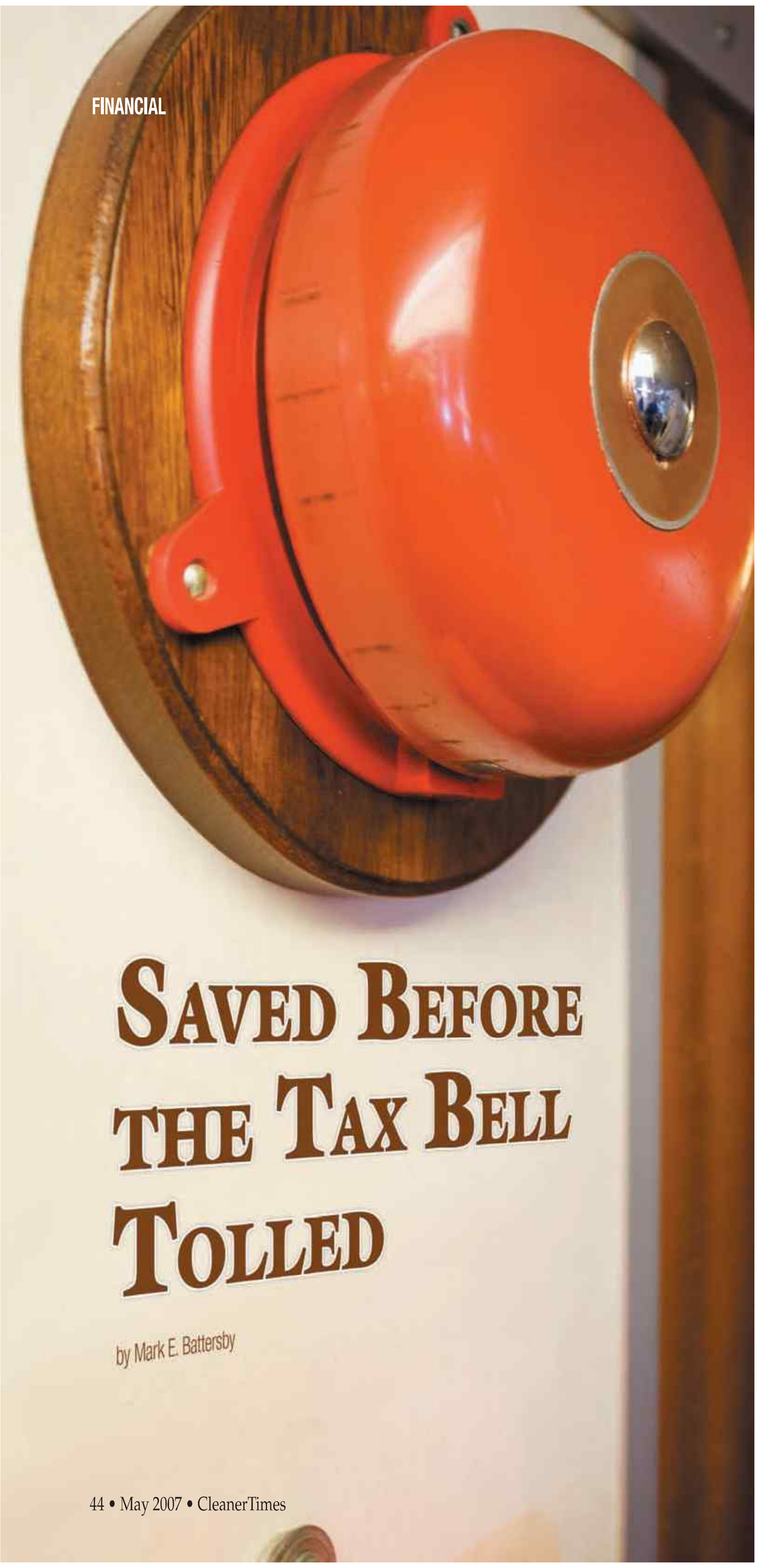

Saved Before the Tax Bell Tolled

by Mark E. Battersby

The owners and operators of many pressure cleaning businesses may be missing out on a number of newly extended and expanded tax breaks under the false impressions that they had expired. Other tax breaks that may have been overlooked in the past have now been clarified thanks to the last-minute passage of a new tax law.

