

BY THE BOOK

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The Fair Minimum Wage Act of 2007

California's minimum wage was raised to \$7.50 per hour effective January 1, 2007. It will increase again on January 1, 2008 to \$8.00 per hour which will be \$2.15 per hour more than the Federal minimum requirement.

On May 25, 2007 President George W. Bush signed a bill that increased the federal minimum wage rate. The Fair Minimum Wage Act of 2007 includes three phases:

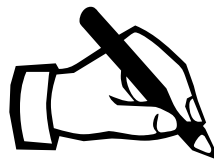
- Phase I: July 24, 2007 - Minimum wage increased from \$5.15 per hour to \$5.85 per hour.
- Phase II: July 24, 2008 - Minimum wage will increase to \$6.55 per hour.
- Phase III: July 24, 2009 - Minimum wage will be raised to \$7.25, which is nearly a 41% increase from the \$5.15 rate.

Currently more than two-thirds of the states have a minimum wage higher than the federal minimum wage. Fifteen states will have to match the new increase in minimum wage. These states are Alabama, Georgia, Idaho, Kansas, Louisiana, Mississippi, Nebraska, Nevada, New Hampshire, New Mexico, South Carolina, Tennessee, Texas, Utah, and Wyoming. If you have employees in any one of these 15 states, the minimum wage increase will be a concern and could affect your company's bottom line.

California's minimum wage was raised to \$7.50 per hour effective January 1, 2007. It will increase again on January 1, 2008 to \$8.00 per hour which will be \$2.15 per hour more than the Federal minimum requirement.

Every employer with employees that are subject to the Fair Labor Standards Act minimum wage provisions must post, and keep posted, the Labor Law poster explaining the new Minimum Wage Act. The poster must be placed in a noticeable area in all of an employer's establishments. The US Department of Labor has a link to a PDF file of the required updated poster. They offer several poster options to print free of charge at: <http://www.dol.gov/esa/regs/compliance/posters/flsa.htm>.

In certain cases, the Fair Labor Standards Act has several provisions permitting employers to pay employees below minimum wage. Some of these provisions have been affected by the Federal Minimum Wage increase. If you have questions regarding wage issues please contact our office.



Small Business Tax Breaks in 2007

To help soften the impact of extra labor expenses, Congress signed into law the Small Business and Work Opportunity Tax Act of 2007. The small business tax relief package will provide approximately \$4.84 billion in tax cuts for businesses over the next 10 years.

The following is an overview of some of the benefits that will be taking place due to the Small Business and Work Opportunity Tax Act.

1. Section 179

Under Section 179, small businesses are permitted to write off qualifying capital purchases that would otherwise be depreciated. Generally, most movable assets qualify including business vehicles with a gross weight over 6,000 pounds; lighter vehicles have Section 179 dollar limitations. Permanent structures do not qualify.

Due to the Tax Act of 2007, the maximum Section 179 deduction you can elect for qualified property has increased from \$112,000 to \$125,000. The phase out amount for the investment limitation will increase from \$450,000 to \$500,000 for tax years beginning in 2007 through 2010. Every year the deduction limits will be adjusted for inflation.

Congress also included off-the-shelf computer software as a qualifying asset for the Section 179 deduction. This is software that is readily available for purchase by the general public, has not been substantially modified, and is subject to a nonexclusive license.

2. Extension and Expansion of the Work Opportunity Tax Credit

The Work Opportunity Tax Credit was scheduled to expire at the end of 2007 but it will now continue to be available for workers from nine targeted groups who begin work before September 1, 2011. Two of the targeted groups, qualified veterans and high-risk youths, have been expanded to cover more workers. The high-risk youth group now includes individuals up to the age of 40.

3. Family Business Filing Requirements

Congress has simplified the family business filing requirements. Starting this year, spouses who operate a qualified joint venture can allocate their business income and expenses on their individual tax return, rather than filing a separate partnership return.

A qualified joint venture is a joint venture involving the conduct of a trade or business, if all the following conditions are met:

- a. The only members of the joint venture are a husband and wife
- b. Both spouses materially participate in the business
- c. Both spouses elect to have the provision apply

Like most tax laws, this one also includes less beneficial provisions that may require changes to your tax plan.

