

WE TAKE PRIDE IN PROVIDING
PERSONAL SERVICE TO OUR CLIENTS

Morrow & Co.^{LLC}

WHAT'S NEW FOR 2007?

KANSAS UNEMPLOYMENT

In early 2007, Kansas lowered unemployment rates and eliminated the waiting week for those who became unemployed as a result of an employer terminating business operations in Kansas, or declaring bankruptcy, or reducing work force pursuant to the Warren Act. Unemployment rates will resume prior rates if and when the trust fund balance falls below a threshold amount.

KANSAS TAXATION OF SOCIAL SECURITY BENEFITS

For the taxable year beginning after December 31, 2006, amounts received as benefits under the federal social security act will be exempt for those with federal adjusted gross incomes of \$50,000 or less, whether such taxpayer's filing status is single, head of household, married filing separate or married filing jointly. For all taxable years beginning after December 31, 2007, the federal adjusted gross income amount increases to \$75,000.

KANSAS SALES TAX

Effective January 1, 2008 the Sedgwick County sales tax rate will decrease from 2.0% to 1.0%. As such, most cities in Sedgwick county will have a new combined State and County rate of 6.3%. Some cities, such as Derby will continue to levy additional city taxes.

KANSAS FRANCHISE TAX

The Kansas Franchise tax came into being in 2003. The next year rates were reduced from .2% to .125% of equity, and the tax was capped at \$20,000. In that year administration was shifted from the Secretary of State to the Kansas Department of Revenue. Generally, the tax affected Corporations and Limited Liability Companies with taxable equities exceeding \$100,000. The cap helped companies with equities exceeding \$16 million.

- For an entity holding land at \$1,000 per acre, the tax amounted to \$1.25 per acre, thus it is not an insignificant tax.
- Thankfully, SB 15 provides for relief and eventual phase out of the tax.
- For 2007, the tax will not apply to entities with equity of less than \$1 million.
- For 2008, the tax rate is reduced to .9375%
- For 2009, the tax rate is reduced to .0625%
- For 2010, the tax rate is reduced to .03125% and it is the final year for the tax.

We believe you should expect more Kansas tax law changes as a result of this phase out and the State mandated reductions in property taxes. Hopefully, the State will take this opportunity to re-examine the entire tax structure and how it is administered. For way too many years now, tax laws have been a rifle shot reaction to providing for the budgetary requirement of the day. We hope that future laws provide a more favorable tax environment for entities with their headquarters located within the boundaries of the State of Kansas.



KPERS LUMP-SUM BENEFITS STAY TAX EXEMPT

Another Kansas law will ensure that KPERS partial lump-sum option (PLSO) payments and investment earnings on the funds keep their state tax-exempt status, even when rolled over to a qualified retirement plan. Because the law is retroactive to tax year 2001, current retirees who paid state tax on benefits that would be exempt under the new law may be able to recover taxes paid in previous years. If you believe you may have been affected by this change, please contact us.

NEW K-4 FORM FOR STATE WITHHOLDING

Traditionally, Kansas has accepted the Federal Form W-4 to help employees calculate their Kansas employer withholding tax rate. However, due to differences between State and Federal withholding policies the Department of Revenue has developed a new form for State withholding tax purposes. The new State form is Form K-4 (Employee Withholding Allowance Certificate). Form K-4 will not be used until after January 1, 2008. Employees hired after January 1, 2008 must use the new Form K-4. Employees hired before January 1, 2008 are not required to fill out the new K-4 unless they wish to adjust their withholding.

VARIOUS KANSAS CHANGES

* Earned Income Credit increases from 15% to 17% of the Federal Credit

* Business Machinery & Equipment Credit increases from 20% to 25%

* 529 Plans from out of state programs are now allowed as a deduction for Kansas Income Tax

The definition of "Original Construction" has been expanded for sales tax purposes to include the restoration, reconstruction or replacement of a building, facility or utility structure damaged by fire, flood, tornado, lightning, explosion, windstorm, ice loading and attendant winds, terrorism or earthquake.

FEDERAL CHANGES

President Bush signed a new tax bill May 25, 2007. The bill included measures pertaining to U S troop readiness, Veterans care, Katrina, Iraq, and increasing the minimum wage--- all perhaps a clue as to why tax laws are added, but are seldom taken away. A recent cartoon shows a fellow asking the IRS person if he can obtain a form to show what forms he is to fill out.

