

# Bangerter, Lund & ASSOCIATES

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## Newsletter

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### IRS increases standard mileage rates

In response to the sharp increase in gas prices, the IRS has increased the “standard mileage rate” for business drivers in 2008.

The standard mileage rate is an IRS-approved shortcut. Instead of tracking all the actual business expenses of your vehicle, you can use the prescribed flat rate for the year. But you still must keep detailed records of every business trip.

The new rate of 58.5¢ per business mile – up 8¢ per mile – applies to travel from July 1 through December 31, 2008. The previous rate of 50.5¢ per mile still applies for miles driven January 1 through June 30, 2008. In addition to the mileage deduction, you may deduct any business-related parking fees and tolls.

**Example:** You drive 1,000 business miles a month in 2008. Over the course of the year, you incur \$500 in related tolls. For the first six months, you can deduct \$3,030 (50.5¢ x 6,000). For the last six months, the deduction increases to \$3,510 (58.5¢ x 6,000). When you add \$500 in tolls, your deduction for 2008 equals \$7,040 (\$3,030 + \$3,510 + \$500).

Note that the IRS also increased its standard mileage rate for medical and job-related moving expenses from 19¢ a mile to 27¢ a mile for the last six months of this year. The 19¢ rate still applies to driving for the first half of 2008. However, the rate for charitable driving, which is set by law, remains at 14¢ per mile.

The new mileage rates are available to many – but not all – drivers. Give us a call if you need details on how the changes affect your situation.

### IRS gives an update on the tax rebate program

The IRS has delivered millions of economic stimulus tax rebates to taxpayers, but admits the program has had a few problems. Many taxpayers who filed their 2007 tax returns by April 15 expected to receive their rebates soon after filing. In response to the many taxpayer calls, the IRS clarified that an individual’s return had to not only be filed but also to be processed before a rebate check would be issued.

Other taxpayers did not receive rebates they thought they would get because rebates were taken to pay overdue child support, student loans, or back taxes.

The IRS issued reminders to those who normally wouldn't have filed a 2007 return because their income didn't meet filing thresholds: a return must be filed to claim the minimum rebate of \$300 (\$600 for married couples), plus \$300 for each qualifying child. Those taxpayers who extended their filing deadline until October 15, 2008, were reminded that their rebates would not be issued until those returns were filed and processed by the IRS. Also, a reminder about address changes made since filing of a 2007 return: Notify the IRS of the new address on Form 8822, or your rebate check may be returned as undeliverable.

For answers to questions about the tax rebates, go to the IRS Web site at [www.irs.gov](http://www.irs.gov).

## **You may qualify for a tax break when you sell vacant land**

You probably know that you can exclude up to \$250,000 of gain (\$500,000 for most joint filers) when you sell your principal residence. IRS regulations may now allow you to apply this gain exclusion when you sell vacant land that is adjacent to your home.

To qualify, the land you sell must be adjacent to the parcel on which your house sits. Also, the land sale must occur within two years before or after the residence is sold. You must meet the other usual requirements for claiming the exclusion. If you qualify, you can apply your \$250,000 or \$500,000 exclusion to both sales combined.

*Example:* You own and live in a house which sits on four acres. You decide to sell the house on a one-acre lot and sell the other three acres of empty land to a developer. Provided the land sale occurs within two years before or after you sell the house, you can exclude up to \$250,000 (\$500,000 if you file jointly) of the combined gain from both sales.

Because of the number of rules and regulations regarding these types of transactions, please give us a call for further details.

## **Know the tax rules for selling online**

Selling items on eBay and other online auction Web sites has become a very popular way to get rid of unwanted household stuff, as well as a way to turn a little profit. Many users have even started full-time businesses auctioning merchandise on the Web. But like any business venture, selling items in the virtual world has tax implications that are all too real.

From a tax standpoint, casual selling on eBay is essentially the same as holding a garage sale. If you sell an item for less than you paid for it, you cannot deduct the loss. When you sell something for a profit, however, you must report it on your tax return. Long-term gains on the sale of collectibles, such as artwork, antiques, or rare coins, are taxed by as much as 28%.

Profit is the difference between the selling price and your "basis" in the item. In most cases, basis is simply the amount you paid for it. Inherited items generally have a basis equal to their fair market value at the time of receipt. If the basis cannot be documented, it becomes zero, and you pay tax on the entire selling price.

Online selling activity can reach the point where it is deemed to be a business venture. Status as a for-profit eBay business versus a casual online seller is not clearly defined. Factors considered by the IRS include the amount of time you spend selling online and whether you conduct yourself like other self-employed business owners, such as keeping accounting records and advertising your services.

The good news is that if you are treated as a business, you can deduct expenses related to your selling activity. The downside to business status is that profits from selling online may be subject to self-employment tax. What's more, depending on where you live, you may have to deal with sales taxes.

Taxpayers who operate like a business, but rarely show a profit, may be treated as hobbyists. In this scenario, losses can only be deducted to the extent of gains.

Whether you are an infrequent user of online auction sites, or an all-out eBay business owner, you cannot afford to ignore the tax implications of selling online. For the details you need to avoid tax problems, call our office today.