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Criser, Gough, & Parrish

Small Business Alert

“Working together for you.”

Fast Facts about Fixed Assets

1. It is possible that you may be required to depreciate the same fixed asset using five different methods for five different purposes: GAAP, Federal tax, Earnings and Profits, Alternative Minimum Tax, and State tax.
2. The date on which you acquire an asset is not always the date on which depreciation begins. You cannot depreciate an asset until it is actually placed in service.
3. If an asset becomes temporarily idle, it continues to be depreciated. However, this is true only if the asset is both operable and available for use.
4. Section 179 expense is included with regular depreciation when determining the maximum amount of depreciation expense allowable under the luxury car rules on a vehicle in the year in which it is placed in service.
5. A musical instrument may or may not be depreciable. If it is an antique and kept on display, you cannot depreciate it. However, if you are a professional musician who performs with it, even if it is an antique, you can depreciate it.
6. There is no official minimum capitalization policy allowed by the IRS for tax purposes.
7. The MACRS Alternative Depreciation System (ADS) must be used to calculate depreciation for any tangible property used predominantly outside of the United States.
8. A short tax year reduces the maximum dollar limitation allowed as depreciation expense on a luxury vehicle.
9. Any unused Section 179 expense can be carried forward indefinitely.
10. It is the date on which you place an asset in service that determines when depreciation begins on it. Therefore, if you acquire an expensive asset near the end of the tax year and want to avoid having to use the mid-quarter convention, you may want to consider not putting the asset in service until the following year.
11. The “M” in MACRS stands for “modified” because it modified the previous depreciation system, ACRS.
12. A trade-in of one car for another is considered to be a like-kind exchange.
13. If you acquire a covenant not to compete when purchasing a business, amortize it over 15 years, regardless of the length of the contract.
14. Once an asset is placed in service by a business it generally is considered to remain in use until it is disposed of or its depreciable life has expired.
15. A short tax year has no effect on the amount of depreciation claimed on any real property placed in service during that year. This is because such property uses the mid-month averaging convention.
16. When your business purchases a building, remember to separate out the cost of the land. Only the building is depreciable. The land cannot be depreciated!
17. According to GAAP, an intangible asset with an indefinite life cannot be amortized. Instead it should be reviewed annually for impairment.
18. If a business places in service more than 40% of its MACRS personal property in the last three months of the year, it must use the mid-quarter averaging convention for tax purposes.

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Source: Bureau of National Affairs

New K-4 Form for State Withholding

Traditionally, Kansas has accepted the Federal Form W-4 to help employees calculate their Kansas employer withholding tax rate. However, due to differences between State and Federal withholding policies the Department of Revenue has developed a new form for State withholding tax purposes.

New Form and Effective Date

The new State form is Form K-4 (Employee Withholding Allowance Certificate). It was released the fall of 2007. Form K-4 will not be used until after January 1, 2008.

Who Will Be Affected

Employees hired *after* January 1, 2008 *must* use the new Form K-4.

Employees hired *before* January 1, 2008 are *not* re-

quired to fill out the new K-4 unless they wish to adjust their withholding. If an employee hired before January 1, 2008 wishes to adjust state withholding anytime after January 1, 2008, the employee will be required to complete the new Form K-4.

The Department will be researching and contacting individual filers who repeatedly underpay or underestimate Kansas tax liabilities and end up with a balance due on their annual income tax filing. These individuals will be **required** to submit a new Form K-4 with their employer to increase their withholding. The IRS and the State of Kansas has authority to direct an adjustment of withholding to avoid repeated underpayment of tax liabilities.

(Source: Kansas Department of Revenue, Notice 07-07)

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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Return Service Requested

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