

Thomas Judy & Tucker, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

The Accountant's Corner

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\$50,000 North Carolina State Tax Deduction for Net Business Income

The North Carolina state legislature recently passed the **Appropriations Act of 2011**. This Act garnered a lot of attention for the programs that were cut and the spending choices that were made but it also included several significant changes to the way your North Carolina taxes are calculated. These finance provisions provide some tax relief for small businesses and individuals.

The following provisions are effective for taxable years beginning on or after January 1, 2012. Please note that they do not affect current year taxes.

In calculating North Carolina taxable income, for 2012, a taxpayer **may deduct the first \$50,000 of net business income** the taxpayer receives during the taxable year. Business income must be from a business in which the taxpayer is active. This includes sole proprietorships and S-Corporations where the taxpayer is an active participant in the business. Passive business activity income such as rental property income does not qualify for the deduction. In addition, C-Corporations do not qualify for the deduction. To illustrate the potential tax reduction, if you were a married filing joint taxpayer with more than \$100,000 of taxable income which included more than \$50,000 of business income, your tax savings would be \$3,875 under this new provision.

The Appropriations Act also helped out taxpayers who take the standard deduction on their federal return. Starting in 2012, taxpayers

that take the standard deduction, also known as non-itemizers, are now allowed a North Carolina tax credit for charitable contributions made during the tax year. The amount of the credit is equal to 7% of the excess charitable contributions that exceed 2% of the taxpayer's adjusted gross income. If your North Carolina AGI was \$100,000 and you gave \$5,000 to charity then you would be entitled to a tax credit of \$210. These tax provisions may present some planning opportunities at the end of the year. Please contact our office if you have questions about the above provisions.



Health Insurance Tax Credit for Small Nonprofits and Churches

Under the health care reform legislation passed last year, certain small businesses are eligible for a refundable federal tax credit based upon employer health insurance expenses. What some non-profits may not realize is that the small business health care tax credit applies to both small businesses AND tax-exempt organizations. Many tax exempt organizations are either not aware or do not understand enough about the credit to bother filing the necessary form. Your organization might be missing out on what could be a substantial refund.



TJT partner Kristen Hoyle, CPA works closely with our not-for-profit clients. She has experience with audits and tax returns of non-profits including churches and charter schools. Please feel free to contact Kristen if you have any questions relating to not-for-profit entities.

For the 2010-2013 tax years, tax-exempt organizations under 501 (c) qualify for the Small Employer Health Insurance Premium Credit. The credit is generally 25% of the

premiums paid and is claimed by filing a form 990-T. Organizations such as churches, which are not required to file the 990 annually, can still file the 990-T for the sole purpose of claiming the credit.

There are three basic criteria to qualify for the credit:

1. Employer must pay at least 50% of the health insurance premiums under a qualifying arrangement.
2. The organization has fewer than 25 Full Time Equivalent employees (FTEs) for the tax year.
3. Average annual wages for the tax year should be less than \$50,000 per FTE.

Many churches are qualifying for this credit as the average annual wages are typically below the \$50,000 threshold because ministers' salaries are excluded. However, ministers' health insurance premiums are still included in the calculation and qualify for the 25% credit. It is not too late to file for 2010-the IRS has stated it will accept late filings and not charge penalties. Our firm has prepared a number of these refund claims and is more than happy to discuss the credit in more detail. Please contact **Kristen Hoyle** or **Geri Lail** for more information.

Charitable Contributions from Your IRA

The 2010 Tax Relief Act extends the tax break for so-called "charitable distributions," but only through 2011. If a retiree is inclined to take advantage of this unique tax opportunity, he or she should move promptly.

Background: Normally, an individual can deduct the full amount of cash donations to charity, within generous limits. However, distributions from an IRA are taxed at ordinary income rates, currently reaching as high as 35%. If a taxpayer withdraws cash from an IRA and gives it to charity, it is a "wash" as far as taxes are concerned.

This is where the "charitable distributions" provision may help. As it existed under prior law, if an individual age 70½ or older withdraws funds from an IRA and donates it to charity, there is no tax on the distribution. The annual limit for such withdrawals is \$100,000. On the downside, the individual is not entitled to a charitable deduction, either.

So what has the individual accomplished with the charitable rollover? At first glance, it still appears to be a wash, but look further at these potential benefits.

- Deductions for charitable donations may be reduced by limits based on adjusted gross income (AGI). For instance, a donor's charitable deduction for 2011 cannot exceed 50% of AGI. A charitable rollover is exempt from these limits.
- Because the charitable distribution is never realized as taxable income, the individual's AGI is reduced for other tax purposes.

For instance, this may increase deductions for medical expenses, miscellaneous expenses or casualty losses, just to name a few possibilities.