1. Cash Donations

Beginning January 1, 2007 you will need either bank records or written communication from the recipient for all cash donations, including those under \$250.

continued on next page

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The fair market value of appreciated tangible personal property can be deducted only if the charity uses the property for its exempt purpose for at least 3 years after the gift; otherwise, the adjusted basis is deducted.

You are only able to receive deductions for clothing and household items that were in good used condition, or better quality, when donated to charity. The IRS has not issued regulations regarding how they will determine how an item is in good condition. At this time, it is best to retain all possible documentation including pictures or videos of items donated.

2. Expanded Kiddie Tax

How does the kiddie tax work? Children (under age 19 or 24 if a student) owe nothing on the first \$850 of investment income earned. The second \$850 is taxed at a lower tax rate. Investment earnings exceeding \$1,700 are taxed at the parent's tax rate, as long as their rate is higher than the child's. Please keep in mind that the kiddie tax applies regardless of whether the child may be claimed as a dependent. The kiddie tax does not apply if the "child" files a joint return with their spouse.

Before the Tax Increase Prevention and Reconciliation Act went into effect in 2006, kiddie taxes would have expired when teens turned 14 years old. The age was increased in 2006 to include all children up to the age of 18. Beginning in 2008, the kiddie tax applies to children who are under age 19 and to full-time students over the age of 18 but under 24 years of age. The expanded rule applies only to children whose earned income does not exceed one-half of the amounts of their support.

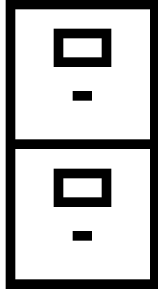


Complying with Federal Employment Tax Recordkeeping Requirements

The IRS is reminding employers about the importance of keeping good records. The Service notes that employment tax records must be maintained for at least four years after the later of the due date of the tax for the return period to which the records relate, or the date the tax is paid [see Reg. § 31.6001-1(e)(2)]. The records should include the following information:

- employer identification number (EIN)
- amounts and dates of all wage, annuity, and pension payments
- amounts of tips reported
- the fair market value of in-kind wages paid
- names, addresses, Social Security numbers, and occupations of employees and recipients
- employee copies of forms W-2 that were returned as undeliverable
- dates of employment
- periods for which employees and recipients were paid while absent due to sickness or injury, and the amount and weekly rate of payments made to them by the employer or third-party payers
- copies of employees' and recipients' income tax withholding allowance certificates (forms W-4, W-4p, W-4s, and W-4v)
- dates and amounts of tax deposits

A willful failure to keep required records is a misdemeanor punishable by a fine of up to \$25,000 (\$100,000 for corporations) and/or imprisonment for up to one year.



Complying with Federal Employment Tax Recordkeeping Requirements, continued

- copies of returns filed
- documentation for allocated tips
- documentation for fringe benefits provided, including substantiation

A willful failure to keep required records is a misdemeanor punishable by a fine of up to \$25,000 (\$100,000 for corporations) and/or imprisonment for up to one year.

RIA Research References: For further information on recordkeeping requirements, see RIA Payroll Guide ¶ 4280. Source: RIA Payroll Guide Newsletter, 08/03/07, Volume 66, No. 16.

Heat Illness Prevention Program

The State of California requires employers to have a written Heat Illness Prevention program.

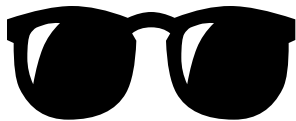
As temperatures rise, so does the risk of heat illness. The State of California requires employers to have a written Heat Illness Prevention program. Heat illness occurs when your body keeps in more heat than it loses; as a result, your body temperature rises. Heat illness can lead to heat stroke, and possibly be fatal, if appropriate treatment is delayed.

