

TAXES

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TAX TIPS: GETTING YOUR DOCUMENTS READY

You promised you wouldn't do this again. And yet here you are.

It's tax time, and just like last year, you're going crazy trying to get your financial statements ready for your tax preparer. To get you through it all, here are a few suggestions and topics that we see daily.

Bank Reconciliation: Most popular accounting software automates the process. But you can take it one step further by downloading your account activity from your online banking system every month and matching it against what you've entered into your software. If you haven't entered anything for the year (yes, it happens), you can download all of your transactions from your online banking directly into your accounting software. Next year, reconcile your account monthly. Online banking makes it

fast and painless.

Credit Card Reconciliation: If possible, choose a credit card company that offers online access to your account. You can download the transactions to your accounting software and reconcile the credit card statement to the ending balance each month, just like you do with your bank account. If you have used the same credit cards for business and personal expenses you will have to go through your credit card statements with a highlighter in hand, marking off personal and business expenses. You can create an Excel spreadsheet, with columns for personal and business expenses to separate the two. Be sure to add them together to make sure the credit card statement balances. After you are balanced,

have your accountant do the appropriate journal entries. And resolve to make your life easier by using separate cards for business and personal use!

Accounts Payable: In your accounting software, run an A/P aging detail report and review it for accuracy. Look for and be able to explain any unusual or negative amounts, credits, overpayments or underpayments. Make note of any bills still outstanding, and whether and when you will pay them.

Accounts Receivable: In your accounting software, run an A/R aging detail report and review it for accuracy. Again, look for unusual or negative amounts, credits, overpayments or underpayments. If any invoices are still due, try to determine when you will be paid.
(continued page 2)

GENERAL ASSEMBLY: POTENTIAL TAX INCREASES

As Illinois faces ever-increasing budget constraints, tax increase advocates are looking at different alternatives for raising revenue. Proposals to tax services under the Illinois sales tax are one of those alternatives frequently mentioned.

Economy Shifting from Manufacturing to Services...

Proponents of service taxes point to the economic shift to services and point out that the general sales tax base will continue to decline unless expanded to include services.

As the manufacturing industry outsources more work to foreign countries, the service industries have become a larger part of the Illinois economy. In Illinois, service related industries represent about 42% of the state's Gross State Product (GSP) and nearly 60% of all consumer spending.

Illinois has a larger share of service industries than surrounding Great Lakes States. This is primarily due to the increased importance

of 1) the Finance and insurance industries, 2) professional and technical service industries, and 3) the information industries located in Illinois.

Broad Based Service Taxes Rare, Unpopular and Possible..


Service tax laws vary greatly throughout the country. They are highly unpopular taxes that meet with great resistance from the business sector (and from consumers) when introduced. Typically states will specifically enumerate certain services to be taxed by industry code(s). The last attempts to impose broad based sales taxes on services were in Florida in 1987, Massachusetts in 1990, and most recently Michigan in 2007.

Several states do tax a large number of services successfully: Delaware (142 services taxed); Hawaii (160 services taxed); New Mexico (156 services taxed); and South Dakota (146 services taxed).

Illinois currently taxes 17 services primarily by means of excise

taxes imposed on service industries like telecommunications and electricity that generally fall outside of the general sales tax. The sales tax remains imposed on sales of tangible personal property sold at retail or tangible personal property transferred as part of a service. Labor charges on general services are not taxable under the sales tax. Illinois ranks 45th in the total number of services taxed by the states.

As state budget deficits grow, more states are looking at broadening their sales tax base to include services. Both Minnesota and Indiana appear to be looking at the likelihood of imposing a tax on services in the spring session of 2009. Both are contemplating dropping the overall sales tax rate while broadening the sales tax base to services.

Potential revenue from broad based service tax:
\$5.7 Billion

100,000 business would be negatively impacted

GOVERNMENT AFFAIRS TEAM:

Greater O'Hare Association Government Affairs Team is focused on educating and activating the business community.

Through our dual mission of educating and activating we can unify our voice to be heard by legislators and community leaders.

