The Accountants' Corner

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Thomas Judy & Tucker, P.A. CERTIFIED PUBLIC ACCOUNTANTS

TJT Joins AGN International

Thomas, Judy & Tucker, P. A. is proud to announce that we have been admitted to membership in AGN International, Ltd., one of the world's foremost associations of independent CPA, accounting, and consulting firms.

Thomas, Judy & Tucker is now the 54th member firm in AGN-North America and only the second to be admitted in 2007. AGN International comprises over 200 independent accounting and business-consulting firms around the world, with combined billings of over $1 Billion (in 2006.) This ranks AGN International as one of the twenty largest accounting associations globally.

"Membership in AGN International will leverage our strengths while expanding our specialty expertise and array of service offerings," said TJT's managing partner Chris Judy, CPA. "AGN membership is a coveted status and we're proud to be part of this global accounting association." As part of our association with AGN, Chris joins the AGN-North America Board of Directors. Senior Manager Caroline Abbott, CPA has already taken a leadership role in one of AGN's tax sharegroups.

AGN's mission is to help its members enhance profits, share information through better use of technology and collaborate to service clients as effectively as possible. Membership in AGN will allow us to use the expertise and experience of firms from all over the world. TJT will use the resources of AGN for extensive audit and tax training for our staff as well as establishing and maintaining strategic partnerships with national organizations. If you have multi-state or international tax issues, TJT will be able to draw upon the resources of a worldwide association to better serve your needs.

AGN International is headquartered in London, while AGN-North America's domestic office is in suburban Denver.

AGN INTERNATIONAL

All the Right Year-end Tax Moves

The end of the year usually offers unique tax opportunities for individuals to shift income and deductions to their tax advantage. This year is no exception. In fact, some tax moves may be predicated on recent tax law changes.

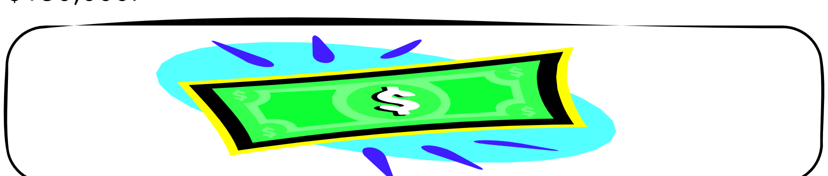
The following are several areas where year-end tax planning may make a difference.

Charitable donations: As a general rule, donors can deduct the full amount of cash donations made during the year. If a donation is made by credit card before January 1, the donor can deduct the gift in 2007, even if the charge is not actually paid until 2008. Note: Strict new substantiation rules apply to monetary gifts, regardless of value, as well as contributions of used clothing and other items.

Capital gains and losses: An investor may realize capital gains at year-end to offset capital losses and vice versa. Any excess capital loss for the year may also offset up to $3,000 of ordinary income. Furthermore, long-term capital gains (i.e., capital assets held more than one year) are taxed at a maximum rate of 15%; 5% for taxpayers in the 10% or 15% ordinary income brackets. Note: The 5% rate drops to zero for 2008, but "kiddie tax" complications may arise (see *Skirting Around the Kiddie Tax, p.3*).

AMT considerations: The reach of the alternative minimum tax (AMT) continues to grow. The AMT is based on a special tax computation involving "tax preference" items. After estimating AMT liability for 2007, individuals may choose to shift tax preferences to 2008. Alternatively, an individual might want to accelerate income into 2007 if the AMT rate is lower than his or her top marginal tax rate.

Estimated tax: If an individual does not pay enough federal income tax during the year—through payroll withholding or quarterly installments or both—he or she may be liable for an estimated tax penalty. However, no penalty will be assessed if annual tax payments equal at least 90% of the current year's liability or 100% of the prior year's tax liability. Note: The percentage for the 100% safe harbor is increased to 110% if adjusted gross income (AGI) for the prior year exceeded $150,000.



Medical expenses: An individual filer may deduct unreimbursed medical and dental expenses to the extent the annual total exceeds 7.5% of AGI. When it is possible, try to "bunch" qualified medical expenses in the tax year that provides the best opportunity for a deduction. If the 7.5% hurdle cannot be cleared this year, it makes sense to postpone non-emergency expenses to next year.

Dependency exemptions: In general, the parents of a child under age 19 or a full-time student under age 24 can still claim a dependency exemption for the child by providing more than 50% of his or her support. Each dependency exemption for 2007 is $3,400 (up $100 from last year). If it is a close call, provide additional support to an older child—perhaps one who graduated from college this year—to meet the 50% rule.

