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NEWSLETTER

SPRING 2008

Congress Acts to Spur the U.S. Economy

The Economic Stimulus Act of 2008 (“the Act”) includes provisions intended to spur both business and consumer spending. We’ll summarize both here.

Business Spending – Enhanced Expensing

The Act promotes business spending by temporarily reinstating **bonus depreciation** and by enhancing **Section 179 expensing**. **Bonus depreciation** allows 50% of the cost of qualifying fixed asset additions to be deducted in the year the property is placed in service, along with normal first year depreciation on the other 50% of the asset’s cost.

To qualify, the property must:

- have a cost recovery period of not more than 20 years, or
- be “off-the-shelf” computer software, or
- be “qualifying leasehold improvements.”

The **original use** of the property must begin with the taxpayer, and such original use must occur in 2008. There must not have been a binding written contract to acquire the property before 2008, and the construction of self-constructed assets must not have begun before 2008.

Special rules apply to certain **business vehicles** which otherwise meet the definition of “qualifying property” for bonus depreciation purposes. Passenger automobiles used in a business are subject to annual depreciation limits, including a first year limit of \$3,060 in 2007. The limits are proportionally reduced if the automobile isn’t used exclusively for business. For a new business automobile acquired and placed in service in 2008, the Act allows bonus depreciation of

up to \$8,000, in addition to the normal first year depreciation on the balance of the automobile’s cost. The bonus depreciation also is subject to being proportionally reduced if the automobile is less than 100% used for business.

The Act further attempts to motivate capital spending by relatively smaller businesses by expanding **Section 179 deductions**. Section 179 allows businesses which have positive taxable income to expense the cost of “Section 179 property” additions up to a limit, subject to the business not spending more than a specified amount on acquisitions of “Section 179 property” during the tax year. “Section 179 property” generally includes new or used tangible personal property and certain computer software used in the business.

The Act increases the amount which can be expensed from \$128,000 to \$250,000 and increases the limit on Section 179 property additions before the Section 179 expense must be reduced (dollar-for-dollar) from \$510,000 to \$800,000. Thus, for 2008, Section 179 deductions are not fully phased-out until Section 179 property additions reach \$1,050,000. These more liberal Section 179 deductions are available for tax years beginning in 2008.

Both bonus depreciation and Section 179 deductions are available for alternative minimum tax purposes as well as for regular tax purposes.

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Congress Acts *continued from page 1*

Consumer Spending – “Recovery Rebates”

The Act includes a program of tax credits for 2008 which are tentatively provided in the form of rebate checks expected to start being distributed this May based on 2007 tax return information. Thus, the rebates won't be distributed in 2008 until 2007 tax returns are filed. The final determination of the amount of credit available will be made on the 2008 tax return, but if less credit than the earlier rebate check is available, the excess will not have to be returned. If more credit is available than the rebate check, the excess will be a credit toward 2008 income tax.

In general, the basic tax credit equals the 2008 net income tax liability, not to exceed \$600 on a single return or \$1,200 on a joint return. Under some circumstances, the basic tax credit is available even in the absence of a net income tax liability.

A person eligible for the basic tax credit is also allowed a credit of \$300 for each

“qualifying child,” using the definition applicable for child tax credit purposes. Thus, a child who is older than age 16 by 2008 won't qualify.

Before you start planning how to use your rebate check, though, note that the credit, including both the basic credit and the qualifying child credit, is reduced by 5% of your adjusted gross income (“AGI”) exceeding \$75,000 on a single return or \$150,000 on a joint return. For single and joint filers with no qualifying children, the credit would be fully lost at \$87,000 and \$174,000 AGI, respectively.

Please contact us with any questions about these provisions.

- **Jim Moavero**
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Congratulations Paula Hanson

We congratulate our colleague Paula Hanson, who was inducted into the University of Kentucky College of Business and Economics Hall of Fame on February 15. Paula earned her Bachelor of Science degree in Accounting from the University of Kentucky. She has been a member of the Dean, Dorton & Ford team since 1992. Paula has been very active in a number of

organizations – on local, state, and national levels. She currently serves on the Board of Directors of the American Institute of Certified Public Accountants, is Past President of the Kentucky Society of Certified Public Accountants, and is a member of the UK School of Accountancy Advisory Council and the Kentucky Chamber of Commerce's Postsecondary Education Task Force.