The passage of the Tax Relief and Health Care Act of 2006, late in December, extended a number of expired or expiring tax breaks. Covered were provisions such as, sales tax deductions for people in states without income taxes, the tax deduction for college tuition, a tax credit for hiring welfare recipients and others facing difficulties finding jobs, tax credits for alternative energy producers and purchases of solar energy equipment by homeowners and businesses.

All told, the extension of expiring and expired tax breaks, along with several new tax provisions, are expected to save taxpayers $38 billion over the next five years. While there is nothing earth-shattering in the new legislation, the fact that it was passed so late in the year has thrown both the Internal Revenue Service and tax professionals into a "frizzy."

Every contractor, supplier, and equipment dealer, regardless of whether the annual tax returns have already been filed, whether they took advantage of the automatic extension of time for filing those tax returns, or whether they—or their tax advisers—are in the process of preparing those income tax returns, should review these tax breaks. Among those likely to be of most interest to owners and operators of pressure cleaning businesses are such tax breaks as:

Work Opportunity and Welfare-to-Work Tax Credits

The Work Opportunity (WO) and Welfare-to-Work (WTW) tax credits were originally created to provide incentives for employers to hire economically-disadvantaged individuals. The new law retroactively renews both the WO and the WTW credits for 2006, combining them, with enhancements, into one credit for 2007.

The credits continue to target nine specific groups of economically-challenged individuals. The combined credit in 2007 will simplify the necessary computations and, therefore, enhance its use, especially among smaller contractors and businesses. The amount of the tax credit will however, remain the same.

For most of the targeted groups, the credit is equal to 40 percent of qualified first-year wages (25 percent if employment is more than 120 hours but less than 400 hours). Qualified first year wages cannot exceed $6000. That means a tax credit, a direct reduction in the pressure cleaning operation's tax bill, of as much as $2400 per qualified individual in the first year of employment.

Improving Leased Property

Those equipment dealers and contractors who lease property—any business property—will find that the new law extends the 15-year recovery/write-off period for certain leasehold improvements through 2007. Generally, qualified leasehold improvement property is any improvement to an interior portion of a non-residential building.

Remember, however, unless a leasehold improvement qualifies as "15-year leasehold improvement property," the cost of an addition or improvement made to property that is a structural component of the building must be depreciated. For example, the cost of installing permanent walls in a commercial building (structural components) would be separately depreciated over a 39-year period.

Donations

Incorporated pressure cleaning businesses will benefit from the extended and enhanced rules for deducting donations of property, computer equipment, and technology to schools and public libraries. The new law extends a provision that encourages businesses to contribute computer equipment and software to elementary, secondary, and post-secondary schools by allowing an enhanced deduction for such contributions. For contributions made after 2005, the new law expands the deduction to allow equipment "assembled by" the donor to qualify for the deduction.

Health Savings Accounts

Many business owners have, in recent years, discovered the cost-effectiveness of Health Savings Accounts (HSAs). Similar to an Individual Retirement Account (IRA), but earmarked for health-related expenses, the HSA has caught on among pressure cleaning contractors and business owners as an excellent, tax-favored fringe benefit for themselves as well as employees.

Contributions to HSAs are tax deductible, whether made by the individual or a business.

HSAs enable anyone with high-deductible health insurance to make pre-tax contributions equal to the lesser of the annual deductible or $2700 for self-coverage ($5460 for families) in 2006 to cover health care costs. Unlike an IRA, amounts paid or distributed out of an HSA used exclusively to pay qualified medical expenses are not includable in gross income.

