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The Accountant's Corner

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North Carolina Gift Tax Repealed

In a last minute change of plans, a provision to repeal the North Carolina gift tax was included in the budget bill passed by the North Carolina General Assembly and signed into law by Governor Mike Easley in mid July. The North Carolina gift tax will be repealed for gifts made on or after January 1, 2009.

This change in law was introduced by legislators for a variety of reasons. North Carolina was one of only 3 states left in the United States that had a state level gift tax. Repealing this tax will hopefully help improve our image as a more tax friendly state. This change may actually increase overall tax dollars collected by the North Carolina Department of Revenue. Many individuals retire and establish their primary residence in another state in order to avoid paying state level gift tax. Also, the income tax cost basis for transfers made during a person's lifetime is a carryover basis rather than stepping up to the current fair market value as happens when property is inherited. Property that is received via a lifetime gift and later sold will normally result in a higher gain than property sold shortly after a transfer at death. This larger gain results in more North Carolina income tax paid.

How does this new law affect you? If you are considering making transfers to other individuals with a value in excess of $12,000, you should plan on deferring that transfer until 2009 if possible. If you have a choice between transferring assets with a high basis and transferring assets with a low basis, pick the high basis assets. This should help reduce the income tax burden for the recipient when they resell the assets.

We anticipate additional changes to the estate and gift tax laws on the federal level that will most likely affect 2010 and beyond. As these changes occur, we will continue to keep our clients informed so that we can help you plan accordingly to minimize these taxes as much as possible.

TJT to Host New Form 990 Seminar for Non-profits

Under intense pressure from various watchdog groups and Congress, the IRS has drastically changed Form 990 for non-profits. This expanded form and additional schedules asks questions not normally required under IRS regulations. The forms take effect for the 2008 tax year – will you or your organization be ready? Thomas, Judy and Tucker will be holding an in-depth seminar on the changes to Form 990 for non-profit organizations. The seminar will be held at Brier Creek Country Club on Tuesday, September 23rd from 8 a.m. until 12 p.m. Pre-registration is required for attendance and a Continental breakfast will be served prior to the event. If you or a member of your organization would like to attend, please contact Carol Wilson at carol.wilson@tjtpa.com.

Business Accounts and FDIC Coverage

Recent news accounts of a small number of bank failures has led to an increase in calls and emails from our clients about the security of their cash accounts held by their banks. While knowledgeable sources indicate that the banking industry is still strong, it is probably wise for you to review your current cash deposits held by your bank (or multiple financial institutions).

The Federal Deposit Insurance Corporation (FDIC) provides deposit insurance for checking, savings and other deposit accounts in member banks up to $100,000 per depositor.

The $100,000 limit applies to accounts in separate ownership. Separate ownership is determined by the federal ID #'s assigned to the entity. If you have several accounts in the same financial institution, your exposure to loss is greater if the combined balance is more than $100,000.

The FDIC insurance covers checking accounts, savings accounts and money market accounts. It does not cover stocks, bonds, mutual funds and money market funds. In these cases, you should contact your financial advisor for other insurance coverage that may be available for those accounts.

Some banks participate in a program called the Certificate of Deposit Account Registry Service (CDARS). Under this program, larger deposits can be placed with a participating bank into smaller denominations of CDs (Certificate of Deposit) at multiple financial institutions. This program may offer you FDIC protection and the benefit of CD rates while maintaining one banking relationship. If you are interested in the program, please contact your bank directly and inquire as to whether they participate in the CDARS program.

For more information about the FDIC coverage and other questions about the security of your deposits, we would encourage you to contact your banker and discuss this further.

Also, the FDIC website has an excellent FAQ section that may be able to address your concerns and questions.

If you would like our help in identifying cash deposits and accounts you believe may warrant further review, please feel free to contact us with any questions.

Beware of Municipal Bond Traps

Municipal bonds are often a favorite investment of affluent individuals. The main reason is pretty obvious: Interest income generated by municipal bonds is exempt from federal income tax. Thus, for a taxpayer in the 35% tax bracket, a municipal bond earning 5% is the effective equivalent of a taxable bond yielding 7.69%. In addition, income from in-state municipal bonds is typically not taxable for state tax purposes.