PENALTIES

Under this new bill, penalties on tax preparers are increased. Since the income tax began, there has always been someone with an idea to sell on how to beat the system. Most times the ideas are bogus, but it's years later before the taxpayer finds out it didn't work. So we understand the penalties, we just don't like them. They tip the balance a little more in favor of the IRS. Penalties were also modified for those claiming erroneous refunds and those affected by IRS notices revising a tax liability. Technical changes were made regarding levies on wages.

KIDDIE TAX

The "Kiddie tax" will apply to more kids because it will now apply to children under the age of 19, or who are full time students up to age 24. It previously applied to children up to age 14, then under age 18 in 2006. The tax applies to children with unearned income of more than \$1,700. The child's income tax is increased to an amount that would have been incurred had the parent reported the income.

EXPENSING EQUIPMENT PURCHASES

Businesses have been able to expense certain depreciable equipment under Code Sec. 179. For 2007-2010 the new limit is \$125,000 for those who purchase less than \$500,000 of qualifying equipment in a year. For those who purchase more than \$500,000, the \$125,000 amount gets phased out.

CHARITABLE CONTRIBUTIONS

It is now a requirement that all cash donations be supported by a bank record or receipt.

FAMILY BUSINESS SIMPLIFICATION

This provision is aimed at the unincorporated business owned and operated by a husband and a wife. It allows for a splitting of the income between the spouses without the filing of a partnership return. This provision may be important to you because of social security provisions etc. If you would like to discuss this provision in more detail, please call to make plans for how to best handle your situation while doing your 2007 return.

ENERGY EFFICIENT HOME IMPROVEMENTS

The \$500 credit for energy efficient improvements is due to expire at the end of 2007. If you are contemplating any energy saving improvements you may want to complete them prior to the end of 2007 to qualify for the credit.

OTHER

The law provides for changes to S Corporations with passive income and those who are subsidiaries of another entity. The law provides special provisions for those in the "Hurricane Zone", those in the airline industry with pension plans, and estimated tax provisions for Corporations with assets over \$1 billion. Because we believe these provisions will not have a direct impact on you, we omit further discussion.

MORTGAGING THE FUTURE

Mr. Kyle Hawk, the President of the Kansas Society of CPA's recently reported some statistics given in a speech by the Honorable David M. Walker, CPA, Comptroller General of the United States. The sobering message is worth repeating.

The Federal governments' liabilities and unfunded commitments for things like pensions and Social Security total about \$50 trillion, or about \$440,000 for every American household. We are adding to that figure \$248 billion to \$450 billion per year, depending on which accounting method you use. The country is facing an aging population who will be claiming benefits in growing numbers. As time goes on, "there simply won't be enough full time workers to promote strong economic growth or to sustain existing entitlement programs."



FEDERAL MINIMUM WAGE

As you already know, the minimum wage increased to \$5.85 on July 24, 2007. The minimum wage is scheduled to further increase to \$6.55 on July 24, 2008 and \$7.25 on July 24, 2009.

FICA TIP CREDIT (45B CREDIT)

This credit is modified for those employers who pay tipped employees, such as restaurants, bars, and hotels. The modification is intended to keep the credit amount the same as if the minimum wage had not increased.

WORK OPPORTUNITY CREDIT

This credit has been extended through August 31, 2011, and expanded the targeted groups. The law encourages employers to hire those from targeted groups by providing a credit which is a percentage of the wages paid. Targeted groups include ex-felons, veterans with service connected disabilities, high risk youth etc. The high risk youth group includes those in rural renewal counties, but we are not certain which (if any) Kansas counties have been designated as such. If you are paying anyone hired in the last two years whom you think might qualify, please call us to help with the determination and the credit requirements.

MORTGAGE INSURANCE PREMIUM

New for 2007, and currently expiring at the end of 2007, is the mortgage insurance premium deduction. The premiums paid for qualified mortgage insurance can be treated like deductible interest.

Here are the facts from the IRS summary of 2005 income tax returns as reported by Kiplinger:

- Top 1% of filers paid 39.4% of all income taxes.
- It takes an AGI of \$364,000 to be in top 1%.

