# Small Business and Work Opportunity Tax Credit of 2007

On May 29, President Bush signed into law an emergency war supplemental spending bill that includes $4.8 billion in small business tax breaks, a 3 1/2 year extension of the Work Opportunity Tax Credit (WOTC); a waiving of individual and corporate alternative minimum tax limits on WOTC; an increase in the § 179 expensing limits and an extension of the limits to businesses in the Gulf Opportunity Zone. The Act also includes pension-related technical corrections to the Pension Protection Act of 2006.

We have summarized some of the key points of the new legislation in the following article, which has been separated into three main sections; general provisions, S-Corporation provisions and revenue provisions.

## General Provisions

The Work Opportunity Tax Credit provides employers that hire qualified individuals from one or more of the nine targeted groups, a tax credit on first year wages (two years in the case of an individual in the long-term family assistance recipient category). These nine target groups include:

1) Families receiving "Temporary Assistance for Needy Families"; 2) Qualified Veteran; 3) Qualified Ex-Felon; 4) High-Risk Youth; 5) Vocational Rehabilitation Referral; 6) Qualified Summer Youth Employee; 7) Qualified Food Stamp Recipient; 8) Qualified SSI Recipient (Social Security); 9) Long-Term Family Assistance Recipient

The maximum credit an employer can receive is $2,400 per employee. This general calculation does not apply to the summer youth group whose maximum credit allowed is $1,200 or the long-term family assistance group that can get up to $9,000 per employee. Certification rules apply to each targeted group prior to employment.

This credit was due to expire December 31, 2007 but has been extended for approximately 44 months. The current provisions to the credit encompass qualified employees hired after December 31, 2007 but before September 1, 2011.

**Increase and extension of expensing for small businesses.**

Small business taxpayers with small annual investments can now expense qualified property depreciation under Section 179 at a higher amount. The provision increases the $100,000 expensing election to $125,000. In addition it increases the amount of qualifying property that can be purchased before the $125,000 is limited to $500,000 (previously $400,000).

**Family business tax simplification**

The provision generally allows joint ventures whose only members are a husband and wife that file a joint return to not be treated as a partnership for federal tax purposes. Both of the members must materially participate within the business to qualify.

## S-Corporation Provisions

**Capital gain not treated as passive investment income.**

This provision will eliminate gains from sales of stocks or securities as an item of passive investment income.

**Elimination of earnings and profits attributable to pre-1983 years.**

In the case of any corporation, which was not an S corporation for its first taxable year beginning after December 31, 1996, the accumulated earnings and profit (E&P) of the corporation as of the beginning of the first taxable year after the date of enactment of this provision is reduced by the accumulated E&P (if any) accumulated in a taxable year beginning before January 1, 1983, for which the corporation was an electing small business corporation under subchapter S.

## Revenue Provisions

**Increase in age of children whose unearned income is taxed as if parent's income.**

The provision will expand the age limit of the "kiddie tax" to include children who are 18 years old or who are full-time students over the age of 18 but under 24 years of age. This provision only applies to children whose income does not exceed one half of their support.

**Time for payment of Corporate Estimated Tax**

The provision will increase the corporate estimated tax payments of corporations with at least $1 billion in assets in July, August, and September 2012 from 106.25 percent to 114.25 of the payment otherwise due. The next payment will then be reduced accordingly.

These are only a portion of the provisions in the bill. For additional information, please contact our office.

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# Kansas Tax Law Changes for 2007

There have been several changes to the Kansas tax laws. We will only cover a few of the changes in this article. If you have further questions, please contact our office to speak with a tax professional.

## Earned Income Credit

Effective for tax year 2007 and after, there will be allowed as a tax credit against the tax liability of a resident individual imposed under the Kansas income tax act an amount equal to 17% of the amount of the earned income credit allowed against the taxpayer's federal income tax liability for the taxable year that the credit was claimed on the taxpayer's federal income tax return.

## Subtraction Modifications

Beginning with tax year 2007 there will be a subtraction modification available for contributions to Learning Quest as well as other state 529 qualified tuition programs. The subtraction is limited to $3,000 for each designated beneficiary per year for single, married filing separate & head of household filers. The limitation for those filing married filing joint is $6,000 for each designated beneficiary per year.

Also beginning with tax year 2007 there is a subtraction modification for social security benefits which are included in federal adjusted gross income (FAGI) of a taxpayer with FAGI of $50,000 or less whether their filing status is single, head of household, married filing separate or married filing jointly; and beginning with tax year 2008 the FAGI limit increases to $75,000.

## NEW! Form K-4

Due to differences between federal and state withholding policies the Department of Revenue has developed a new form for state withholding tax purposes. The new form is Form K-4 and will be released prior to the end of 2007. Employees hired after January 1, 2008 will be required to use the new Form K-4. If an employee hired prior to January 1, 2008 wishes to adjust their Kansas withholding any time after January 1, 2008, the employee will be required to complete the new Form K-4.

The Department of Revenue will be researching and contacting individual filers who repeatedly underpay or underestimate Kansas tax liabilities and end up with a balance due on their annual income tax filing. These individuals will be **required** to submit a new Form K-4 with their employer to increase their withholding. The IRS and the State of Kansas have the authority to direct an adjustment of withholding to avoid repeated underpayment of tax liabilities.