Tax Pointers and Reminders

- **Charitable contributions must be substantiated.** Monetary contributions up to \$250 may be substantiated by a cancelled check or by a written communication from the donee showing the name of the donee and the date and amount of the contribution. For contributions of \$250 or more, a cancelled check alone is not sufficient; the donor must receive a statement from the donee showing the amount of money or a description of property contributed and a statement regarding benefits the donee received in exchange for the gift (or “none” if none were received). Substantiation must be received prior to filing your return.
- **Charitable contributions of property worth more than \$5,000 involve strict appraisal requirements.** In order to claim a deduction for contributions of property (other than marketable securities) worth more than \$5,000, donors must obtain a “qualified appraisal” from a “qualified appraiser.” If you make a contribution of noncash property worth more than \$5,000, please contact us about complying with these requirements.

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- **Unreimbursed expenses you pay in connection with providing services to a charitable organization are deductible.** The expenses must be nonpersonal and be directly connected with and solely attributable to providing the charitable services. Examples include copying charges, office supplies, postage, and transportation (\$.14 per mile is allowed for use of your vehicle in connection with providing charitable services).
- Sorry, purchases of **raffle or lottery tickets** don't qualify as deductible charitable contributions, nor does the value of **allowing a charity to use your property.**
- The Kentucky individual income tax return includes a line to report **use tax on purchases from out-of-state retailers.** If you purchased items on-line or from a catalog and did not pay sales tax on those items, you would report the use tax on this line.
- If you gave more than \$12,000 to any one person in 2007, you are required to file a **gift tax return** by April 15, 2008.
- **Extension procedures.** Individuals who need additional time to file income

tax returns for 2007 may apply for an automatic extension of time to file until October 15, 2008. The extension of time to file is not an extension of time to pay. Failure to pay tax shown on your return is subject to interest and a 0.5% per month failure-to-pay penalty. You should make a good faith effort to estimate the amount of tax due and accurately report that amount on your extension form. Failure to do so can invalidate your extension and result in imposition of the failure-to-file penalty – 5% per month of the balance due. You can underestimate the tax by up to 10% on the extension form without incurring penalties, but interest still applies.

- **IRA contributions** for 2007 may be made until April 15, 2008. **Self-employed retirement plan contributions** for 2007 may be made until the due date of your 2007 return, including extensions, if applicable.
- **Kentucky residents** are allowed to deduct after-tax payments made for **health and long-term care insurance**, without regard to limits that apply for federal income tax purposes. Our clients for whom this may apply should provide us with their 2007 payments of these types.

Finding Technology Solutions: A Case Study

Creating a Digital Solution for the World's Largest Thoroughbred Auction Facility

Thoroughbred Sales Race into the Twenty-first Century with Repository Advancement

Because purchasing a thoroughbred can be such a substantial investment, interested buyers engage veterinarians to inspect horses, including viewing x-rays, prior to sale. Keeneland's sales repository maintains a central copy of these x-rays during each sale. Keeneland determined that introducing digital radiology would improve the x-ray viewing process.

Large veterinary practices had seen the benefits of digital radiology and had already invested significantly in digital acquisition technology. While digital x-ray solutions for

the veterinary market have been able to piggyback on human health advances, the need outlined by Keeneland for the digital repository was like nothing done before in the human market.

In April 2006, Keeneland's sales director contacted Jason Miller, Director of Technology Consulting at Dean, Dorton & Ford (DDF Technology), to help with this modernization project.

Developing the Right Solution

Keeneland believed that digital technology could dramatically improve the efficiency and convenience of x-ray viewing. However, obstacles to overcome included

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skepticism of consigners, buyers, and veterinarians. In order to ease the transition for veterinarians and Keeneland's staff, the new technology had to closely mirror the old process. Considering the numbers of horses auctioned at Keeneland and the amount of investment involved in these horses, the solution had to be right. The team had to develop a system that could provide instant accessibility by multiple veterinarians to a significant amount of data on each horse.

Onsite and On-demand

Serving as the project manager, Jason helped define the system specifications, helped negotiate the contracts for both hardware and software, and managed the implementation timeline.

Jason also trained the repository's staff, primarily comprised of part-time workers, to use the new technology. Jason was onsite for the November 2006 sale to ensure that every-

thing worked smoothly. The new technology was a complete success.

A Digital Future

Due to this early success, veterinarians and consigners gained confidence in digital radiology. To prepare for this expanded confidence and anticipated increased user volume, Keeneland strengthened its commitment to digital technology by adding twenty new viewstations for the 2007/2008 sales seasons. DDF continues to work with Keeneland on the evolution of the digital repository system, working toward the goal of making x-rays available to veterinarians over the internet.

DDF Technology embraces opportunities to overcome obstacles in finding solutions to difficult technology issues. We welcome your inquiries.

• **DDF Technology**

Higher Penalties for Late Filing of Partnership and S Corporation Income Tax Returns

New Federal law makes it more expensive if partnership or S corporation tax returns are not timely filed. The limit on the late-filing period over which the penalty is computed in each case is extended from 5 months to 12 months, and the per month penalty is increased from \$50 to \$85 for each partner or shareholder.

