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Don't Be a Victim of a Scam or Identity Theft

The Internal Revenue Service is encouraging taxpayers to guard against being misled by unscrupulous individuals trying to persuade them to file false claims for tax credits or rebates.

The IRS has noted an increase in tax return-related scams, frequently involving unsuspecting taxpayers who normally do not have a filing requirement in the first place. These taxpayers are led to believe they should file a return with the IRS for tax credits, refunds or rebates to which they are not really entitled.

Most paid tax return preparers provide honest and professional service, but there are some who engage in fraud and other illegal activities. Unscrupulous promoters deceive people into paying for advice on how to file false claims. In other situations, identity theft is involved.

Taxpayers should be wary of any of the following:

- Fictitious claims for refunds or rebates based on excess or withheld Social Security benefits.
- Claims that Treasury Form 1080 can be used to transfer funds from the Social Security Administration to the IRS, enabling a payout from the IRS.
- Unfamiliar for-profit tax services teaming up with local churches.
- Homemade flyers and brochures implying credits or refunds are available without proof of eligibility.
- Offers of free money with no documentation required.
- Promises of refunds for "Low Income – No Documents Tax Returns."
- Claims for the expired Economic Recovery Credit Program or Recovery Rebate Credit.
- Advice on claiming the Earned Income Tax Credit based on exaggerated reports of self-employment income.

In some cases, nonexistent Social Security refunds or rebates have been the bait used by the con artists. In other situations, taxpayers deserve the tax credits they are promised but the preparer uses fictitious or inflated information on the return, which results in a fraudulent return.

Flyers and advertisements for free money from the IRS, suggesting that the taxpayer can file with little or no documentation, have been appearing in community churches around the country. Promoters are targeting church congregations, exploiting their good intentions and credibility. These schemes also often spread by word of mouth among unsuspecting and well-intentioned people telling their friends and relatives. Promoters of these scams often prey upon low-income individuals and the elderly.

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They build false hopes and charge people good money for bad advice. In the end, the victims discover their claims are rejected or the refund barely exceeds what they paid the promoter. Meanwhile, their money and the promoters are long gone.

Unsuspecting individuals are most likely to get caught up in scams; the IRS is warning all taxpayers, and those who help others prepare returns, to remain vigilant. If it sounds too good to be true, it probably is.

Above all remember that the **IRS does not initiate taxpayer contact by e-mail**. Whenever you receive an unsolicited or dubious solicitation that includes you providing your SSN, bank account number or other financial information, be skeptical. These scam artists can make communication look and sound like it is legitimate. When in doubt, call this office. Don't let yourself be a victim of these scams.

Getting Older With No Retirement Savings in Sight?

One of the earliest lessons in life is that actions have consequences, and approaching retirement age without a substantial nest egg is one of those consequences. But if you are in this situation, you are not alone, as millions of other Americans are faced with the same need to save enough to retire comfortably.

Our priorities shift throughout our lives. Early in the life cycle, home ownership is a priority; that is usually followed by raising and educating children. However, as retirement approaches, the focus needs to shift toward retirement funding. By the time most people are 45 or 50, their children are on their own, the mortgage is close to being paid off, and there is more discretionary income to set aside for retirement.

If you are starting to think about retirement, there are three pitfalls you need to avoid: (1) Retiring on your birthday instead of your bank account, (2) not properly managing your risk and (3) retiring with too much debt.

A frequently asked question is *How much do I need to put aside for retirement?* The answer to that question varies with each individual. There a number of factors to consider: current income, existing savings, assets, how many years until you plan to retire, the lifestyle you want in retirement, and what you can afford to put aside.

If you want to make a rough estimate of the savings needed, determine your approximate income needs and calculate the amount of money you will receive, aside from your savings. These other sources could be your Social Security benefit, a pension, or an IRA or a 401(k) plan.

