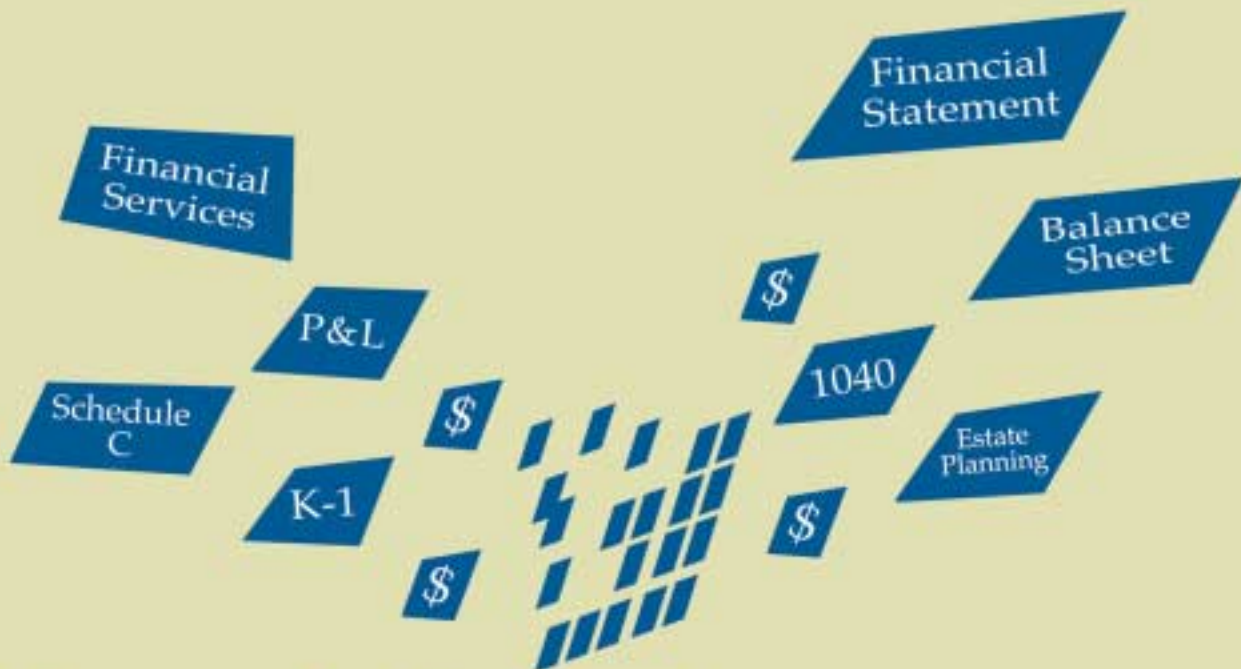


Putting together the pieces of your financial puzzle.



Scott & Cronin's *News You Can Use*

PARTNER UPDATE

Looking Forward



We take great pleasure in welcoming Jason Brustkern as a partner in our firm. Jason joined Scott & Cronin in January 2001 after he and his wife Traci moved to San Diego from Waterloo, Iowa. He will continue to work with both the tax and audit sides of the practice, with emphasis in high-net-worth individuals, multi entity tax structures, and large entities. You couldn't meet someone who works any harder or is more dedicated to providing quality service to clients. Iowa's loss is our gain!

Staffing

There has been more than chilly air and storms blowing in from the north recently. Scott & Cronin is pleased to welcome two new staff members, who are also new to the Golden State. Dawn Hanson just moved here from the Gem State (Idaho) and Ariann Jovanovic is newly arrived from the Land of 10,000 Lakes (Minnesota). The two have something else in common: both are recently married and have come to this area because their husbands have family here. Dawn's husband works in the construction re-model industry and Ariann's husband is attending graduate school.

Dawn has two adorable Chocolate Labs to take her on walks around her new neighborhood. She also enjoys hiking, was learning to snow board back home and now looks forward to trying her hand (should we say...her balance?) on a surfboard. She says she doesn't like the winters back home, and it seems that she has come to the right place to pursue her outdoor activities.

Ariann once attended art school, and remains interested in pursuing drawing. She has volunteered annually each summer since 1999 in Honduras working with disadvantaged children and youth there, and plans to continue her work into the future.

Welcome on board, Dawn and Ariann!

Legislation

New tax legislation is a constant in our world so quality continuing education for the Tax & Accounting Department is also a constant. We continue to use in house and outside resources such as seminars and conferences for both tax and accounting education. This year will see an increased emphasis on courses in trust accounting and non-profits as there has been greater demand for these services.

One of the more popular pieces of legislation as of late is the Alternative Minimum Tax and a one-year "patch" signed into law in December. See our article on page 4 for full details.

Additionally, a new law enacted in May, 2007 mandates stiffer penalties on tax preparers who sign aggressive tax positions without proper disclosure. See our article on page 6 for the specifics.

