

CPA CLIENT



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TAXLETTER

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America Counts on CPAs

Maximize Tax Benefits for Business-Car Use

If you're an employee, you may drive a car for business. If you're an employer, some of your employees are likely to do some business driving. With gas prices climbing toward \$4 per gallon (as of this writing), such driving can be extremely expensive. To help trim your costs, you should know the tax rules.

Employees' cars

When employees use their own cars for business driving, the company can reimburse them. (Reimbursement isn't allowed for commuting to and from work, however.) Typically, employees will report business use of their cars and receive a payment from the company. Often, reimbursement is based on cents-per-mile. As long as this reimbursement rate is equal to or less than the IRS standard rate, there are no tax consequences. In 2008, that rate is 50.5 cents per business mile.

Example #1: Alice Wilson drives her own car 1,000 miles for business this month, and the company reimburses her at 50 cents per mile. Alice receives a check for \$500: 50 cents times 1,000. Alice does not have to report the income and she owes no tax.

Employees must submit reports to the company in order to avoid owing taxes on their reimbursement. The reports should describe the time, place, and business purpose of the travel. Regardless of whether the company has a suitable reporting system in place, however, excess reimbursements will trigger income tax.

Example #2: Suppose the company's reimbursement rate is 55 cents. Alice Wilson would get a check for \$550. Her

company would report \$45 on her W-2 form as additional income, subject to tax. That's 4.5 cents (55 cents minus the standard 50.5 cents) times 1,000 miles.

Company cars

Another common arrangement is for the company to provide cars to certain employees for business use. If this is the case, owners or executives won't have to use their own funds to pay for a business car. Moreover, this perk may help attract and retain valued employees. If you're a business owner, you should weigh these benefits against the cost of using the company's capital to acquire cars.

If the company acquires the cars, some or all of its outlays will be tax deductible. Then employees report personal use of the company car and pay tax on that use. How is this personal use determined? Generally, the company will use an IRS table that lists an "annual lease value" of the car, which is based on the purchase price. The ratio of personal miles to total miles is multiplied by the annual lease value to compute taxable income.

Example #3: ABC Co. purchases a car for \$30,000 and allows its CEO, Barry Thomas, to use it. He drives 20,000 miles this year, including 5,000 personal miles. His personal use thus equals 25% of the total miles. According to the IRS, a car worth \$30,000 has an annual lease value of \$8,250. Barry will pick up \$2,062.50 (25% times \$8,250) of taxable income.

Lease or buy?

If you're a business owner who wants to provide company cars for some employees,

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