Add up all of the funds that will come from your Social Security benefit, pension, etc., and determine a savings goal that will, after retirement, provide the additional income needed for retirement. Be sure to factor in inflation and a reasonable rate of return, taking into consideration today's tough economic environment. Also consider your existing savings and assets that help fund retirement.

Then start figuring out how to make up for the difference. Here are some suggestions:

1. Check to see whether your employer offers a 401(k), a 403(b), or some other type of voluntary contribution retirement plan. Take advantage of these plans and contribute the maximum you can afford up to the annual limit, which for 2011 is:
 - \$16,500 for taxpayers below 50 years of age, and
 - \$22,000 for taxpayers 50 years of age and over.

The contribution is before taxes, so making the contribution will lower your gross income and reduce your current tax bite. Also, if your employer matches a percentage of your contribution, that is free money for you.

2. If you have earned income (or receive alimony) but don't have an employer plan to contribute to or if you can afford to set aside additional funds, you might consider an IRA. Here, you have a choice between a traditional IRA and a Roth IRA. Traditional IRA contributions can be tax deductible or not, depending on your income and whether you have an employer retirement plan. Roth IRAs are not tax deductible, but accrue

Upcoming Events

To register or for more information, please visit our website at www.capincrouse.com today!

October

Thursday, October 6

Lunch and Learn for Christian School Administrators
Brea, CA

Tuesday, October 11

2011 Annual Nonprofit Seminar
Atlanta, GA

Tuesday, October 18

Financial Seminar for Churches
Fort Lauderdale, FL

Thursday, October 20

Events and Gaming 101
Online Tax Webcast, 1pm EDT

Friday, October 21

Half-Day UBIT Workshop with Dave Moja
Colorado Springs, CO

November

Tuesday, November 8

2011 Financial Forum for Ministries
Brea, CA

Wednesday, November 9

2011 Financial Forum for Ministries
San Diego, CA

Wednesday, November 9

2011 Annual Nonprofit Seminar
Lombard, IL

Thursday, November 10

2011 Financial Forum for Ministries
Livermore, CA

Thursday, November 17

That Can't Be UBIT...Right?
Online Tax Webcast, 1pm EST

December

Tuesday, December 6

2011 Financial Forum for Ministries
Colorado Springs, CO

Thursday, December 15

2011 Not-for-Profit Tax Update
Online Tax Webcast, 1pm EST

earnings tax free. However, contributing to a Roth IRA can be complicated for higher income taxpayers. The IRA contribution limit for 2011 is \$5,000 (\$6,000 if age 50 and over). In some cases, a spouse can also contribute to an IRA based on the other spouse's earned income.

3. Self-employed individuals can take advantage of a variety of available defined contribution retirement plans that allow contributions nearing 20% on the self-employed individual's net income, limited to a maximum of \$49,000 for 2011. There are also more complicated defined benefit plans available that allow substantially higher contributions.
4. There's always the option of acquiring a second job or having the spouse acquire employment to generate more income. Invest your additional earnings or use it to pay off any outstanding debts. By getting rid of credit card balances, you also avoid unnecessary interest charges and free up your money for retirement savings.
5. Consider downsizing your home. You can potentially save on utility bills, repairs, and, perhaps, property taxes. Put those savings toward retirement. You might even think of relocating, if you live in an area with a high cost of living. Needless to say, proceeds from the sale that aren't needed to pay off the old mortgage, other debt, etc. or used to purchase the new home should be put into savings for your retirement years.

Be sure to periodically review your goals, as your financial situation and the economic climate may change and the plan may need to be adjusted. Please call this office for assistance in terms of assessing your financial resources and to help you plan for a financially secure retirement.

Next Year's Tax Refund May Be Lower

Taxpayers accustomed to receiving a tax refund every year should be aware of the fact that there are two tax changes for 2011 that could impact their tax liability, possibly making the refunds anticipated next spring lower or even resulting in tax due for taxpayers who normally have small refunds.

