



What's New for 2007?

Introduction

Happy New Year!! With the New Year comes new amounts for deductions, exemptions and tax base amounts. This first annual "What's New" Tax Advisory focuses on what is important for all taxpayers to know in the coming year. Based on this information, both business and individual taxpayers will have the early edge on their financial, legal, and tax planning endeavors in the coming year. The most serious concern this year comes in the area not traditionally associated with middle class taxpayers; estate planning.

Estate Planning

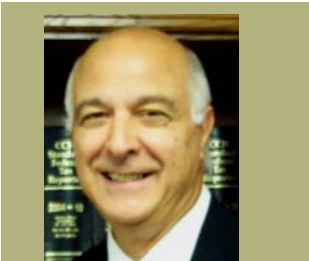
The estate tax exemption does not change this year or even next year. It remains at \$2,000,000. However, in 2009 the estate tax exemption is lifted

to \$3,500,000 and in 2010 will be unlimited.

The annual gift tax exclusion for 2007 will remain the same as in 2006 at \$12,000. The lifetime taxable gift exemption remains at \$1,000,000.

While no changes are in store now for the estate tax, middle class taxpayers need to be solidly aware of the fact that in four short years, the estate tax exemption will be restored back to \$1,000,000. Just as the Alternative Minimum Tax (AMT) became a concern for the middle class in the 1990's, the estate tax which was traditionally regarded as an upper wealth/income taxpayer issue will soon become an issue for the middle class. Factors such as the housing boom, aging of the population, recent history of the

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A CASE STUDY

In a Revenue Ruling, the IRS reversed decades of old guidance and issued a new set of rules for sign on bonuses. Now sign on bonuses, early termination settlements, and non-compete amounts (no matter how they are worded) are subject to FICA taxes.

The facts were based upon baseball players in pro baseball. Sign on bonuses are defined as an

amount paid to an employee to sign an employee to sign an initial contract or an agreement to be employed. A bonus is paid when the employee performs for services provided. When an employer pays an employee for terminating employment, this is now known as a "termination payment" and is subject to all payroll taxes.

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stock market, and commodity markets, combined with the lowered exemption amount in 2011 will vastly affect the number of estates that will pay estate taxes. Taxpayers living around large cities may be unaware that the real estate they purchased in the 1970's for \$100,000 may now well be worth \$500,000 or more. The real estate plus cash accounts and other asset holdings could EASILY push any estate into the \$1,000,000 range. The risk becomes especially serious for those holding business interests of any consequence. It is strongly advisable that individuals and their descendants who consider themselves middle class engage in estate planning not only for ease of estate administration, but also for tax purposes if their estates could reach \$1,000,000.

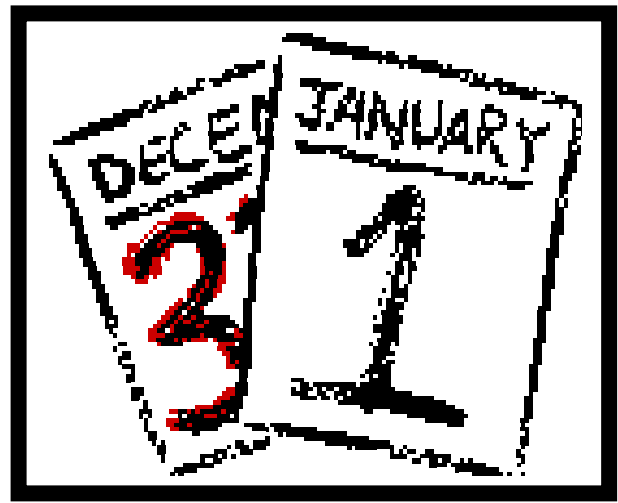
Income Tax Changes

Taxpayers who are involved in business will enjoy higher deductible amounts this year. The Section 179 deduction for 2007 has been indexed upward from \$108,000 to \$112,000. The standard mileage rate for business travelers is also increased to reflect higher travel to 48.5 cents per mile. Unfortunately, the social security base also increased from \$94,200 to \$97,500, meaning self employed people and employers may pay more in taxes. The beneficial 5% - 15% capital gains rates apply in 2007 and remain through the end of 2010. Long term investments should be reviewed in light of this knowledge.

Individual taxpayers will see a standard deduction amount increased to \$10,700 for married filing jointly. In addition, the exemption amount per individual will increase to \$3400 for 2007. Every corresponding tax bracket will be increased as well. The end result is that taxpayers earning the same amount of money in 2007 as they did in 2006, will pay less in taxes.