As part of the new law, Title III, the Health Opportunity Patient Empowerment Act of 2006, HSAs are now more attractive than ever. The newly eased rules are expected to have a major impact on employer-sponsored health care decisions. Unlike many of the extended provisions, the HSA enhancements have been made permanent with most taking effect for tax years beginning after 2006.

Employees, even employees of their own pressure cleaning business, with a health Flexible Spending Account (FSA) or a Health Reimbursement Account (HRA) will be allowed to make a one-time transfer of the balance of their FSA or HRA to an HSA. The maximum amount that may be transferred, tax-free, is the lesser of the balance on the date of transfer or on September 21, 2006. The transfer must be made before January 1, 2012.

> Unlike the IRS, all pressure cleaning business owners as well as their tax advisors should have adequate time to digest the contents of the latest changes to our income tax laws. If the tax returns have been filed, our tax laws permit everyone to correct errors and omissions on that already-filed tax return.

Frivolous Tax Returns

In addition to the last minute changes in the tax regulations, the new law strengthened and increased the arsenal of weapons that the IRS can use for fighting the so-called "tax gap." Under congressional pressure to close that tax gap, the difference between taxes owed and the amount of taxes actually paid, the IRS will benefit from several provisions in the new tax law.

The IRS is allowed to use the proceeds from its undercover operations to pay additional expenses incurred in those investigations. This provision the IRS uses to self-fund its tax cheat and tax fraud prevention efforts was due to expire at the end of 2006. It has now been extended thru 2007. Plus, the IRS has been given the authority to share information with several other agencies, including state and municipal tax collectors, at least until the end of 2007.

It has also become more expensive to test the IRS's patience. The penalty for so-called "frivolous" tax return submissions has increased from $500 to $5000, and expanded to cover all taxpayers and all types of federal taxes. This increased penalty also applies to frivolous submissions for lien and levy collection due process, installment agreements, offers-in-compromise, and taxpayer assistance orders.

On a Personal Note

The new tax legislation is not all business. In fact, only a few of the new law's provisions will benefit the average pressure cleaning business or are related to business. By far, the majority of the extended or resurrected provisions in this bill apply to individuals. Those provisions cover such things as:

- An "above-the-line" deduction for higher education expenses;
- A deduction of state and local sales taxes;
- An above-the-line deduction for certain expenses of elementary and secondary schoolteachers;
- Extension of energy-efficient, new homes credit;
- Extension of credit for residential, energy-efficient property; and
- Alternative minimum tax credit relief for individuals.

After the Fact

Since the extenders bill passed after the deadline for printing 2006 tax year materials, the IRS will not be revising the all-ready printed tax forms. Instead, the IRS plans a "media blitz," to alert taxpayers that the extenders are back and should not be overlooked in preparing 2006 tax returns.

The IRS has begun its program to publicize the tax law changes, explaining how to claim the retroactively resuscitated tax breaks. They are using a variety of media, including the IRS website (**www.irs.gov**). What's more, they are expected to come out with a new publication, Pub. 553 (Highlights of 2006 Tax Changes) sometime in the first quarter of 2007. Despite these efforts, however, most tax experts have predicted significant confusion on the part of both tax professionals and taxpayers.

Fortunately, the tax laws now permit automatic extensions of time in which to file income tax returns—but not the taxes due. Thus, unlike the IRS, all pressure cleaning business owners as well as their tax advisors should have adequate time to digest the contents of the latest changes to our income tax laws. If the tax returns have been filed, our tax laws permit everyone to correct errors and omissions on that already filed tax return.

Once a tax return is filed, the claim by an individual who filed Form 1040, 1040A, or 1040EZ, is made on Form 1040X. A corporation that filed Form 1120 uses Form 1120X to include previously overlooked or neglected deductions and tax credits and to claim a refund. Generally, a pressure cleaning business—or its owner—must file a claim for refund within three years from the time the return was filed. *CT*