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Newsletter

OCTOBER 2008

Tax filing reminders

- **October 15** – Filing deadline for 2007 individual tax returns on automatic six-month extension of the April 15 deadline.
- **October 15** – Deadline for filing 2007 partnership and limited liability company returns on extension of the April 15 deadline.
- **October 15** – If you converted a regular IRA to a Roth in 2007 and now want to switch back to a regular IRA, you have until October 15, 2008, to do so without penalty.

Year-end tax planning is essential this year

As Congress works to settle the financial markets, its attention is diverted from tax issues. However, you need to keep your eye on how any tax changes Congress makes before year-end could affect your tax situation for 2008. Year-end tax planning is always a smart thing to do, but this year it becomes even more important. We are coming up on the sunset year for the 2001 tax law, a new President in 2009, and almost certainly major tax revision in the next year or two. So please call our office soon to schedule a review of your tax situation and a look at options you might consider to minimize your taxes, both in the short and long term.

Two business tax breaks will expire soon

Are you thinking of buying business equipment this year or early next year? If so, you may want to act soon to take advantage of two tax breaks set to expire December 31, 2008.

Here are the facts.

- **Increased expensing option.** In 2008, you can immediately expense up to \$250,000 of qualifying business asset purchases instead of having to spread depreciation deductions over several years. The

dollar amount of the expensing phase-out is also increased for 2008 only. That means you can buy more assets – and still claim a full deduction. The phase-out for 2008 starts at \$800,000.

This increased Section 179 expensing is available only for tax years beginning in 2008, and it applies to new and pre-owned property that you use in your business.

- **Bonus depreciation.** Along with the higher expensing limit, your business can take a special depreciation deduction of 50% of the cost of new business assets that you buy and place in service during 2008. In addition to most new machinery and equipment, off-the-shelf computer software qualifies, as do some leasehold improvements.

This 50% bonus allowance also bumps up the maximum amount of first-year depreciation you can claim for automobiles used in your business by as much as \$8,000. (The limit for sport utility vehicles remains unchanged at \$25,000.)

Please call our office for information about these and other depreciation breaks. We'll work with you to plan asset purchases so you achieve the maximum tax benefit for 2008.

Should your child head to college with a credit card?

Should a freshman in college have a credit card? Opinions are divided, both among parents and financial advisors. It's a situation that can work out really well or really badly, depending on the student and the parents.

At its best, everyone benefits from giving a student a card. The student uses the card for budgeted expenses, pays off the balance each month, and starts building a good credit history. The parents sleep better knowing the student has a credit source in case of emergencies.

At its worst, the students are not familiar with managing money or living within a budget. The student fails to make payments on time, incurs high interest charges, and ruins his or her credit history. The parents have to step in to bail the student out.

Among the risks:

- Lack of experience in managing money can lead a student to overspend or to neglect making payments on time.
- Peer pressure may encourage a student to spend on entertainment or clothes, just to keep up with friends.
- Failure to agree on a budget beforehand can result in shock when you see your student's monthly statement.
- Parents co-signing for the card can put their credit scores at risk, too.
- Loss or theft of the card can lead to problems that take hours to resolve.

To minimize risks:

- Set ground rules for use of the card. Agree on what it may and may not be used for. Put the agreement in writing and have the student sign off.
- Establish a budget. Talk regularly about how your student is managing his or her expenses within the budget.
- Consider alternatives to a credit card, at least for the freshman year. Consider using a prepaid credit card or set up a checking account with a debit card. That allows the student to gain experience managing expenses within a budget.

Finally, remember you may have no say in the matter. Students are bombarded with credit card offers as soon as they enroll. Card companies are usually happy to issue a card to any student over age 18 in his or her own name.