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*Business Advisor*

*Tax Planning*

*Tax Preparation*

*Retirement Planning*

*Accounting*

*Financial State-  
ments*

*Personal Financial  
Planning*

## Welcome New Clients!

I would like to extend a warm welcome to clients new to my firm during the past year. Many people think that the only thing I do for clients is tax return preparation. I do many other things, though. Here are some examples:

I help retirees and high-net worth individuals design asset-disposition strategies to reflect their wishes, including ethical priorities, maximize amounts going to heirs and charities and minimize estate taxes (assuming that the estate tax isn't repealed).

I also help the personal representatives (executors) of estates filing estate tax returns when required

(though attorneys usually do this), and the estate's fiduciary income tax returns.

Business owners ask me how to get their accounting system to produce reports that are useful to them in running their businesses. I also do special projects, such as preparing information for insurance claims or loan applications.

I will help clients design their portfolio to take into consideration their tolerance for risk and their stage in life. Because I'm not a Registered Investment Advisor, I cannot recommend specific securities; I suggest you contact your broker for ideas.

## Website Re-designed!

I've re-designed my web site. Instead of the link side bar, I now have links near the top of each page, with small graphics to suggest the content of each page:



The problems I had had with Microsoft Internet Explorer accessing the server in my office appears to have been solved. Let me know if you still have problems.

## Memberships

American Institute of  
Certified Public Ac-  
countants

Colorado Society of  
Certified Public Ac-  
countants

Society of Certified  
Senior Advisors



## Tax Changes Come in Strange Places!

When President Bush signed the **U. S. Troop Readiness, Veteran's Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007** on May 25 (that's the law that caused so much grief over funding the Iraq war), he also completed the enactment of nearly \$5 billion in small business tax incentives, offset by \$5 billion of revenue raising provisions.

- ⇒ Children who attend college will be subject to the "kiddie tax" up to age 24, beginning in 2008. Fortunately, that means you have the rest of 2007 to restructure your finances to minimize the impact.
- ⇒ Mom-and-Pop businesses that have had to file partnership returns in the past can now (2007) file on two Schedule Cs, pro-

vided there are no other owners and both spouses materially participate.

- ⇒ Small, capital-intensive businesses now can expense a larger amount of equipment (\$125,000 in 2007) in the year of purchase instead of having to depreciate over several years (Section 179).
- ⇒ Several changes (mostly favorable) were made in the treatment of S corporations.
- ⇒ Congress also increased the penalties against unscrupulous tax return preparers; these apply when an understatement of tax arises due to a position that is not "more likely than not the proper treatment." Formerly this was a "realistic possibility" standard. The penalty can be as high as half the income derived by the preparer! Ouch!

## Proposed S corporation tax changes

The IRS is proposing some changes to the way S corporations report some transactions.

**Open Account Debt.** One of these is in response to a Tax Court case (*Brooks v. Commissioner*), which allowed "open account debt" against which a taxpayer deducted losses to avoid having to report income when the debt was repaid early in the year by the corporation. The taxpayer loaned additional funds late in the year to offset the payment. Open account debt is debt that is not secured by a note with definite repayment terms.

The IRS is proposing that if the debt exceeds \$10,000 on any day in the year, it will become debt equivalent to one evidenced by a written instrument. This increases the likelihood that repayment of debt will restore basis earlier. When basis is restored, the shareholder gets a double-whammy: both the income reported on the Schedule K-1 AND the income from basis restoration in the same year.

**Health insurance purchased by shareholder.** The IRS has put a document on its web site ([Headliner Volume 163](#)) in which it argues that health insurance purchased by a shareholder cannot be deducted "above the line" in computing Adjusted Gross Income, but instead must be deducted with other itemized medical deductions. This is unlike the case for sole proprietors and partners of partnerships, who are able to get the more favorable treatment.

While I think that this analysis doesn't consider the distinction between the POLICY of the health insurance company and the ACCIDENT OR HEALTH PLAN of the S corporation, I would be cautious about claiming personal health insurance as business health insurance, especially in light of the increased preparer penalties discussed above. At least here in Colorado, health insurance companies have to offer 1-employee health insurance plans to small businesses, unlike in other states like California.

IRS Circular 230 requires that certain steps be taken by a tax advisor before his or her written tax advice may be relied upon to avoid IRS penalties. Accordingly, this newsletter is not intended by me to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax penalties that may be imposed. Further, any written statement in this newsletter relating to a federal tax transaction or matter may not be used by any person to support the promotion or marketing of, or to recommend, any federal tax transaction or matter addressed herein.

**Promote the use of the democratic process in all endeavors.**