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Small Business Alert

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IRS Increases Mileage Rates

The Internal Revenue Service announced an increase in the optional standard mileage rates for the final six months of 2008.

Taxpayers may use the optional standard rates to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

The rate will increase to:

- 58.5 cents a mile for all **business** miles driven from July 1, 2008, through December 31, 2008. This is an increase of eight (8) cents from the 50.5 cent rate in effect the first six months of 2008.
- 27 cents a mile for computing deductible **medical** or **moving** miles driven from July 1, 2008, through December 31, 2008. This is an increase of eight (8) cents from the 19 cent rate for the first six months of 2008.

The rate for providing services for **charitable** organizations is set by statute, not the IRS, and remains at 14 cents a mile.

(Source: IR-2008-82, 6/23/08)

Next Phased Federal Minimum Wage Increase Comes in July

Effective **July 24, 2008**, the federal minimum wage for covered non-exempt employees will rise from \$5.85 to **\$6.55 per hour**.

The Fair Minimum Wage Act of 2007, which amended the Fair Labor Standards Act (FLSA), provides for another phased increase to \$7.25 per hour effective July 24, 2009.

Many states also have minimum wage laws. Covered employers must comply with both.

Other Provisions

The **tip credit provisions** of the FLSA remain the same. An employer is still only required to pay \$2.13 an hour in direct wages if that amount plus the tips received equals at least the Federal minimum wage, provided the employer has informed the employee of the tip credit being taken, the employee retains all tips except to the extent they participate in a valid tip pooling arrangement, and the employee customarily and regularly receives more than \$30 a month in tips.

The **youth minimum wage** also

remains the same. Employees under 20 years of age may be paid \$4.25 per hour during their first 90 consecutive calendar days of employment with an employer.

Every employer of employees subject to the FLSA's minimum wage provisions must post, and keep posted, a notice explaining the Act in a conspicuous place in all their establishments so as to permit employees to readily read it.

Required posters and other compliance assistance materials concerning the minimum wage are available from the Department of Labor's Wage and Hour Division web site at <http://www.wagehourdol.gov>. Information is also available by calling the U.S. Department of Labor's toll-free help line at 1-866-4US-WAGE (487-9243).

(Source: SSA/IRS Reporter, Summer 2008)

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IRS Targets Misclassified Workers

The Internal Revenue Service (IRS) is on the warpath against firms that misclassify workers, with new weapons for tracking down firms that violate rules used to determine whether workers are employees or independent contractors.

More help from the states. IRS has signed up most of the states to share payroll tax exam data. Thousands more audit leads will result.

An electronic system matches firms issuing five or more 1099s of at least \$25,000 to workers who did not report any other earned income.

Audit leads from workers. Taxpayers can now file Form 8919 with their tax returns to tell the IRS that they believe their employer incorrectly pegged them as contractors. A flood of these forms is likely because filing the 8919 allows an individual to avoid paying the SECA tax.

(Sources: The Tax Strategist, May and June 2008; The Kiplinger Tax Letter, Special Issue, April 2008)

Home Builders Will Get Special Audit Attention from the IRS

Revenue agents will look for inappropriate income deferrals by builders using the completed-contract method of accounting.

Among the targets:

- Developers who sell lots but don't report income until common improvements are done.
- Those using a subsidiary to build all houses in a project so the firm can say the contract isn't complete until all homes are built. Otherwise, the home builder would owe taxes after each house was finished.

(Source: The Kiplinger Tax Letter, Special Issue, April 2008)

Pursuant to federal regulations imposed on practitioners who render tax advice ("Circular 230"), we are required to advise you that any tax advice contained herein is not intended or written to be used for the purpose of avoiding tax penalties that may be imposed by the IRS.

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