

The Small Business and Work Opportunity Act of 2007

In late May 2007, yet another tax legislation was signed into law, called *the Small Business and Work Opportunity Tax Act of 2007*. The stated purpose of this new legislation was to provide small business owners with tax relief to help offset scheduled increases in the federal minimum wage. However, the *Act* also includes “revenue raisers” (better known as tax increases).

Tax Breaks

Extend and enhance Section 179 small business expensing.

The (Code Sec. 179) expensing limit is increased to \$125,000 and the investment-based expensing phaseout is increased to \$500,000, effective for tax years beginning after 2006, and the enhanced expensing provision is extended for another year (through 2010).

Liberalize several S Corporation rules.

The new law contains several provisions beneficial to S Corporations, including measures that redefine “passive investment income” for purposes of S Corporation revocation rules to exclude gains from the sale or exchange of stock or securities as an item of passive investment income, exclude restricted bank director stock from treatment as S Corporation stock, and revise the tax treatment of sales of stock of wholly-owned subsidiaries of S Corporations.

Extend and liberalize the work opportunity tax credit.

The credit is extended for 3.5 years with liberalized rules for hiring disabled veterans and workers.

Enhance the tip credit for certain small businesses.

The Federal minimum wage level for purposes of calculating the tip credit is frozen, thereby allowing restaurants to continue claiming the full tip credit despite an increase in the Federal minimum wage.

Tax Increases

Unfavorable New Kiddie Tax Rules

If the Kiddie Tax applies to your child, part of his or her unearned income (typically from investments) will be taxed at your higher marginal federal rate rather than at your child’s lower rate. For 2008 and beyond, the Kiddie Tax can potentially come into play until the year during which a child turns age 24.

Other Revenue Raisers

- *New Taxpayer Penalty.*
- *Suspension of Interest and Penalties When IRS Fails to Issue Deficiency Notice.*
- *Hearings Before Employment Tax Levies.*
- *IRS User Fees.*
- *Minimum Bad Check Penalty.*

Conclusions

Please keep in mind that we’ve described only the highlights of the most important changes in the new law. We’ve left out many details because we didn’t want this letter to turn into a book. Please contact us if you have questions or want more specific information about this important new law.