Energy Tax Credits

Taxpayers also need to be aware of many tax credits that are available this year which encourage energy efficiency. Both business and individuals can claim partial tax credits for



purchasing hybrid cars. Energy tax credits are also available for home improvements which make homes more energy efficient. Examples of these purchases include new doors, windows, heat pumps, air conditioners, and many other products. While the energy credits were new in 2006, the credits only apply to products "put into service" before December 31, 2007. So if you're thinking of making energy efficiency improvements, they must be made during 2007 to result in valuable tax credits.

Conclusion

Small changes in the Tax Code routinely mean huge changes for taxpayers and their tax strategies. This year is no exception. With the impending explosion in estates that become subject to estate taxes and sun setting of energy tax credits, it is advisable for everyone to engage in tax planning at their earliest convenience. The Center routine plans estates and creates and executes business succession plans. If you would like to begin estate or succession planning, the Center should be your first phone call.



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Editor's Comment: FICA and FUTA taxes are paid on any amounts roughly known as wages. Wages are defined as remuneration for employment unless a specific exemption applies. Employment includes establishing, advancing, changing, or canceling the employee-employer relationship. Unless the employer provides a payment clearly outside of this relationship, the payments are wages and subject to FICA and FUTA taxes.

Points of Interest

- The most serious concern this year comes in the area not traditionally associated with middle class taxpayers; estate planning.**
- Just as the Alternative Minimum Tax (AMT) became a concern for the middle class in the 1990's, the estate tax which was traditionally regarded as an upper wealth/income taxpayer issue will soon become an issue for the middle class.**
- Real estate plus cash accounts and other asset holdings could EASILY push any estate into the \$1,000,000 range**



Have You Considered an ESOP Trust as a Possible Buyer for Your Company?

Employee Stock Ownership Plans (ESOP) have been around for over 25 years, and many well known, national companies have them, but many misconceptions still exist, such as: (1) Employees will directly own the company's stock [FALSE], or (2) Employees will directly ratify everything from executive compensation to capital spending plans [FALSE], or (3) Employees will have complete access to all of the company's trade secrets and financial data [FALSE].

Selling to an ESOP trust can have many advantages for the Seller, including: (1) ESOP sales are stock sales, and qualify for lower CAPITAL GAINS tax rates, (2) Sellers may reinvest 100% of the proceeds TAX DEFERRED, (3) Sellers may sell from 30% up to 100% of their shares, and still retain 100% operating control of the company, and (4) Sellers may receive a substantially higher price from an ESOP, depending upon the specifics in each case.

The Bradway Group has experience working with ESOP financial advisors, bankers, attorneys, appraisers, etc., and can help you decide if any ESOP is right for your company. To learn more about ESOPs and qualify for a FREE, preliminary feasibility study, contact me, or any of the M&A professionals at www.bradwaygroup.com.

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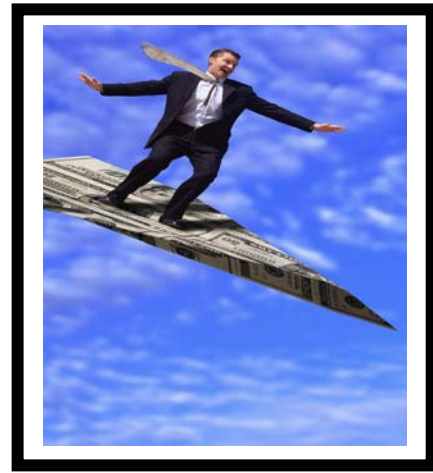
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Frequently Asked Questions...

Q1: What happens to property that is in my estate or otherwise property not discussed in my will?

A1: Generally, if a decedent does not have a will or his or her estate contains property not discussed in a will, that property passes to an heir as dictated by a state's rules of intestate succession. While this may be fine for some people, many business owners would find it undesirable for their businesses to be split up according to intestate succession. The result in cases where no succession planning is done is usually complete and total loss of the business.

Q2: The assets of my business total \$250,000. Do I have to be concerned about estate taxes?

A1: Absolutely. Many businesses have hard assets worth maybe \$100,000 - \$500,000. Under the Internal Revenue Code, businesses are valued according to specific methods. Under these methods other less tangible factors are examined which frequently lift the value of the business substantially. Given that the estate tax exemption will drop to \$1,000,000 in four years, it is wise to do estate planning.

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