Technology

We are continuing our efforts to go paperless. This requires a constant upgrade of computer equipment and understanding of the technology. Helps keep Dennis & me current with the overall computer technology. Outsourcing is something we continue to explore however we have not ventured into that area. Given the nature of our practice and the quality of our staff outsourcing the preparation of tax returns has not been necessary.

Regardless of the changes in tax laws and technology we have never forgotten that we are in the business of providing a personal service. We value and enjoy the personal relationship with our clients and, more importantly, work to earn their trust.

Warm Wishes for a Happy and Healthy 2008!



Larry Scott



Dennis Cronin



Jason Brustkern

TAX UPDATE

What is the Alternative Minimum Tax (AMT) and What's the Cost?

You may have read recently numerous articles on the AMT and the legislation passed and signed into law in December providing a one-year "patch" to the AMT. What you may not realize is this "patch" bill effectively prevented 20 million taxpayers from paying the AMT. And based on the method of calculating the AMT, many of those 20 million taxpayers would be California residents. So what exactly is the AMT and how are you impacted?

Long story made short (and discussing only the law related to individuals, not corporations), AMT was part of the Tax Reform Act of 1969 and was intended to target 155 high-income taxpayers who paid little or no income tax. AMT is basically a second method of calculating an individual's income tax liability by disallowing many deductions and exemptions allowable in computing "regular" tax liability. The taxpayer pays the higher of the regular tax liability or the AMT.

So why the problems with AMT? First, the AMT was not indexed for inflation when it was passed way back in 1969. The exemption amounts that appeared generous almost 40 years ago are no longer adequate and an increasing number of upper-middle-income taxpayers have been subject to the AMT. Second, the unintended complexity of the calculation. Taxpayers must calculate both their regular tax and the AMT and if they pay AMT they must prepare schedules of their AMT carry forward losses and AMT carry forward credits until they are used up in future years.

And California taxpayers have a bigger problem. The biggest tax preference items on Schedule A (itemized deductions) are state income taxes and local real estate taxes. As Californians, these two items are generally large amounts so in essence you are not getting the anticipated benefit of these deductions.

How did the "patch" prevent 20 million taxpayers from paying AMT for 2007? The new AMT legislation simply increased the AMT exemption amounts thereby limiting the number of taxpayers. This is a one year fix and if Congress does not act to solve the problem the exemption levels for 2008 will revert to the levels they were at in 2000.

After-School All-Stars

In the past year, After-School All-Stars (ASAS) has experienced a great deal of growth and transformation. Kicking off 2007, was a move of the administrative offices to the historic NTC (Naval Training Center) Promenade in Point Loma. An Open House event was held to celebrate and announce the new partnership with Chargers' Linebacker Shaun Phillips. Phillips pledged to donate \$1000 to ASAS for every sack achieved in the season. Three corporations have matched his donation.

ASAS has reached more school sites! New programming began at several schools in the Sweetwater district and the Jump For Life Program which focuses on combating the epidemic of childhood obesity is offered at 15 school sites. Thanks to Kathryn and Donnie Edwards, who created the program and have raised thousands of dollars, All-Stars is able to offer JFL free-of-charge. For more information about After-School-All-Stars, please visit the website at www.sdafterschoolallstars.org.

Challenged Athletes Foundation

2007 was a challenging, yet telling year for the Challenged Athletes Foundation (CAF). Telling because CAF was able to successfully leap over some pretty steep hurdles – an office fire, relocating and recovering just a month before their two largest fundraisers of the year – the Sempra Energy San Diego Triathlon Challenge and the Qualcomm Million Dollar Challenge – and the San Diego wild fires which took place the week of the events. After all that, the foundation still came out on top.

Due to the incredible efforts of our fundraisers, sponsors and donors, the 14th Annual Sempra Energy San Diego Triathlon Challenge (SDTC) still managed to exceed its fundraising goal, despite its cancellation. The SDTC and Frog's Fitness Tour de Cove (TDC) raised more than \$1.1 million for challenged athletes, making a statement of resilience and proving the importance of the cause. For more information about the CAF, please visit the website at www.challengedathletes.org.

Qualcomm Million Dollar Challenge

Although the devastating fires in Southern California forced a mid-week cancellation of the 600-mile ride down the California Coastline, incredibly more than 80 of the original 125 riders resumed the route just two weeks later. This dedicated group completed the remaining 200 miles and delivered the precious funds to San Diego during an emotional ride-in ceremony in Del Mar. Tammy Scott joined her husband Larry to enjoy this final portion and share in the accomplishment of the completed journey. The QMDC ride helped raise more than \$1.3 million for the Challenged Athletes Foundation.



Founding Board Members Larry Scott and Bruce McCarty with Charger, Shaun Phillips



TAX TIDBITS

If you are like most taxpayers you are not looking forward to pulling together your tax records and receipts for last year. Here are some answers to few commonly asked questions and also some reminders of various tax laws to consider when pulling your information together.

