artist healers and modern-day mystics. We've graduated and ordained 30 students as Interfaith Ministers so far, and it's deeply satisfying to witness their extraordinary spiritual growth and how they share themselves in service." ChIME's accessible programs accommodate students with jobs and families by scheduling the classes on weekly evenings and one weekend workshop every month. Weekend workshops are open to the public; upcoming topics include Spiritual Care in Hospitals and Hospice (January), and Feminist Theology and Creation Spirituality (February). ChIME also offers regular Sunday morning worship services with an emphasis on the expressive arts, integrating body, mind and spirit, using the wisdom of indigenous peoples, and the themes of love and compassion from the world's religions. For more information, visit www.chimeofmaine.org.

MonitorClosely.com

Digital Surveillance Systems

Last February, local resident Ken Cyll launched a new business to help Maine companies increase productivity and reduce risk through the use of digital security systems. He acquired MonitorClosely.com's franchise rights for Maine and is servicing the state with the company's ClearVision MC Series™ state-of-the-art video surveillance equipment. Ken told us why he made this leap. "After working as an engineer for large corporations all of my career, I had a burning desire to create a new successful business from the start-up phase through maturity. With advancements in digital technology, the quality of surveillance systems has significantly improved while equipment costs have continuously decreased. Also, there's now a greater availability of Internet service providers and PCs in homes and offices, so it's possible to monitor surveillance cameras from anywhere at anytime. We saw unlimited potential in Maine for these services." Ken's company quickly established business with restaurants, public housing, pet boarding kennels, bars, laundromats, car dealers, golf courses and a landscape company. Ken's franchise also offers a very affordable Internet-based subscription service through their surveillance host website, MonitorClosely.com. For example, a day-care center can offer parents a viewing service via the Internet, so a working parent can go online to watch her baby sleeping, eating, or playing. Likewise, an eldercare or assisted living center can offer a similar service. Businesses will gain a competitive advantage by featuring enhanced security with digital recording, better employee productivity, and a very strong deterrent for unsafe or inappropriate behavior. Ken's also an active member of the Coast Guard Auxiliary Portland Flotilla and is a member of the Portland Regional Chamber of Commerce. He attributes his success to "continuous intellectual and technical curiosity." For more information, visit www.MonitorClosely.com or call 207-929-8300.

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INSIDE

**DEDUCTIONS
OR NOT?**