

# Thomas Judy & Tucker, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

## The Accountant's Corner

Winter 2011



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## Tax Planning for This Year and the Future

Tax preparation is a process of looking back and reporting activity from the previous year. Tax planning involves looking forward and identifying action items before year end. December is a perfect time of year to reach out to your accountant at Thomas, Judy & Tucker to discuss tax planning opportunities. Depending on your situation and income level, you may benefit by paying 90% of your current year tax, 100% of your prior year tax, or 110% of your prior year tax. We can help identify the best method for paying estimated taxes while also estimating the remaining liability due next April so that you have plenty of time to plan for the required cash flow. You may also benefit by foregoing fourth quarter estimated tax payments if your income is down in 2011 and you have made all of your previous quarterly payments.

In addition to following the tips below, now might be a good time to review your tax situation for 2011 and 2012 and do some planning that will allow you to better control when you make those necessary tax payments.

Here are nine popular tax-saving strategies for individuals to consider under the current tax laws.

1. **Harvest tax losses:** If a capital loss is realized at the end of the year, it can offset capital gains, plus, if there is an excess, up to \$3,000 of ordinary income. This can avoid or reduce tax on significant capital gains realized earlier in the year. Any remaining loss may be carried over to the next year. Review your investment portfolio for suitable candidates to sell.

2. **Realize capital gains:** Conversely, if it is warranted, capital gains realized at year-end can effectively absorb capital losses realized earlier in the year. Any remaining net long-term capital is taxed at a maximum tax rate of 15% in 2011 (0% for taxpayers with less than \$69k of taxable income)

3. **Be charitable:** Monetary gifts made to qualified charitable organizations before year-end can offset up to 50% of your adjusted gross income. Note that donations made by credit card may be deducted in 2011 as long as the account is charged before January 1, 2012.

4. **Estimate AMT liability:** The alternative minimum tax (AMT) has increasingly been an issue for our clients. Taxpayers with AGI between \$200k and \$500k are typically paying this additional tax. If your income is on the lower or upper end of this range, have the liability assessed by a tax adviser before the end of the year. Depending on the situation, a taxpayer may be able to reduce or avoid AMT liability by postponing certain "tax preference" items or accelerating income into 2011.

5. **Play off the "kiddie tax":** Unearned income received by a child in 2011 may be taxed at the parent's top tax rate if the child's income exceeds \$1,900. Under current law, this so-called "kiddie tax" may apply

to a dependent child younger than age 19 (age 24 for full-time students). If it is practical, try to keep income under or near the \$1,900 threshold through astute investing on behalf of young children.

6. **Generate energy credits:** A homeowner may claim a residential energy credit for installing qualified energy-saving improvements. The credit for 2011 is 10% of qualified expenses up to a maximum of \$500 (reduced by prior credits). The installations must be completed before January 1, 2012. Currently, the credit is scheduled to expire after December 31, 2011.

7. **Prepay state and local taxes:** If taxes due early in 2012 are paid in late December, the payment will increase the taxpayer's deduction for state and local taxes in 2011. This prepayment strategy



*James K. Tiller, CPA is one of our tax partners who works closely with our individual clients.*

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## Tax Planning for This Year and the Future

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generally makes sense for someone who expects to be in the same or a lower tax bracket in 2012. Caveat: This may not be advisable for someone who owes the AMT this year because state and local taxes are not deductible for AMT purposes. Similarly, a taxpayer might not prepay expenses if he or she expects to be in a higher tax bracket in 2012.

8. **Bunch up medical expenses:** Unreimbursed medical expenses are deductible to the extent they exceed 7.5% of adjusted gross income (AGI). Try to group elective medical expenses in the year they might provide a tax benefit. For instance, a taxpayer who is already over the 7.5%-of-AGI threshold for 2011 might accelerate expenses into this year. Alternatively, consider switching to a high deductible insurance

plan with a Health Savings Account (HSA). The HSA allows you to deduct up to \$6,150 and is not subject to the 7.5% of AGI limitation.