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ILLINOIS GENERAL ASSEMBLY TAX LAWS

HB 1054 Occupation Tax- Amends the School Code. Provides that the proceeds of a school facility occupation tax must be allocated based upon the number of each school district's resident pupils that reside within the county collecting the tax divided by the total number of resident students within the county (instead of the total number of students for all school districts within the county). P.A. 095-0850

HB 5069 Property Tax- Payment Adjustment- Amends the Property Tax Code concerning payments under specification. Provides that the collector shall (instead of "may") receive taxes on part of any property charged with

taxes when a particular specification of the part is furnished. Amends the Illinois Income Tax Act. In a Section that allows the Director of the Department of Revenue to adjust items of income if it appears that an agreement, understanding, or arrangement exists that causes a person's base income to be improperly or inaccurately reflected, provides that the Director may not make an adjustment to base income that has the effect of retroactively applying certain Public Acts. P.A. 095-0948

SB 1981 Film Production Services Tax- Amends the Film Production Services Tax Credit Act of 2008. Repeals a Section of the Act that provides that the Act will sunset on

January 1, 2009. Provides that, for an accredited production commencing on or after January 1, 2009, the amount of the credit is (i) 30% (instead of 20%) of the Illinois production spending for the taxable year, and (ii) 15% of the Illinois labor expenditures generated by the employment of residents from areas of high unemployment or high poverty. Imposes conditions on any rulemaking authority. Effective immediately.

Dec 15 08 S. P.A. 095-1006

SB 2353 Property Tax-Surveys- Amends the Property Tax Code. Repeals a Section authorizing county clerks to make a survey of subdivided property. P.A. 095-0925

TAX TIPS: GETTING YOUR DOCUMENTS READY (CONTINUED)

Regular Monthly Payments: Review accounts like rent, car or truck loans, utilities, etc. Confirm there are monthly payments. If any are missing, find out why.

Liabilities: Do any liabilities have negative amounts? This can happen if you failed to separately expense the interest portion of a loan payment, and instead reduced the total liability by the total amount of the loan payment.

Special Considerations for S-Corporations: Owners of S-corporations are employees of the company and are required to pay

"responsible wages" to themselves. These wages are subject to 15.3% FICA and Medicare taxes (since you are paying both the employee and the employer shares of the taxes). Payments to a pension plan may provide further opportunities for tax deductions. A tax advisor can give you specific advice for your company.

After you've withdrawn your wages from the S-corporation, you may also make distributions to yourself. Distributions are not subject to FICA and Medicare taxes; they are taxed at ordinary income tax rates.

Shareholder loans and reimbursement of expenses should be paid using company checks or company credit cards. As with any type of business, it's always a good idea to keep personal expenses separate, for accuracy of your financial statements.

If you feel that you still need help cleaning up your books, or if you're looking for a new accountant to prepare your business taxes, call Abacus Rex. Visit www.AbacusRex.com or call president Michael Peters at 630-241-9366 for help today!

BUSINESS PROVISIONS OF THE ECONOMIC STIMULUS ACT OF 2008

The Economic Stimulus Act of 2008 contains two provisions that provide tax benefits for businesses. The first provision increases the limit up to which a business can expense property purchased and placed in service during its 2008 tax year. The second provision provides an additional 50 percent special depreciation allowance for property acquired and placed in service during calendar year 2008.

Unlike the economic stimulus payments that millions of individuals have already received, the tax benefits for businesses are not automatic; businesses must act to take advantage of the new provisions by purchasing qualifying property.

The Joint Committee on Taxation estimates that businesses stand to **lower their 2008 tax bills by roughly \$45 billion** as a result of the two business provisions in the Economic Stimulus Act of 2008; these provisions accelerate into 2008 the tax benefits that otherwise would not have been available until future years.



The following are some details about these two key tax benefits: **Section 179 Expensing**

In general, section 179 provides that, instead of depreciating property, a business with a sufficiently small amount of annual property purchases may choose to expense the cost of the property. For taxable years beginning in 2008, the Economic Stimulus Act increased the section 179 expensing limit allowing more property to be currently expensed.

The Economic Stimulus Act increased the maximum section 179 expense deduction to \$250,000 for qualified section 179 property that is placed in service in tax years that begin in 2008. This is a 95 percent increase from the previous limitation of \$128,000.

Special Depreciation Allowance:

The Economic Stimulus Act also provided a 50 percent special depreciation allowance for property acquired and placed in service during 2008. Depreciation is an income tax deduction that allows a taxpayer to recover the cost or other basis of certain property over several years. It

is an annual allowance for the wear and tear, deterioration or obsolescence of the property.

Under the new law, a taxpayer is entitled to depreciate 50 percent of the adjusted basis (after subtracting any section 179 deduction taken on that property) of qualified property during the year the property is placed in service. For example, if the taxpayer purchased and placed in service in 2008 a single piece of property at a cost of \$450,000 that qualified for section 179 expensing and the 50 percent special depreciation allowance, \$250,000 of the cost could be immediately expensed (under section 179) and the remaining \$200,000 of adjusted basis would be available for the 50 percent special depreciation allowance. The taxpayer would also be permitted to take regular depreciation on the remaining \$100,000 of adjusted basis during that year. This is similar to the special depreciation allowance that was previously available for certain property placed in service generally before Jan. 1, 2005, often referred to as "bonus depreciation."

(For more information on this article or other tax questions, please visit: www.irs.gov)