



Conner, Hubbard & Company, LLC
Certified Public Accountants

Defense Against The IRS, Tax Planning, Pension Planning, Business Planning

Orange Park, Florida
904.278.1040

Nashville, Georgia
229.686.3377

Website: www.ConnerHubbard.com E-mail: Firm@ConnerHubbard.com



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BUSINESS STANDARD MILEAGE RATE INCREASES FOR LAST HALF OF 2008

The IRS has announced that the mileage allowance for owned or leased vehicles will increase from 50.5 cents to 58.5 cents per mile for business travel from July 1, 2008 to December 31, 2008. The rate using a vehicle to get medical care or in connection with a move that qualifies for the moving expenses will also increase from .19 cents to .27 cents per mile for the last half of 2008.

NET OPERATING LOSSES AND HOW TO MAKE THE MOST OF THEM

Is your business having a bad year? Even if 2008 looks like a bad year for business, tax planning is still necessary. Even a loss can be turned into a tax advantage because it can be used to recover in the form of a quick cash refund of taxes paid in earlier years. If the decision is made not to carryback, the loss can be carried forward. The recovery of prior period taxes or the carryforward of a net operating loss is governed by the net operating loss carryback and carryforward provisions of the Internal Revenue Code. These provisions generally permit net operating losses to be taken as an additional deduction on an income tax return for the preceding two years or the twenty succeeding years.

In order to take advantage of an expedited procedure to get cash back from a net operating loss carryback, specific procedures must be followed. A taxpayer must file for a carryback refund within 90 days of the date he/she files the actual return reflecting the loss. The chief advantage of a carryback to an earlier year is that you can use it to get a quick cash refund.

Do you expect your business to be involved in debt restructuring or other debt cancellation transactions? A financially troubled taxpayer may become involved in debt restructuring or seek some other debt cancellation transaction. As a general rule, this can generate taxable income. However, an insolvent or bankrupt taxpayer can avoid the recognition of such income and keep any net operating loss in tact.

Taxable debt cancellation income can arise where:

- A. A creditor agrees to accept as full payment an amount less than the balance due on an obligation.
- B. A taxpayer reacquires its own obligation for less than it was issued for.
- C. The owner of real estate subject to debt surrenders it or is foreclosed on by the mortgage creditor.
- D. A shareholder forgives a debt owed to him by his own closely held corporation, treating it as a capital contribution.
- E. The debtor issues new debt instruments in exchange for old debt instruments, in which case the debtor is treated as having satisfied the old debt with the amount of money equal to the issue price of the new debt.
- F. Stock is issued in exchange for debt, to the extent that the stock fair market value is less than the amount of debt.

Carryovers of net operating losses between S and C corporation years are not permitted. Thus, a current S corporation net operating loss cannot be carried back to an earlier C corporation tax year, nor a current C corporation net operating loss to an earlier S corporation tax year.

Net operating losses in years before and after an individual divorces also require special attention.

Suppose that you or your corporation had taxable income for 2007, but 2008 looks like it is going to be a loss year; you can use the 2008 loss to extend or void the requirement for paying the 2007 tax.

The important thing is to not stop questioning. Curiosity has its own reason for existing.

The 2007 return, however, must not have been filed in order to get the relief.

Success is going from failure to failure without a loss of enthusiasm.

For example, most 2007 corporate income tax returns have a March 15, 2008, filing due date. But, the due date for filing the return (not payment) can be automatically extended by filing Form 7004. The extended filing date is September 15, 2008. If between January 1, 2008 and September 15, 2008, you determine that the corporation is going to owe 2007 income tax, but is going to have a 2008 loss, you can notify the IRS of the 2008 loss and request extension of the payment of the 2007 tax. The payment extension expires no later than the due date of the 2008 return.

The rules for computation of losses for corporations and individuals are very similar, so most of the rules described above would apply to both. There are differences in computing losses when alternative minimum tax is involved.

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Steven W. Conner, C.P.A.

Kim K. Hubbard, C.P.A.

Randall J. "Jay" Wiley, C.P.A.