For 2011, Congress did away with the Making Work Pay tax credit, which was a refundable credit worth up to \$400 (\$800 for a joint return). Although the payroll withholding tables have been adjusted to compensate for the loss of this credit for employees by increasing tax withholding, these adjustments are not exact and not always suitable for each individual's specific tax circumstances. For self-employed individuals who pay estimated taxes, there is no equivalent withholding adjustment. Thus, it is quite possible that the loss of this credit may adversely impact many taxpayers' refunds for 2011.

Congress actually replaced the Making Work Pay credit in 2011 with a 2% (from 6.2% to 4.2%) reduction in FICA withholding for employees and a corresponding SE Tax reduction for self-employed individuals. This change can affect the 2011 refund or balance due for individuals who work for multiple employers and have earnings in excess of the maximum amount subject to FICA withholding for the year (\$106,800 for 2011). When individuals have excess FICA withholding, the excess is refunded on their tax returns. Those accustomed to FICA refunds can, therefore, expect about a 1/3 reduction in their FICA refunds, which will also adversely affect the 2011 refund to be received or balance due to be paid next year.

Tax Perks for the Business Traveler

Food and lodging expenses may be deducted when you are away from home for business purposes. There are certain rules to follow, and the individuals that know the rules and keep good records get the most out of these deductions.

The IRS requires that lodging expenses (and other expenses of \$75 or more) be substantiated by records or other evidence. Acceptable records include diaries, logs, receipts, paid bills and expense reports. The records should disclose the amount, date, place and essential character of the expense. The following are some tips to help you stay on top of the required documentation:

We Can Help!

The staff at CapinCrouse LLP works with hundreds of churches and not-for-profit organizations. This experience base allows us to quickly identify areas for improvement in many organizations. If your organization desires to improve its efficiency, please contact your Capin Crouse representative or one of our offices to discuss how we may help you.

About CapinCrouse LLP

With more than 700 not-for-profit organizations and 1,500 tax clients, CapinCrouse is the country's leading accounting and advisory firm primarily serving the Christian not-for-profit community.

Since 1972, CapinCrouse has been serving not-for-profit entities including megachurches, institutions of higher education and secondary schools, and international missions agencies by providing a full range of audit, review, tax, and advisory services.

CapinCrouse is dedicated to helping our clients operate with financial integrity so that they can dedicate themselves to fulfilling their mission.

- Keep good records of travel expenses.
- Maintain the records on a contemporaneous basis, i.e., make diary and log notations close to the time the expense is incurred.
- Document the business purpose and the expected business benefit.
- Retain your travel itinerary to document the business activity while away.

Travel expenses are deductible only if the individual is away from his or her “tax home”—usually considered to be one’s regular place of business – for more than one business day.

Meal expenses are deductible only if the trip is overnight or long enough that there is a need to stop for sleep or rest to properly perform one’s duties. The amount of the meal expenses must be substantiated, but instead of keeping records of the actual cost of meal expenses, a “standard meal allowance” ranging from \$46 to \$71 can generally be used, depending on where and when the individual travels. Generally, the deduction for unreimbursed business meals is limited to 50% of the cost that would otherwise be deductible.

Lodging expenses must be substantiated with receipts and are 100% deductible. Meals included in lodging expenses, such as room service or dining costs charged to a hotel room, must be separately identified, since meals have the 50% limitation as noted.

In addition to the travel, lodging and meal expenses discussed, the incidental costs incurred on a deductible trip such as laundry, dry cleaning, phone calls, baggage handling, and so on are fully deductible.

Employees must deduct their unreimbursed travel expenses as a miscellaneous itemized deduction, which is subject to a 2% of AGI floor. They are not deductible at all to the extent the employee’s income is subject to the alternative minimum tax (AMT). That is why it is to an employee’s advantage to utilize an employer’s “accountable” reimbursement plan (under which qualified reimbursements are not taxable and not reported in the employee’s W-2 wages) rather than deducting the expenses on their tax returns. On the other hand, these expenses are fully deductible as a business expense for a self-employed individual.