The best defense against heat-related illnesses is prevention. The Heat Illness Prevention Standard in the California Code of Regulations adopted in 2005 requires all employers with outdoor worksites to take four basic steps to help prevent this illness:

- Provide heat illness prevention training to all employees including supervisors.
- Provide enough fresh water so that each employee can drink at least 1 quart per hour.
- Provide access to shade for at least 5 minutes of rest when an employee needs a preventative recovery time.
- Develop and implement written procedures for complying with the heat illness preventative standard. It is recommended that employers include these procedures as part of their Injury and Illness program.

How can you reduce the chances of your employees getting heat illness?

- Keep your eye on the weather and your work environment. You want to be aware of not just the high temperatures but also the humidity levels. CAL/OSHA states even weather at 70°F can cause heat illness when there is a high level of humidity. Heat risk reduction needs to be a major concern during 90°F and higher temperatures.
- Employees need to frequently drink water. Employees working in the heat need to drink 4 eight-ounce glasses of water per hour. Employers need to remind and encourage employees to drink water.
- Shade and rest breaks throughout the employees' shifts provide time for cooling and an opportunity to drink water.
- People need time for their bodies to adjust to working in heat. Acclimatization is important for employees who are returning to work from a period of absence, working during the beginning stages of a heat wave, and for new employees. Acclimatization can be done by gradually increasing a full work shift for new or returning employees. You can also time the shifts so that more work can be completed during cooler parts of the day or by increasing the number of water and rest breaks.



Heat Illness Prevention Program, continued

- Heat illness can also be prevented by knowing the signs and symptoms and also know who to call in case of emergency. Employees should learn what to look for during their heat illness training. Include in the company's procedures on who to contact in case of an emergency and communications.

Two new, free publications on heat illness prevention will be available soon through the Cal/OSHA Research and Education Unit. The CalChamber sells booklets and handouts on preventative measures on their website at <http://www.calchamber.com>. Cal/OSHA Heat Advisory is available from the Cal/OSHA website at : www.dir.ca.gov/heatillness.



Mandate of Specific Reimbursements

California's Division of Labor Standards Enforcement recently **proposed** regulations that would mandate specific reimbursements of employee travel expenses. The new regulations would prevent employers from increasing wages instead of directly reimbursing the employee for their expenses.

The proposed regulations would include:

- The IRS's mileage rate would be the standard rate to reimburse employees for use of their vehicles for work. The employer can adjust the mileage rate only by detailed and complete records of the actual expenses incurred. Current rate is 48.5 cents per mile.
- Employers must keep daily mileage records of how many miles each employee has driven for work purposes.
- Employers are required to either reimburse traveling expenses when wages are paid or at least once per calendar month.
- Employers must pay for all expenses necessarily incurred by employees when the employer provides a vehicle to be used in connection with work.
- Each employee would have to be notified of the employer's per diem policy.

For traveling expenses away from home the following regulations would be required:

- **Lodging:** Employers must reimburse the employees for the actual cost of lodging or by the IRS lodging allowance rate.
- **Meals:** Employees must be reimbursed for their actual meal expenses. The employer would also have the option to use the IRS's standard meal expense per diem.
- **Incidental Expenses:** Employers must also reimburse employees for necessarily incurred incidental expenses. These expenses would include tips to bellhops, transportation to places, etc.

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More Changes in New Form W-4 Rules

In addition to the new rules regarding seasonal and rehired employees, the new Form W-4 regulations make important modifications to the temporary rules issued in 2005. These include the following:

- The lock-in notice stating the maximum withholding exemptions permitted for a named employee will also specify the marital status for purposes of calculating the required withholding under the notice. Use the maximum number of withholding exemptions permitted and marital status specified in the notice for calculating income tax withholding.
- You may use any reasonable business practice to furnish the lock-in notice to the employee within the ten required business days. For example, you may give the employee a paper copy of the notice or may transmit a copy using a secure and reliable electronic means of communication.
- You may not accept a substitute W-4 form developed by an employee. Treat the employee submitting such a form as having failed to furnish a withholding exemption certificate.

Payroll Manager's Letter, Aspen Publishers, August 7, 2007

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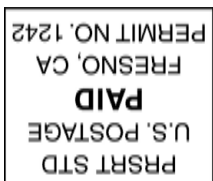
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