



Tax & Financial Guide

Business and Personal ACCOUNTING, TAX,
SOFTWARE & FINANCIAL PLANNING SERVICES

Potential Tax Savings

Direct IRA payouts to charities are still allowed until December 31, 2007. Lawmakers will probably get this extended.

If you have a flex plan that includes dependent care costs, you can get reimbursed for up to \$5,000 of those costs. If you have more than one child and spend up to \$6,000, you can claim the amount over \$5,000 on your tax return and get a child care credit. If you and your spouse both have flex plans that include dependent care, you can get reimbursed for up to \$6,000 between both plans.

Mortgage interest is deductible as long as you are liable for the loan and own the home. There is an exception to the rule: Relatives took out a mortgage because the taxpayers living in the home did not qualify for a loan. The residents lived in the home, made the loan payments, and paid for all repairs and improvements. The taxpayers making the payments can deduct the interest they paid on the mortgage.

Taxpayers can take a deduction from an IRA for first-home purchases. If the purchase fails, they have 120 days to roll the money back to the IRA without tax or penalty. Only one tax-free rollover is allowed every 12 months.

If your child or grandchild has a part-time job, you can put money into a Roth IRA for them up to the amount earned or \$4,000, whichever is less. Your donation is counted toward your annual gift exclusion. This money will grow tax-free for your child or grandchild. He or she may use it for

college or to purchase a first home.

Mazdas have been added to the qualified tax credit for hybrid vehicles. Credits for these cars will not start to phase out until Mazda sells over 60,000 hybrids. Credits for Toyota and Lexus hybrids end after September 30, 2007. Honda hybrids will start to lose their credits in 2008.

Kiddie Tax Up Again

The IRS is once more raising the age limits on the kiddie tax. Now subject to the kiddie tax will be

dependents up to the age of 19, and full-time students up to 24-years-old whose earned income is less than half their support. If you are putting money aside for your children's college, make sure you place it in a qualified tax-free education account.

Overly optimistic valuations of donated clothes cause tax woes. The IRS expects your valuation to be the amount someone would be willing to pay for the items if you had a rummage sale or publicly listed the items for sale.

Third quarter tax estimates are due September 17, 2007.

If you want us to prepare them for you, we need your income, deductions and withholding amounts in our office by September 12, 2007.

Please call our office to discuss any of the items in this newsletter that may pertain to you.

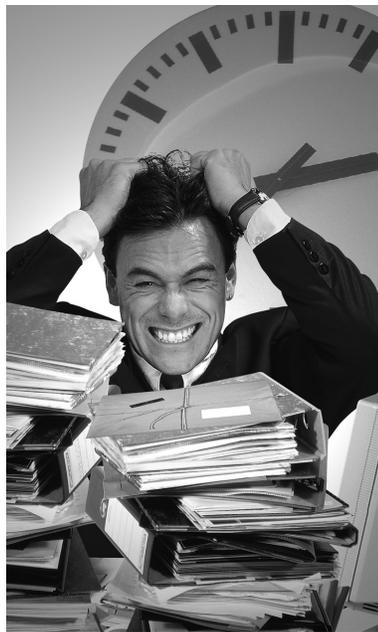


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How Long To Keep Financial Records

People regularly call our office asking how long they need to retain their records. Here are some criteria to follow.

Tax returns and the information supporting the income, expenses, and withholding amounts on the return need to be kept for four years. The IRS can go back three years for audits and the state can go back four years.

If the government suspects fraud, they can go back forever, so you'd have to keep your records forever if you have fraudulent tax returns. This is also true if you understated your income significantly.

Some items need to be kept longer for legal reasons in addition to tax support. Keep your bank statements, general ledgers and journals, and sales records and journals for six years. Keep your personal investment records and IRA records for six years after the sales or withdrawals of the money.

Many experts think you should keep your tax returns, tax & legal correspondence, audit reports, contracts and leases, real estate records, and corporate minutes and stock records forever.

Even though experts tell you to keep your tax returns for six years, they do not include all the information and records pertaining to these returns.

Murphy Financial Services, Inc. web site is at www.murphyEA.com. If you misplace your newsletters, or your information sheets that I have given you (i.e. contributions, enrolled agents, etc.), you will be able to find them on the web site.

Please note that our e-mail address is: info@murphyea.com.

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information only to IRS or state authorities and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.

Inaccurate Tax Preparation Software

Some IRS free-file return preparation software is inaccurate. A number of the free programs, available to low- and middle-income filers, did not calculate the correct earned income credit, child credit and the dependency exemption. Taxpayers using this software did not get the correct tax refunds they were entitled to.

Also Of Note

People are receiving emails saying they have refunds coming from the IRS. The messages look somewhat official and people would like to believe that they are true. They aren't. They are a scam to get personal information from you which will be used to steal your identity and/or your money. Delete these emails just like emails from banks and charge card companies that request personal information.

If you are an employer, have each new employee complete a W-4, I-9, and the Wisconsin New Hire form. You should have these forms on file for all your current employees.

If you are an employee, your employer should have asked you to complete each of these forms when you started working for them. Employee records are not complete without them.

We have seen a large amount of errors on tax returns prepared using turbotax. The tax returns are only as good as the information entered into the program. Among the mistakes we have repeatedly seen are understatement of education credits, overstatement of state taxes because the adjustment for tuition was not included on the return, overstatement of taxes and penalties for taxpayers with an HSA, understated taxes due to dependents on tax returns which are not eligible dependents, understatement of taxes due to a duplicate deduction of the same auto and computer twice on the same return.

For those who choose to use self-prepared tax software, make sure you understand the tax laws in order to pay the correct tax.

If you have any friends or relatives that have used these programs and would like their tax returns reviewed, let them know we can accommodate them.

IRS Conducting More Audits

The IRS is increasing enforcement. Unhappy with the increased rate of noncompliance, they will now conduct more random audits. In addition, they are looking more closely at sole proprietors, farms, S corporations & partnerships, gamblers, and itemized deductions.

The IRS private debt collection program is not working. Taxpayers

One More Plea

Kami and I will be heading to San Diego on November 8 to do our 60 mile walk. We still need sponsors. You can drop off or mail donations to our office. We are proud to be doing the three day walk again (Kami's third year and my fourth year).

This year we will be joining our cousins. We walked our first trek with them four years ago and have made the commitment to participate in the 60 mile walk each year. We did let Kami take a year off to be maid of honor in her friend's wedding.

We would love to have your support. Check with your employer to see if they would match your contribution. We need the donations by the end of November. Remember, they are tax deductible and help a truly great cause.

have the right to refuse to work with the private firms. There is a lot of concern about personal information no longer being private. Hopefully politicians will see this program's waste and stop spending time and money on legislation.

Congress is trying to crack down on tax-exempt hospitals, which must show that they are providing indigent services and publicizing them.

Basic data about small nonprofits will become public in 2008 on the IRS website. Groups with gross receipts of \$25,000 or less must now start filing a return.



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