Mutual funds: If an investor owns mutual fund shares that he or she plans to sell, it is tax-wise to sell the shares prior to the ex-dividend date. Otherwise, the investor will be taxed on the dividends, even if they are sold shortly thereafter. Conversely, it is advantageous from a tax perspective to buy mutual fund shares after the fund has declared its annual dividends.

Of course, every person's situation is different. It is recommended that individual taxpayers develop a year-end plan of action tailored to their specific needs.

"Kiddie Tax" law changes may impact your Investment Planning

A midyear tax law change could put a damper on year-end planning.

Background: Normally, long-term capital gains from sales of securities and other capital assets are taxed at a maximum 15% tax rate. The tax rate is only 5% for investors in the lower tax brackets. Even better: This 5% rate is scheduled to drop to zero for 2008. Thus, parents may be tempted to transfer income-producing assets to their children in low tax brackets.

However, the "kiddie tax" may affect a family's investment decisions. How it works: Investment income received by a child under a certain age is taxed at the top marginal tax rate of the child's parents to the extent it exceeds $1,700 for 2007. (This dollar figure is indexed annually.) Prior to 2006, the kiddie tax provision only applied to children under age 14, but last year Congress raised the age limit to age 18.

New rules: The new small-business tax law increases the age limit for the kiddie tax once again. Beginning in 2008, it will apply to children under age 19 and full-time students under age 24. These higher limits are triggered only if a child's earned income does not exceed half of his or her annual support.

This tax law change requires careful planning. To minimize the impact of the kiddie tax, more investment dollars may be shifted into tax-free municipal bonds, growth stock or other investments where tax can be deferred. Consider all the relevant economic factors—not just taxes—in investment planning.

The Owners and Staff of Thomas, Judy & Tucker wish you and yours a very Merry Christmas and a Happy, Joyous and Prosperous New Year!

Quick Tax Tips

A Bad Rap?—The general tax rule is that expenses incurred in connection with buying, holding or selling property must be capitalized and added to the property's basis. This can reduce the taxable gain when the property is sold. New ruling: The IRS says that fees paid for consulting and advisory services in a financial broker's "wrap account" do not qualify for this tax break. Instead, the fees must be treated as miscellaneous expenses subject to the usual 2%-of-AGI floor.

Lack of Independence—In a new case, a trucking firm in Ohio contracted with drivers to operate as independent contractors. But the firm maintained significant control over their activities. For instance, it made all the assignments, supervised all the work and confirmed deliveries. It also took full responsibilities for repairs and maintenance. Result: Despite the existence of written contracts, the Tax Court determined that the drivers should be treated as employees, not independent contractors.

Emotional Issues—An employee claimed that her company blacklisted her after she revealed environmental hazards. Eventually, she was awarded $45,000 in damages for emotional distress. In a controversial decision, the Circuit Court of Appeals in Washington, D.C., ruled that it was unconstitutional to impose federal income tax on the damages. But now the Court has vacated the decision. Reason: The tax exclusion is properly limited to damages for physical injuries.

Roth IRA Conversions

Due to a recent tax law change, retirement savers may choose to convert a "traditional IRA" to a Roth IRA in the near future. However, a little-noticed wrinkle in the rules could create additional tax liability for the unwary. This makes advance planning with foresight essential.

Background: Contributions to a traditional IRA may be deductible if the individual is not an active participant in an employer-sponsored retirement plan AND his or her adjusted gross income (AGI) does not exceed a specified level. Depending on the AGI level, a partial deduction may be allowed. Distributions from a traditional IRA are taxed at ordinary income rates.

In contrast, Roth IRA contributions are never tax-deductible, but qualified distributions are exempt from income tax. This exemption applies to distributions from an account in existence for five years made: (1)After age 59½; (2)on account of death or disability; or (3) to pay first-time home-buyer expenses (up to a lifetime limit of $10,000)

Thus, there is a tax incentive to convert a traditional IRA to a Roth IRA, even though tax liability results from the conversion.

Under current law, someone can convert to a Roth IRA only in a year in which AGI is less than $100,000. However, the $100,000 limit will be removed after 2009. Furthermore, the resulting tax can be paid over the following two years if the conversion takes place in 2010.

In light of this pending tax break, some individuals have chosen to set up a nondeductible IRA. Reason: With a nondeductible IRA, only the earnings are taxable when distributions are made. This enables retirement savers to shift even more funds to a Roth IRA after 2009.

Tax dilemma: Distributions cannot be taken only from the nondeductible IRA if the owner has other IRAs. Any distribution is treated as coming on a pro-rata basis from each IRA. This means that extra tax may have to be paid when a Roth IRA conversion occurs.