The standard mileage rate for tax year 2007 was 48 1/2 cents per mile. This amount will increase for tax year 2008 to 50 1/2 cents per mile. The IRS is getting more stringent on their documentation requirements so it may be a good idea to keep some type of third party documentation that shows the total mileage of your vehicle at both the beginning and end of the year to help support the total number of miles driven. These types of records include oil change/repair receipts or even an insurance document. Please keep in mind this only supports the total mileage for the year **NOT** the business portion. It is still up to you to keep track of the miles driven for your business by using some type of mileage log or other tracking method.

IRC section 170 has changed the substantiation requirements for charitable contributions. Starting in tax year 2007 you will need to have either a receipt from the charitable organization showing the donation amount, or a cancelled check in order to substantiate your donation. That means that cash donations to the Salvation Army bell ringers and also cash donations to your church are going to require some type of receipt. As a reminder for donations over \$250 a written receipt is required, a cancelled check will not do, and that receipt has to state that "no goods or services were received in exchange for your donation".

IRC 761(f)(2) now allows married couples who are in business together to elect to report their individual share of income on separate schedule C's rather than on a form 1065 partnership return. Similar to a Single Member LLC there will still be a reporting requirement for California.

Exempt organizations who in the past did not need to file a return because their average gross receipts were less than \$25,000 must now file a new form 990-N. This means that now all exempt organizations will have to file a return regardless of their gross revenue.

The social security wage base increased from \$97,000 in 2007 to \$102,000 for 2008.

The residential energy efficient non business credit of up to \$500 for replacement of qualified windows and doors has expired as of December 31, 2007, with no word of it being renewed.

Tax credit for the Toyota Hybrids is no longer available for purchases after October 1, 2007. This includes the Toyota Prius and Highlander along with the Lexus Rx400h and GS450h. Several other manufactures vehicles still qualify for the credit, including but not limited to the Ford Escape Hybrid, Mercury Mariner, and Mazda Tribute.

The 2007 annual gift tax exclusion limit was \$12,000 and will remain at \$12,000 for 2008.

The maximum section 179 deduction increased to \$125,000 for 2007 phasing out at \$500,000 of acquisitions. 2008 will also increase to \$128,000 phasing out at \$510,000.

Lastly, most people ask "What are my chances of being audited?" Well for 2006 the IRS processed over 228 million returns. Over 80 million of those were filed electronically and 108 million of individual tax return filers received refunds. Of the over 140 million Individual returns filed for 2006 1.3 million of those were examined by the IRS, that is less then 1% of the total 2006 individual returns filed.

The IRS has a New Tax Weapon: Your Tax Preparer

There are a number of stipulations in the Internal Revenue Code that provide for penalties to tax preparers signing disputable returns. However, new law enacted in May, 2007 (part of the Small Business and Work Opportunity Act of 2007) mandates stiffer penalties on preparers who sign tax returns that include questionable or aggressive tax positions and fail to disclose these positions. The penalties fall into various categories or "tiers" with the greatest penalty increased to the greater of \$5,000 or 50% of the income derived by the tax return preparer.

The impact of this legislation is to require tax preparers to spend more time reviewing the information given by taxpayers. Any deductions taken that seem out of line with prior year returns or unusual relative to the amount of income may require more explanation and documentation to support the deductions. For new clients a tax preparer will be forced to spend substantial time discussing the positions taken in prior year returns if these positions are carrying forward to the current years. An example of a highly complex issue that a new client might find questioned is a family limited partnership - has it been set up correctly based on IRS regulations and the long series of court decisions occurring in recent years. In addition to the initial set up has the FLP been maintained as required by the court decisions.

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And on a Lighter Note, a Couple of Fun Cases

The “Hang in there Baby” award to Mr. Raymond Wright. A Tax Court ruling in late 2006 settled a tax controversy that started back in 2003 when Mr. Wright attempted to pay the IRS what he owed for 1987 and 1989. Mr. Wright was upset that the IRS did not credit his payments the way he thought the payments should be. Mr. Wright took the issue up with the Second Circuit Court of Appeals which remanded his case to the Tax Court. The Tax Court agreed with Mr. Wright. How much was at stake in this litigation involving two trials, half-a-dozen status reports and an appearance in an appeals court? Approximately \$1,700.

And one of my personal favorites, the Tax Court disallowed certain business expenses associated with a cleaning business owned by the taxpayer and imposed the maximum penalties allowed. The taxpayer's records “...are wholly inadequate to substantiate the disallowed deductions. Petitioner's failure to maintain records is especially egregious considering that she worked for the Internal Revenue Service during the years at issue”. **Amazingly the taxpayer was employed full-time by the IRS as an examination group manager during the years in review.**



“The good news is your books were out of balance by 57 cents, but 6 of my best CPAs stuck down the mistake!”