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## Tax Tips and Highlights for 2006-2007

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### Telephone Excise Tax Refund

Individuals may choose a "safe harbor" amount, ranging from \$30 to \$60, or compute the actual amount of long distance excise taxes paid. IRS has announced a formula that will allow businesses and tax-exempt organizations to estimate the amount of refund they are entitled to for federal telephone excise tax paid for long distance telephone service.

### Increased Code Section 179 expensing

For 2006, the maximum annual expensing amount is \$108,000 increasing to \$112,000 for 2007.

### Payroll Tax Issues

In November, you should have received "Your Year 2007 Federal Tax Deposit Requirements" from the IRS, your annual Unemployment Compensation Tax Rate Notice for 2007, and notification from Florida if you are required to file unemployment forms and taxes electronically. These notices should be forwarded to your payroll preparer.

Beginning January 1, 2007, the Florida minimum wage increases from \$6.40 to \$6.67; however, tipped employees increase from \$3.13 to \$3.65.

IRS maintains a zero tolerance for incorrect W-2s and 1099s. A \$50 penalty per incorrect form could be assessed against employers whose forms have mismatched names and social security numbers. You can verify up to five names and numbers by calling the SSA at 1-800-772-6270 or visiting their website at [www.ssa.gov/employer](http://www.ssa.gov/employer) for larger groups.

Bonus checks are considered earned income and are subject to payroll taxes, as well as Per Diem expense reimbursements. The IRS requires employers to track expense reimbursements in excess of federal Per Diem rates.

The taxable wage base for Social Security in 2007 is increased to \$97,500, making the maximum social security tax \$6,045 (6.2%). Medicare wages are taxed at 1.45% with no limit. Wages paid to a son or daughter under the age of 18 are exempt from social security and FUTA taxes.

### Employee versus Independent Contractor

Under common-law rules, an individual generally is an employee if the company he works for has the right to control and direct him regarding the job he is to do and how he is to do it. Otherwise, he is an independent contractor. Qualified real estate agents and certain direct sellers are considered statutory independent contractors, not employees for purposes of wage withholding, FICA or FUTA, and the income tax rules in general.

Any individual independent contractor receiving compensation over \$600 for the year must be issued a 1099-MISC. In addition, ALL attorneys who received ANY amount of payment must be issued a 1099-MISC as well.

### Company Provided Vehicles

Employees should be taxed for the personal use of any employer provided vehicle. Specifically, the employee's gross income on Form W-2 is increased to the extent the fair market value of this benefit exceeds the amount paid, if any, by the employee. This fringe benefit is subject to payroll taxes and should be withheld from the employee's salary by year-end.

### 2007 Standard Mileage Rates

For the business use of a car, van or truck use 48.5 cents per mile. When computing deductible medical or moving expenses, use 20 cents per mile and 14 cents per mile when providing services to a charitable organization.

### Qualified Pension Plan Contribution Limits for 2007

There are several employer-sponsored tax-deferred retirement plans that were affected by 2001 legislation, all of which have increased contribution limits. The most common is the 401(k) having an increased contribution limit of \$15,500 in 2007 from \$15,000 in 2006. Many of the plans also have "catch-up" contributions for employees age 50 or older.

Please keep in mind that we've described only highlights and some of the changes in the tax rules. There are many more questions and opportunities for proper tax planning. Please give us a call on how you may be affected by these important tax issues.

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