9. **Consider a Roth conversion:** If your income is lower than normal for 2011, you may wish to consider converting some or all of the money you have in traditional 401(k) or regular IRA accounts into a Roth IRA. The goal is to plan the conversion in a year when you are in a lower tax bracket.

Other year-end strategies may be appropriate for a particular situation. As a word of caution, year-end tax planning may be affected by new legislation, so please feel free to contact our office if you have any questions.

## Burden of Proof for Charitable Deductions

A few years ago, the tax rules requiring substantiation for charitable donations were tightened. Now, a new ruling shows that the IRS really means business.

**Background:** To deduct cash or non-cash charitable contributions of \$250 or more, a taxpayer must obtain a written acknowledgment from a qualified charitable organization. The acknowledgement should include the amount of the donation, a description of any non-cash property contributed and the value of any goods or services provided. Obtain acknowledgements by the earlier of either the date the tax return is filed or the due date of the return (plus any extensions).

Note that special rules apply to charitable contributions of property. For instance, the property must be used to further the charity's tax-exempt function. Additional tax return information is required for noncash contributions exceeding \$500. Also, for property valued above \$5,000, a taxpayer **must obtain a qualified appraisal** of the property's value. Note: The cost of the appraisal is treated as a miscellaneous expense. The taxpayer may deduct annual miscellaneous expenses in excess of 2% of adjusted gross income.

**Recent change:** Under a 2006 tax law affecting all monetary contributions (including gifts by check and credit card), no deduction is allowed without receiving a written communication from the charity. The written communication must show the amount of the contribution, the date the

contribution was made and the name of the charitable organization. However, a bank statement may suffice for this purpose.

Finally, for contributions of more than \$75 where a benefit is received in exchange for a contribution—for example, dinner or prizes at a charity fundraiser—the charity must provide a “good faith estimate” of the goods or services received and the amount of payment exceeding the value of the benefit. The deductible amount is limited to the difference between the payment and the value.

The IRS continues to hold taxpayers accountable to the strict letter of the law. This new ruling is a prime example.

**Facts:** A taxpayer failed to obtain a written acknowledgment from the charity for a charitable contribution. The taxpayer then attempted to meet the requirement by having the charity file a revised information return with the IRS, indicating that the donation had occurred.

However, this did not meet the IRS' interpretation of the requirements. **Reason:** The tax law does not require substantiation if amounts are directly reported to the IRS under its applicable regulations. But no regulations have been formally issued on this point. In the absence of regulations, the taxpayer does not meet the requisite burden of proof.

With so much at stake, it makes sense to carefully substantiate charitable contributions made during the year. All receipts should be kept with your tax records.

## Changes to NC Voluntary Disclosure Program

The North Carolina Department of Revenue is making it easier for individuals and businesses to resolve tax obligations with the state. The agency is making changes to the **Voluntary Disclosure Program (VDP)** that will allow more taxpayers to participate.

VDP was established more than 10 years ago to promote compliance among taxpayers who discover—on their own—they have not filed necessary tax returns and paid taxes due. In exchange for taxpayers voluntarily coming forward, NCDOR waives penalties in certain circumstances and allows taxpayers an expedited process for filing certain tax types.

Previously a taxpayer who had ever been registered or had filed a return for a particular tax (ex: sales tax) would not be eligible for VDP

for that tax type. Now, taxpayers who may have previously registered and submitted returns may qualify to participate.

Beginning Nov.1, taxpayers will only be required to file past due returns and pay taxes due for a back period of three years for taxes filed annually, or 36 months for those that do not have an annual filing frequency (ex: sales tax)—unless they collected but failed to remit the tax. Prior to the VDP changes, taxpayers were required to file and pay at least four years or 48 months of returns.

Eligible taxpayers must meet a certain set of criteria, and complete a program application.

For detailed information about eligibility and participation, call our office or visit the state website at [www.domc.com/practitioner/voluntary.html](http://www.domc.com/practitioner/voluntary.html).

