

Tax Changes for Businesses

Tax Year 2007

- Depreciation and Section 179 Expense
 - Domestic Production Activities Deduction
 - Self-Employment Tax
 - Social Security and Medicare Taxes
 - Standard Mileage Rate
 - Qualified Transportation Fringe Benefit
 - Work Opportunity Credits
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Depreciation and Section 179 Expense

Increased section 179 limits. The maximum section 179 deduction you can elect for qualified section 179 property placed in service in 2007 has increased to \$125,000 (\$160,000 for qualified enterprise zone and qualified renewal community property). This limit is reduced by the amount by which the cost of qualified property placed in service during the tax year exceeds \$500,000.

For qualified section 179 Gulf Opportunity (GO) Zone property, the maximum section 179 deduction is higher than the deduction for most other section 179 property.

Depreciation limits on electric vehicles. The higher maximum depreciation deduction for a passenger automobile that is an electric vehicle does not apply to electric vehicles placed in service after December 31, 2006.

Limited reduction in Liberty Zone tax benefits. The special depreciation allowance for qualified New York Liberty Zone property does not apply to property placed in service after December 31, 2006 (except for qualified nonresidential real property and qualified residential rental property).

Domestic Production Activities Deduction

For tax years beginning after December 31, 2006, the domestic production activities deduction percentage increases from 3% to 6%. For more information on this deduction, see [Form 8903, Domestic Production Activities Deduction](#), and its [instructions](#).

Self-Employment Tax

The maximum amount of net earnings subject to the social security part of the self-employment tax for tax years beginning in 2007 has increased to \$97,500. All net earnings of at least \$400 are subject to the Medicare part of the tax.

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2007 is \$97,500. There is no limit on the amount of wages subject to the Medicare tax.

Standard Mileage Rate

For 2007, the standard mileage rate for the cost of operating your car, van, pickup, or panel truck is increased to 48.5 cents a mile for business miles driven.

Qualified Transportation Fringe Benefit

For taxable years beginning in 2007, the monthly limitation regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass is \$110. The monthly limitation regarding the fringe benefit exclusion amount for qualified parking is \$215.

Work Opportunity Credit

After December 31, 2006, the welfare-to-work credit was combined with the work opportunity credit. Use Form 5884, Work Opportunity Credit, to claim a credit for an employee who begins work for the employer after December 31, 2006.

Members of targeted groups. For employees who begin work after December 31, 2006, the following changes pertaining to targeted group members apply.

- Ex-felons are no longer required to be a member of a low-income family.
- Food stamp recipients must be at least age 18 when hired, but not age 40 or older.

Form 8850. The [Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit](#), that you are required to file with the work opportunity tax credit (WOTC) coordinator for your state workforce agency (SWA) is now due no later than the 28th day after the job applicant begins work for you. See Instructions for Form 8850 for more information.