These changes are effective for tax returns required to be filed after December 20, 2007.

Dean, Dorton & Ford Again Recognized as One of the Best Places to Work in Kentucky

For the fourth consecutive year our firm has been named one of the "Best Places to Work in Kentucky" by the Kentucky Society for Human Resource Management and the Kentucky Chamber of Commerce. We endeavor to make DDF's work environment challenging, pleasant, and conducive to professional and personal growth, and we appreciate the positive feedback this survey provides. As an example of our efforts, we recently engaged a small local counseling

firm to be available to our entire staff on a one-on-one confidential basis to help deal with issues both at work and outside work. The cost of this service is covered by the firm. Counselors visit our offices regularly in an effort to develop relationships with our staff members, several of whom have already expressed appreciation for the help they've received from this service.



People News

New People at Dean, Dorton & Ford

Jessica Biddle is working with our administrative support team in Lexington while completing her Accounting degree at Transylvania University.

Charles Burchett joins our administrative support staff working on our information systems network and infrastructures.

John Calabrese is beginning his public accounting career with our firm. John has B.S. degrees in Business Administration and Accounting from the University of Kentucky and has worked in management positions in full-service restaurants.

John Herring, a CPA, comes to our firm with more than 20 years of work experience in public and private accounting and financial management. John graduated from the University of Virginia with a degree in Commerce.

Makenzie Layne joins DDF's client service staff after relocating from Montana, where she worked in public and private accounting and for Montana State University, her alma mater. She earned Bachelor and Master degrees at Montana State.

Donna Logsdon joins our administrative support staff in Louisville.

Anne McEwen, a University of Louisville graduate with a Marketing degree, joins our administrative support staff to coordinate our marketing functions.

Sarah Rankin joins our client service staff after graduating from the University of Kentucky. Sarah previously interned with us.

Allison Rogers, a CPA with over 10 years of public and private accounting and auditing experience, is working with us from our Louisville office. While working with one of the international accounting firms, Allison also managed her office's scheduling and recruiting functions. She is a University of Kentucky graduate with her degree in Accounting.

Jeremy Vaughn is beginning his public accounting career with DDF. He earned de-

grees in Management and Accounting from the University of Kentucky.

Lisa Wilson is beginning her public accounting career with DDF, while completing degrees in Accounting and Finance at Eastern Kentucky University. Lisa has work experience as an office manager in a dental office.

Nathan Wright joins DDF after relocating from Dayton, Ohio. Nathan has work experience in public accounting and banking. He earned his Accounting degree at Franklin University in Columbus, Ohio, after transferring from Morehead State University.

We are pleased to have several interns working with us during this season: **Jon Barclay** from Murray State University; **Tabitha Wilson**, interning with us for a second season, from Eastern Kentucky University; and **Matt Elberfeld** (second season), **Katie Hogue**, **Erin McClain**, **Chris Ruberg**, and **Julie Whittaker**, all from University of Kentucky.

Professional and Community Activities and Accomplishments

Sheri Bradshaw served as Committee Chair for the Bluegrass Cycling Club (BCC) annual Bike Give-Away, which donates bikes to children who might not otherwise be able to have one. BCC hosts the annual *Horsy Hundred*, a two-day bike event which raises money for this community project.

Congratulations to **Rachel Brown** for passing the CPA exam and to **Amanda Jo Hall** who has become a licensed CPA in Kentucky.

Mike McCreary was named Chairperson of the Board of Directors of the Bluegrass Crimestoppers Program.

New IRS Filing Requirement for Small Tax-Exempt Organizations

The matters discussed in these articles provide general information only. You should consult with us about your specific situation before undertaking action based on such general information.

If you are involved as a board member or otherwise with a small tax-exempt organization, you need to be aware of a new IRS filing requirement. Before, exempt organizations with not more than \$25,000 in gross receipts did not have to file. Now, beginning for tax years starting in 2007, these small exempt organizations are required to file a brief annual electronic return (Form 990-N) with IRS.

The first of these returns will be due May 15, 2008 – for organizations maintaining their financial records on a calendar year.

The form can be accessed at <http://epostcard.form990.org> or www.irs.gov. To file, you'll need the following information:

- Employer identification number
- Tax year
- Organization's legal name and mailing address
- Any other names the organization uses
- Name and address of a principal officer
- Web site address if the organization has one



- Confirmation that the organization's annual gross receipts are normally \$25,000 or less
- If applicable, a statement that the organization has terminated or is terminating

Failure to file this return can result in revocation of exempt status. Please contact us if you have questions or need assistance.

• **Leigh McKee**
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