an annual Form 990-N, Electronic Notice (e-Postcard) for Tax Exempt Organizations Not Required to File Form 990 or 990-EZ.

A provision of the *Pension Protection Act of 2006* (PPA), the e-Postcard applies to tax years beginning after December 31, 2006, and applies to small tax-exempt organizations not required to file Form 990 or 990-EZ because their gross receipts are normally $25,000 or less.

However, not every small tax-exempt organization is required to file the e-Postcard. Some exceptions are organizations included in group returns, as well as private foundations required to file Form 990-PF. The requirement does not apply to churches, their integrated auxiliaries or to church conventions and associations.

This summer, the IRS sent letters to notify affected small tax-exempt organizations of the potential e-Postcard filing requirement. It is also developing a filing system and will publicize those procedures when the system is ready for use. Note: There will not be a paper Form 990-N.

The PPA requires the IRS to revoke the tax-exempt status of any organization that fails to meet its annual filing requirement for three consecutive years. Therefore, if your organization is required to annually file the e-Postcard, do so without fail or risk losing your tax-exempt status.

Document cash donations to charity

If you make cash contributions to charity, get a receipt or other documentation from the charity; otherwise, the IRS may disallow your deductions.

Under new rules, all cash donations—no matter how small—must be documented by a receipt. Before this law change, taxpayers were only required to get a receipt for cash donations of $250 or more.

If you give by check or credit card, back up your deduction with either a receipt from the charity or copies of cancelled checks or credit card statements.

Some of the information in this BKD Advisor is specific to 2007 and may not be relevant after December 31, 2007. As always, talk with your BKD advisor before taking any action. Contact BKD to schedule a presentation on tax planning strategies for members of your community, business, civic or charitable organizations.

Actively plan for passive activities

A passive activity is any trade, business or investment in which you do not materially participate. Losses and credits generated by passive activities that exceed passive income are not deductible. Instead, they carry over to future years or until the activity is fully disposed.

Rental activities are per se passive activities regardless of material participation (with an exception for qualifying real estate professionals). However, subject to income limitations, you can deduct up to $25,000 of losses from rental real estate activities if you actively participate.

And what about *material* participation? You materially participate if you meet the following criteria:

- Participate in the activity more than 500 hours during the year
- Participate more than 100 hours if no one else participates more
- Participate more than 500 hours in all your significant participation activities (SPA); an SPA is when you participate for more than 100 hours but do not otherwise materially participate

You actively participate if you participate in a significant way, *e.g.*, you make management decisions, including approving new tenants, setting rent policies and terms; and approving capital expenditures or repair decisions in a rental activity.

Discuss these rules with your BKD advisor and consider if you are subject to limitations on losses from a passive activity. If you are, you may be able to take steps to avoid these limitations by planning or increasing your participation. ❖❖❖

Don't leave

by Doug Stucker, dstucker@bkd.com

Recent 2007 legislation makes it more likely for you to earn income tax credits by simply hiring employees with particular attributes. These are not deductions but actual dollar-for-dollar income tax credits you may be entitled to if your company is located within a specific business site or "zone" and employs or hires people who reside in that same zone.

Many businesses are unaware of numerous, lucrative federal and state incentive tax programs. Businesses may not be aware their facility is located within a zone: Because zones do not generally share boundaries with common geographic areas, such as ZIP codes, municipalities or counties, it is not usually obvious if a business is located within a certain zone.

Businesses may also assume the credit qualification process is too complex and confusing or simply too time consuming. The good news is BKD has access to tools that can greatly simplify and enhance the process.

Location-based credits

Your business may earn federal income tax credits if it is located in one of many community renewal zones designated nationwide and also employs people who live in the same zone. While many of these zones are in depressed urban and rural areas, many are located in areas with more advanced economic development.

Other federal income tax benefits may be available to businesses located in a zone. These credits

valuable incentive credits on the table

may be available for all open years (often the past three years). Also, the credits generally flow through to owners of pass-through entities. And, for those businesses with net operating loss (NOL) deductions, credits generally are available for carry-forward for 20 years. These zones exist in most states, including Empowerment Zones (38 states), Renewal Communities (20 states) and Native American Tribal Lands (43 states).

State credits are often earned when a business is located in a zone and increases the number of employees and/or makes capital investments in the zone. State credits may be in the form of income or franchise tax credits, property tax abatements and credits and sales tax refunds and exemptions.

Generally, state programs are divided between prequalification and nonprequalification. Prequalification requires a business be located within a certain zone and complete the approval process *before* it hires more employees (or makes investments in the location) so it can receive the tax benefits.

Often, simply being located in a zone will allow a business to take advantage of the tax benefits without an additional approval process, which is how the nonprequalification program works. Additional eligibility requirements may also exist for state programs: a minimum number of new employees or investment amount, targeted industries and different levels of benefit for specific locations within a state.

WOTC can help eligible employers

If you hire an employee in one of the following categories, you may be eligible for a federal income tax credit equal to a percentage of the employee's first year's wages (two years for certain eligible employees).

The federal Work Opportunity Tax Credit (WOTC) is generally 40% multiplied by eligible wages up to $6,000, has a maximum credit of $2,400 per qualified employee and applies in the year of hire. On the day they offer the applicant the job, employers are required to complete certain paperwork and file it (within 28 days of hire) with the state employment agency for certification.

The number of eligible employees will expand due to two new categories that were added recently:

- Disabled veterans
- Residents of rural renewal counties (RRCs) ages 18 to 39. There are 403 RRCs, representing some 13% of U.S. counties. Group D has been expanded from ages 18 to 24 to ages 18 to 39.

Also, effective for taxable years beginning on or after December 31, 2006, you may use the WOTC against the AMT. Before, these credits could only be used to offset regular tax exceeding tentative minimum tax. Employers that may not have pursued these credits because of the AMT limitation should reconsider them.

These programs are meant to encourage and reward businesses that hire employees who often may be more difficult to place.

* * *

You may be eligible for these credits, but you can only benefit if you pursue them. If you are a qualifying employer, your BKD advisor can help you leverage WOTC tax credits in a cost-effective way. ❖❖❖

Nine WOTC categories

Prior to a recent expansion of the credit, qualifying employees had to belong to one of nine different categories:

Group A - Qualified recipients of Temporary Assistance to Needy Families (TANF)

Group B - Qualified veterans who receive food stamps

Group C - Qualified economically disadvantaged ex-felons

Group D - High-risk youth ages 18 to 24 who reside in Renewal Communities, Enterprise Communities or Empowerment Zones

Group E - Vocational rehabilitation referrals

Group F - Qualified summer youth ages 16 to 17 who reside in Renewal Communities, Enterprise Communities or Empowerment Zones

Group G - Qualified food-stamp recipients ages 18 to 24

Group H - Qualified recipients of Supplemental Security Income (SSI)

Group I - Long-term recipients of either TANF or Aid to Families with Dependent Children (AFDC) ❖❖❖