

## FEDERAL TAX UPDATE

Congress has been busy passing tax legislation that you may be able to benefit from. The following is a summary of some recent changes:

- Relief for Homeowners in Foreclosure. Ordinarily, debt that is forgiven by a lender is taxable income to the debtor. Congress recognized that homeowners who were losing their homes to foreclosure were in no financial position to pay tax on the debt that was forgiven. They responded by passing the *Mortgage Forgiveness Debt Relief Act of 2007*. This bill enables cash strapped homeowners to exclude from their taxable income the amount of debt forgiven on their principal residence. In order to qualify for exclusion, the loan balance must be under \$2 million. Taxpayers can use Form 982 to take this exclusion on their return.
- Like-Kind Exchange Treatment for Vacation Homes. Ordinarily, tax can be deferred by “exchanging” property rather than “selling” property. This treatment is provided for by IRC Sec. 1031 and has been customarily limited to property held for productive use in a trade or business or for investment. It has always been unclear whether a vacation home that is rented to others as well as used for personal purposes would qualify for this tax deferral tactic. Recognizing that many people negatively affected by the housing slump may need to sell or exchange their vacation home, the IRS has stated that they will not challenge a vacation home as qualifying for a like-kind exchange as long as it is only used occasionally by the taxpayer for personal purposes and is used predominately for rental purposes.
- Stimulus Payments. Should be on their way. Electronic payments started May 2<sup>nd</sup> and checks were mailed beginning May 16<sup>th</sup>. A 2007 return must be filed in order to receive a stimulus payment.
- IRS Audits are Up. The IRS reported that they conducted 1.38 million audits during calendar year 2007. In 2006 they conducted 1.29 million audits.
- Depreciation for Business Use of Automobiles. The IRS limits the amount of depreciation that taxpayers can take for the business use of automobiles. For tax year 2008, the limit is \$2,960 for year 1; \$4,800 for year 2; \$2,850 for year 3; and \$1,775 each year thereafter. In the case of bonus depreciation, the limit for year 1 is \$10,960.
- Depreciation for Business Use of Trucks and Vans. Similarly, the depreciation limits for the business use of trucks and vans for tax year 2008 is \$3,160 for year 1; \$5,100 for year 2; \$3,050 for year 3; and \$1,875 each year thereafter. In the case of bonus depreciation, the limit for year 1 is \$11,160.

- Advisory Fees Subject to 2% Limitation. In January 2008, the U.S. Supreme Court ruled that investment advisory fees paid by trusts and estates must be separately identified and are subject to the 2% floor under IRC Sec. 67(e).

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