One possible solution is to roll over funds from traditional IRAs to a company retirement plan, such as a 401(k) plan (assuming the plan permits it). If it is handled properly, there is no current tax on the rollover. When the owner is ready to convert to a Roth IRA in 2010, he or she will be left with only a nondeductible IRA.

Of course, the owner still must pay tax on 401(k) contributions in retirement, but there is some flexibility over the distributions. Generally, distributions are required to begin by the year after the year in which the individual turns age 70½. Also, it is likely that an IRA owner will be in a lower tax bracket in retirement.

Caution: This is not necessarily the best approach for everyone. Have each situation analyzed on its own merits to determine the appropriate course of action.

Staff News . . . New Staff . . . Accomplishments . . . Growth

Growing TJT family

Congratulations to Courtney Dozier and her husband, Nick on the birth of Kyndra Cook Dozier on October 27th. Kyndra weighted in at 8 lbs 7 oz. with a full head of black hair.

Congratulations

We would like to congratulate Erica Heinrich on becoming Mrs. Jonathan Fulcher.

New Staff

Administrative Staff

- Mary Firth - has joined our staff as a receptionist and administrative assistant. Mary has over 10 years experience in the administrative field , with five years as an office administrator.
- Jessie Hale - has joined the TJT family as a receptionist and administrative assistant.

Tax and Audit Staff

- Will Howie has joined our staff on a full time basis. Will is a graduate of the MAC program at North Carolina State University and has been interning at TJT for the past two years.

Outsource Accounting Staff

- Susan Gurley has been hired as an account Representative in the Outsourcing Accounting Services Department. She has over 17 years experience working with commercial real estate and restaurant accounting.
- Randy Bauer has joined our Outsource Accounting Services Department as an account manager. Randy and his family have moved from Minnesota to the warmer climate of the Raleigh/ Durham area. Randy has worked in both private and public accounting and will be transferring his Minnesota CPA license to North Carolina.

2008 Tax Facts

By law, the dollar amounts for a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits, affecting virtually every tax payer, are being adjusted for 2008. Key changes affecting 2008 returns, filed by most taxpayers in early 2009, include the following:

•The value of each dependency exemption, available to most taxpayers, is $3500, up $100 from 2007.

•The new standard deduction is $10, 900 for married couples filing a joint return (up $200), $5,450 for singles and married individuals filing separately (up $100) and $8,000 for heads of household (up $150).

•Tax-bracket thresholds increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket is $65,100, up from $63,700 on 2007.

• The maximum Hope credit, available for the first two years of post-secondary education, is $1,800, up from $1,650 in 2007. The phase-out of this credit begins at $48,000 for single filers and $96,000 for those who file joint returns.

•The contribution amount allowed for Roth IRA's begins to phase out for joint filers with incomes exceeding $159,000 (up from $156,000) and $101,000 (up from $99,000) for singles and heads of household.

•For contributions to a traditional IRA, the deduction phase-out range for an individual covered by a retirement plan at work begins at income of $85,000 for joint filers (up from $83,000) and $53,000 for a single person or head of household (up from $52,000).

•Participants in most employer-sponsored 401(k) plans and 403(b) plans for public schools and certain tax-exempt organizations can contribute up to $15,500, unchanged from individuals, age 50 or over, can make an additional contribution of up to $5,000, also unchanged from 2007.

•Individuals participating in SIMPLE retirement plans can contribute $10,500, unchanged from 2007. Those, age 50 or over, can make an additional contribution of up to $2,500, also unchanged from 2007.

•The annual contribution limit for most defined contribution plans rises to $46,000, up from $45,000 in 2007.

Fraud Factors: Background Checks?

Recent events in the sporting world have revealed that even high profile candidates for head coaching jobs will "fudge" their resumes if it helps them get that all-important position. The business world is no different. Candidates for everything from entry-level staff to CEO's have been known to falsify information on employment applications. Therefore, it is becoming imperative that an employer takes steps to verify resumes and degrees of potential employees.

Many employers trust that the information on a person's resume is correct. Some HR departments may take the time to check out a reference or two. However, that is not enough. In today's competitive job market, many candidates will invent resume items in order to get in the door for the interview. Double-checking degrees and conducting background checks takes little time and costs a company little - in comparison to the potential loss of money and trust. Scores of embezzlement or fraud cases could have been avoided if the company had done a simple background check and discovered that their potential candidate was convicted of embezzling funds in the past. Instead, this step was skipped, and the candidate was hired, only to steal money from his or her new employer. If you have concerns in this area, please feel free to contact the TJT audit team and we will advise you on implementing procedures to combat falsified resumes and degrees.