- Top 5% of filers paid 59.7% of all income taxes.
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DISASTER INCENTIVES

Greensburg and Coffeyville were damaged by weather this year. Some of you may have been affected, or you have new business there as a part of reconstruction. This combination makes it necessary to look for economic incentives that you may be eligible for. Sometimes the best place to start is with a visit to the local chamber of commerce. As always, we will help as you would like for us to.

COMPANY NEWS

Our firm recently received the distinction (again) of receiving a letter from the KSCPA that they had accepted the results of our peer review. The review contained no requirements for improvement nor comments on deficiencies found. Obviously, we are pleased.

The peer review process is designed to keep the standards high for all CPA firms. We work hard every day to meet those standards, as well as the standards you expect from us.

We recently joined the AICPA Employee Benefit Plan Audit Quality Center, and have named Richard Morrow as our firm's designated partner in charge of ensuring the quality of our employee benefit plan services. Our membership enables us to gain access to a wealth of comprehensive resources to assist us in providing high quality employee benefit plan audits.

This niche area of our business continues to grow.

Many times you send us a thank you back with your check, or otherwise let us know of your satisfaction with a job we have done. These mean a lot to us.

We have the best clients in the world. Every member of our firm knows it. We work hard on your behalf, and we always do our best for you. In short, we appreciate you and the business you conduct with us.

Our firm turned 20 this year. We have adapted to changes in technology and the world, and feel we are better prepared to meet your needs. Jason Higgins has been with us 9 years, Adam Bennett 5 years, and Tammie Hutsell 5 years. Each has grown in capability and responsibility each year and we thank them for their contributions. This year we have also added Chantal Satkowski and William Carpenter, III to our staff and we are excited about the skills they have to offer. We need another CPA to handle growth. If you know of someone good enough to work on your account, have him or her give us a call.

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GETTING OLDER

This process brings about a need for planning--when or whether to retire, how much should be accumulated, will you continue to work, how do you handle health insurance, what impact will an action have on your social security, should you start a gift giving program, how do you keep a business in the family, how do you provide for the well being of the business if you get sick, should you grant a power of attorney to allow actions while you are sick, where do you start in thinking about how to pass on your belongings to your heirs.

Solutions to these problems are partly financial and very personal. They are almost always unique to you. As a result, there are no formula solutions. Even what you heard at the barber shop is probably not the solution for you. Most people find ways to procrastinate in dealing with these issues. As a result, some very rich and very famous people have ultimately left a mess at their demise.

Those of us getting older have lived through good economic times and a period of ever increasing laws and regulations. As a result, our affairs are more complicated than were the affairs of our parents

Whole new industries are being started to make money on the various aspects mentioned above. The result is, most of Americans are more bewildered than ever before. Many of you have sought our counsel on these issues over the years, and we always understand the gravity of your concern and appreciate the trust you place in our advice. Our advice is always fee based and objective. Thus far, we have refrained from selling products or referring clients for a commission. We do maintain a network of attorneys, brokers, bankers, insurance people etc. that we can call for help. More often though, we work with your trusted advisors in these areas in developing solutions that are right for you.

Because our firm has one partner experiencing the symptoms and another partner who will be around to see the process through, we believe our firm is uniquely qualified to help provide solutions for the problems that go along with getting older in a complex world.

MISCELLANEOUS

- The business mileage rate for 2007 is 48.5 cents per mile.
- For 2008, the IRA contribution limit increases to \$5,000 plus the \$1,000 catch-up for those over age 50.
- Retirement savings contributions remain the best tax savings vehicles available.
- Gift giving remains one of the best estate planning tools available. The limit is \$12,000 this year. Estate planning needs closely monitored as we watch for tax law changes in this area.
- You will pay FICA or SE tax on the first \$97500 of earned income in 2007.
- For those of you between age 62 and your normal retirement age, you will lose social security benefits when your earned income exceeds \$12,960.
- Capital gains are generally taxed at 15%. (Different rates apply to depreciation recapture etc.) These low capital gains rates have been beneficial to those selling stocks, land, and entire businesses. The lower rates are scheduled to expire after 2010. If you have large unrealized gains, you might want to get with us to do some planning.
- We continue to see companies struggle with retaining quality help. The result is that costs and turnover turmoil encourage outsourcing more and more of the financial administration to firms such as ours. We welcome this new business. It places us closer to our clients, and it is oftentimes meaningful work that lets us focus more on helping you make money.