- If the individual is carrying over a charitable deduction from the previous year (due to an annual limit), he or she can receive the full benefit of the deduction this year. Otherwise, the regular charitable limits are applied before the carryover is allowed.
- An IRA withdrawal will often result in taxable income that could increase the tax on Social Security retirement benefits. But there is no concern with the charitable rollover.
- The distribution counts as a "required minimum distribution" (RMD). In other words, if a retiree donates the RMD directly to charity, it satisfies the obligation for the year. The remaining IRA assets can remain intact.

Note that a qualified individual can use the rollover technique with a Roth IRA as well as a traditional IRA. However, this may not be as advantageous. Reason: A Roth distribution may be tax-free anyway. In the usual situation, it makes more sense to use a traditional IRA for this technique. Finally, please note that contributions should be made directly by the trustee of the IRA to the designated charitable organization. Please contact our office if you have any questions about making a charitable distribution from your IRA.



State Launches Program to Help Small Businesses With Trust Taxes

The North Carolina Department of Revenue, along with the N.C. Small Business Commissioners Office, recently launched a program aimed at helping small businesses recover from certain tax liability issues they may have suffered as a result of the current economic downturn.

The **Small Business Taxpayer Recovery Program** will offer penalty and fee waivers, as well as payment plans to companies that have fallen behind on sales, withholding and other trust taxes.

Businesses with 200 or fewer employees qualify for the program and must agree to use the counseling services of the Small Business and Technology Development Center (SBTDC) or the NC Small Business Center Network (SBCN).

Both organizations will be available to assist participating small business taxpayers with financial planning and other business needs.

All services are confidential and protected from public information requests. For more information on the SBTDC, visit www.sbtdc.org. To learn more about the SBCN, go to <http://sbcn.nc.gov>.

Small businesses that complete the required counseling and that file and pay all outstanding taxes are eligible for longer-term repayment plans than normal. In addition all penalties and collection fees may be waived. Fees and penalties may be reinstated if program participants fail to file or pay future taxes on time.

Interested business owners should contact the North Carolina Department of Revenue at 1-877-252-3052 and visit the "Information for Businesses" section of www.dornnc.com to learn more about eligibility and participation. The above information was provided by the NCDOR but feel free to contact our office if you have any questions.

Lease Accounting Update

The Financial Accounting Standards Board continues to deliberate on the proposed changes related to lease accounting. The FASB has stated that many users of financial statements adjust amounts presented in the balance sheet to reflect the assets and liabilities arising from operating leases. Under current rules, operating lease obligations are not recorded on the balance sheet. Therefore, the proposed guidance will require all lease obligations and the related right-to-use asset to be recorded on the balance sheet.

In July 2011, the FASB announced that it made some changes to address comments made by stakeholders on the original exposure draft issued in August 2010. One of the tentative decisions was to exclude short-term leases (leases that at the commencement date have

a maximum possible term, including any options to renew, of 12 months or less). The FASB Board plans to issue a final exposure draft in the 4th quarter of 2011 with **hopes of issuing the final lease accounting guidance by the end of 2011**. The effective date has not yet been determined, but the FASB Board intends to provide enough time to implement the proposed changes.

These new lease accounting rules could potentially have a significant impact on your company's balance sheet, which in turn may require you to amend your loan covenant ratios with your financial institutions.

Please contact any member of our audit team if you have any questions about these proposed changes.

IRS Mileage Rate Changes

The Internal Revenue Service recently announced an increase in the optional standard mileage rates for the final six months of 2011. Taxpayers may use the optional standard rates to calculate the deductible costs of operating an automobile for business and other purposes. Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

2011 Mileage Rate Changes (cents per mile)

Business	Medical/Moving	Charitable
January 1 – June 30: 51	January 1 – June 30: 19	January 1 – June 30: 14
July 1 – December 31: 55.5	July 1 – December 31: 23.5	July 1 – December 31 : 14

Awards and Accomplishments

Will Howie, CPA, ABV recently obtained the Accredited in Business Valuation (ABV) credential. In order to obtain the credential, a candidate must pass an exam and meet certain education and experience requirements. Will works closely with **Diane Lahti, CPA, ABV** head of our Business Valuation and Litigation Support Department. Diane also has her ABV credentials and her CFF (Certified in Financial Forensics). Please feel free to contact either of them if you have business valuation needs.

Thomas, Judy and Tucker was recently named as one of the **Top 300 Businesses in the South** by Business Leader magazine. We are very grateful for this award and we appreciate our clients who allow us to continue serving their accounting needs.

Thomas, Judy and Tucker recently hosted a Blood Drive for the **American Red Cross**. Our donors consisted of TJT employees and employees from companies in the surrounding building complex. This drive collected 43 total units of blood during a critical time for donation. The firm plans on hosting another drive on December 8th. Continuing its support of the Red Cross, TJT was a Ruby Sponsor of the Annual Red Cross Ball held earlier this year. We are proud to be active in such a worthwhile organization.