However, it is a misnomer to say that municipal bonds are completely tax free.

Case in point: When interest rates decline, the value of a bond may increase. Upon the sale of the bond, any profit is then taxable as capital gain. For example, if a bond with a face value of $10,000 is sold for $10,500, the $500 profit is taxed at capital gain rates. Similarly, if discounted municipal bonds are purchased in the secondary market, the profit from a subsequent sale is taxed as ordinary income to the extent of the accrued discount.

There are types of mutual funds, known as municipal bond funds, which consist entirely of municipal bonds. Be aware that any income from bonds in the fund that do not originate in your home state will be taxable as income in that state.

Consider all the tax aspects of municipal bonds and other investments before transactions are effected and consult your tax advisor if you have any questions.

Businesses Get Some Relief From High Gas Prices

The Internal Revenue Service recently announced an increase in the optional standard mileage rates for the final six months of 2008. Taxpayers may use the optional standard rates to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

The rate will increase to 58.5 cents a mile for all business miles driven from July 1, 2008, through Dec. 31, 2008. This is an increase of eight (8) cents from the 50.5 cent rate in effect for the first six months of 2008.

In recognition of recent gasoline price increases, the IRS made this special adjustment for the final months of 2008. The IRS normally updates the mileage rates once a year in the fall for the next calendar year.

While gasoline is a significant factor in the mileage figure, other items enter into the calculation of mileage rates, such as depreciation and insurance and other fixed and variable costs.

The optional business standard mileage rate is used to compute the deductible costs of operating an automobile for business use in lieu of tracking actual costs. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for mileage.

The new six-month rate for computing deductible medical or moving expenses will also increase by eight (8) cents to 27 cents a mile, up from 19 cents for the first six months of 2008. The rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14 cents a mile.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

Mileage Rate Changes

Purpose	Rates 1/1 through 6/30/08	Rates 7/1 through 12/31/08
Business	50.5	58.5
Medical/Moving	19	27
Charitable	14	14

Change in 2009 Filing Deadlines

Internal Revenue Service officials recently announced a change in the extended due date on certain business returns to help individuals better meet their filing obligations. The change, which reduces the extension period from six to five months, eases the burden on taxpayers who must report information from Schedules K-1 and similar documents on their individual tax returns.

Income, deductions and credits from partnerships, S corporations, estates and trusts are reported to partners, investors and beneficiaries on Schedules K-1 and other similar statements. The recipients then use that information to complete their own tax returns.

Currently, the extended due date for both businesses and individuals often falls on the same date, generally Oct. 15. This creates a burden for individual taxpayers who rely on the information from Schedule K-1 and other similar statements to prepare and file their personal tax returns in a timely manner.

The IRS issued temporary and proposed regulations that will reduce the extension of time to file tax returns for certain businesses that generate Schedules K-1 and other similar statements from six months to five. Requiring these statements to be issued one month earlier, generally by Sept. 15, will provide recipients time to prepare and file returns within the extended time frames.

This change will be effective for extension requests with respect to tax returns due on or after Jan. 1, 2009, and applies to business entities that file the following returns and forms that have a tax year ending on or after Sept. 30, 2008:

Form 1065, U.S.Return of Partnership Income
Form 1041, U.S. Income Tax Return for Estates & Trusts
Form 8804, Annual Return for Partnership Withholding Tax (Section 1446)

The regulation does not change the process for requesting an extension of time to file, nor does it affect extensions of time to file other types of business returns, such as those used by S corporations.

Thomas, Judy and Tucker Honored by Business Leader Magazine

Thomas, Judy and Tucker P. A. was honored to be ranked number 33 on a list of North Carolina's Top 100 Small Businesses as compiled by Business Leader Magazine. The rankings were based upon one and five year revenue growth, business achievement and community involvement. To qualify for this honor, the businesses had to do a majority of their business in North Carolina and have under 100 employees. The owners and employees of TJT look forward to maintaining this standing for years to come.