



Tidbits – December 31, 2008

Personal use of company-paid autos is unallowable

That portion of the cost of company-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable for government contracting regardless of whether the cost is reported as taxable income to the employees [FAR 31.205-6(m)(2)]

Differential Pay paid to employees on active duty

Differential pay is defined as payments made voluntarily by an employer to represent the difference between the regular salary of an employee called to military active duty and the amount being paid by the military, if the regular salary was higher. For federal tax purposes, the employment relationship between the employee and the company was terminated when the worker was called for active military service with the U.S. government or for active service with the state National Guard. Under the circumstances, the payments made by the company to the former employees while they are in military service with the U.S. government or active service with the state National Guard are not "wages" for services performed in "employment" for the companies. These payments, therefore, are not "wages" subject to the taxes imposed by the Federal Insurance Contributions Act and the Federal Unemployment Tax Act or to the Collection of Income Tax at Source on Wages. Employers should report military differential pay on Form 1099-MISC, Box 3: Other Income. Do not use Form W-2 for these payments. Employers should not withhold FICA or income tax from these payments and the payments are not subject to FUTA taxes.

Advanced Preparation for tax returns

With tax season fast approaching, some steps you can take to help the completion of your return in a timely matter include:

- Provide responses, if applicable, for every question on the tax organizers provided
- Gathering documentation for all charitable contributions, both business and personal
- Make sure you have the cost basis for any securities sold during 2008
- Review your expense accounts to make sure meals are in an account separate from travel, meeting fees, conference fees, etc.
- Review your entertainment expense account to make sure employee morale is clearly described as such.



- Provide a mileage log for each personal vehicle used in the business for which you did not get reimbursed
- Provide a mileage log with daily business miles, beginning mileage, and ending mileage for each company-owned vehicle if also used personally or you don't have a policy prohibiting personal use.
- Provide a list of all Federal and State income tax payments with dates and amounts

Section 179 and Bonus Depreciation for assets placed in service during 2008

The amount of eligible assets that could be expensed directly (Section 179 expense) for federal tax purposes instead of depreciating over the useful life was \$250,000.

However, this amount gets reduced dollar for dollar when the total asset purchases exceed \$800,000.

Maryland has decoupled from the federal regulations and has a Section 179 limit of \$25,000 for all eligible assets except software, which must be depreciated over 3 years.

50% bonus depreciation is available for eligible assets not expensed fully under Section 179. Some states may decouple from this regulation.

IRS increases for 2009

Mileage Rates —

Business mileage is 55 cent per mile effective January 1, 2009

Medical or moving mileage is 24 cents per mile

Charitable mileage is 14 cents per mile

401k elective deferrals—

Under 50 can contribute \$16,500

50 and over can contribute an additional \$5,500 for a total of \$22,000

Social Security taxes —

The maximum amount of earnings subject to Social Security taxes is \$106,800

Phase out for itemized deductions begins at adjusted gross income of \$166,800



Consumer Price Index (CPI) was -1.9% as of November 2008

CPI represents the change in prices paid by urban consumers. It is often used as an economic indicator, as a means of adjusting dollar values, and as the escalation rate on government contract pricing (labor and T&M rates).

Table 10 – Consumer Price Index for Urban Consumers (CPI-U): Select local areas, all items
Percentage change from Nov 2007 to Nov 2008 = 2.5% for DC-MD-VA-WV

Employment Cost Index (ECI) was 2.9% as of September 2008

ECI represents the change over time in labor costs. It is used in determining escalation for the GSA Schedule rates.

Table 5 – Employment Cost Index for Total Compensation, for private industry workers by occupational group and industry

Professional, scientific, and technical services

Percentage change from September 2007 to September 2008 = 4.1 %

Percentage change from June 2007 to June 2008 = 4.1 %