## Prepping Your QuickBooks File for Year End

Chilly mornings, colorful leaves and Thanksgiving gatherings are not only precursors to the end of the year, but also reminders to get your business records in order as the year comes to a close. Business owners often ask us how they can prepare in advance and get their QuickBooks file ready for closing the year, so we have listed some valuable end of year tips for making sure your QuickBooks records are in perfect order at year end. These tips will not only help us out when it comes time for preparation of your business tax returns, but it will give you a more accurate picture of the financial condition of your business.

1. Reconcile all bank and credit card accounts. It's much easier to do those reconciliations today, rather than three months from now when memories get fuzzy and original records get misplaced.
2. Make sure all transactions are correctly classified. Put any transactions in question in the "Ask my Accountant" account. Be sure that we help you to classify these transactions prior to sending us the file for tax return preparation.
3. Make year-end accruals and corrections. If you have any questions on how to record those accruals, please contact our office.
4. Review and collect information for any fixed asset purchases. Accurate descriptions will help you correctly classify fixed assets.

5. Review fringe benefits to be reported on W-2 (i.e. car allowance, employee discounts, shareholder health insurance, etc).
6. Make sure to have W-9's on file for any 1099 contractors. Check that your QuickBooks preferences are correctly set and that all necessary vendor information has been entered.
7. Take a physical inventory and make any necessary adjustments. Please contact us if you need assistance with inventory adjustments.
8. Archive and back-up QuickBooks file. Archiving data will allow your program to work faster, while still retaining important backup data.

Just taking the steps mentioned above will give you a head start and make the process of closing the year a lot easier. The QuickBooks Help menu also contains a Year-End Guide that is very useful and more detailed than the above simple tips.

**Bonnie Hutchinson** is the Certified QuickBooks ProAdvisor on staff at Thomas, Judy & Tucker. She is available to assist you with any QuickBooks questions and can consult with you over the phone or even come out to your office to assist with cleanup or closing out the end of year. If it is time to update your software or purchase supplies, please remember to take advantage of our firm discount. Please contact Bonnie via email at [bonnie.hutchinson@tjtpa.com](mailto:bonnie.hutchinson@tjtpa.com) or give her a call at 919-571-7055 for further details.



## Will Your Business Receive a 1099-K?

In an effort to ensure that companies are accurately reporting all revenues, the IRS is now requiring credit card companies to provide revenue information on companies that receive payments through debit or credit card transactions. This would include transactions through such companies as PayPal. If you have at least 200 transactions totaling more than \$20,000, your credit card processing company will be sending your business and the IRS a 1099-K, showing the amount of monies received by your company through these reportable transactions. The IRS will use that figure to compare with revenues reported on your tax return to ensure that your business is reporting all income. Taxpayers who have a credit card merchant account, PayPal account or similar

account and otherwise meet the criteria will receive form 1099-K from their service providers at the end of the year. The form 1099-K will report the gross amount paid to the taxpayer with no adjustments for fees or chargebacks, returns or sales tax. If your credit card or PayPal receipts are only a portion of your total revenues, the IRS will use industry comparables to make sure that your total reported income is in line with similar businesses. This new reporting will only truly impact businesses that are under-reporting their income. If you are accurately and completely reporting your income, then this new form will have little to no effect on your business and the related tax return.

## Firm News and Promotions

**Thomas, Judy & Tucker** is pleased to announce the promotions of **Will Howie, CPA** and **Ben Whited, CPA** to the position of tax manager. In addition to his tax work, Will works extensively with our business valuation department. Ben focuses much of his tax work on contractors and real estate professionals. TJT is also proud to announce the addition of **Bonnie Hutchinson** to our team. Bonnie is a certified Quickbooks Advisor and is available to help our clients with their Quickbooks needs. **Courtney Lee, CPA** also recently joined our staff. Courtney is a graduate of the University of Oregon and worked with a Portland public accounting firm for four years prior to joining TJT.