Taking the spouse along? Generally, deductions are denied for travel expenses paid or incurred for a spouse, dependent or employee of the taxpayer who accompanies the taxpayer on the business trip unless the:

1. Spouse or dependent is an employee of the taxpayer, and
2. Travel of the spouse, dependent or employee is for a bona fide business purpose, and
3. Expenses would otherwise be deductible by the spouse, dependent or employee.

Strategy – The law allows a deduction for the single rate for lodging and frequently there is no rate difference between one or two occupants. Thus, the entire lodging expense for the spouse will virtually be deductible. When traveling by car, the law does not require any allocation because the spouse is also traveling in the vehicle. Thus, if you are traveling by vehicle, the entire cost of the transportation would be deductible. That would generally also apply to taxis at the destination. The only substantial cost that is not allowed is the cost of the spouse’s meals, which, even if they were deductible, would be reduced by the 50% rule. If traveling by air or rail, the cost of the spouse’s tickets also would not be deductible.

Please give this office a call if you have questions related to business travel expenses.

Are You Missing Out On the Research Credit?

The Tax Code provides a tax credit of up to 20% of qualified expenditures for businesses that develop, design or improve products, processes, techniques, formulas or software and similar activities. Without Congressional action, this credit will expire at the end of 2011.

The credit is calculated on the basis of increases in research activities and expenditures. Its purpose is to reward businesses that pursue innovation by continually increasing investment. An alternative simplified method allows taxpayers to claim research credits if research costs remain the same or even decline when compared with prior years.

The two methods used to compute the credit are the regular method that provides for the 20% credit, or the simplified method, which is easier to document but results in reduced credit amounts.

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Atlanta
678.518.5301

Chicago
630.682.9797

Colorado Springs
719.528.6225

Dallas
817.328.6510

Denver
720.283.7326

Indianapolis
317.885.2620

Los Angeles
714.671.9300

New York City
212.653.0681

Orlando
407.883.4671

San Diego
858.638.7220

Regular Method – Under the regular research credit method, the credit equals 20% of qualified research expenditures for a tax year over a base amount established by the taxpayer in 1984–1988 or by another method for companies that started up subsequently.

Simplified Method – The alternative simplified method credit equals 14% of qualified research expenses over 50% of the average annual qualified research expenses in the three immediately preceding tax years. If the taxpayer has no qualified research expenses in any of the three preceding tax years, the alternative simplified method credit may be 6% of the tax year's qualified research expenses. This method may be the best choice for taxpayers with incomplete records from the mid-1980s, those complicated by mergers and acquisitions, or taxpayers with a high base amount from that period.

Qualified Research – The term “qualified research” means research which is undertaken for the purpose of discovering information which is technological in nature, and the application of which is intended to be useful in the development of a new or improved business component of the taxpayer, and relates to:

- A new or improved function,
- Performance, or
- Reliability or quality.

Certain purposes that are not qualified include style, taste, cosmetic, or seasonal design factors. The definition is relatively broad and encompasses such activities as:

- Developing or applying for patents;
- Certification testing;
- Developing new technology;
- Environmental testing;
- Developing or improving software technologies;
- Building or improving manufacturing facilities; and
- Streamlining internal processes.

Qualifying Research Expenditures – Generally, expenses that qualify for the credit include in-house wages and supplies attributable to the qualified research; computer time-sharing costs; 65% of contract research expenses (paid to outside contractors in the U.S. who are conducting qualified research on the taxpayer's behalf); and supplies directly used in the conduct of the qualified research.

Note: Alternatively, research and experimental expenses may be deducted or capitalized under Sec 174 of the Internal Revenue Code. However, a taxpayer must elect either to deduct or amortize such expenses OR claim the credit for them.

Limitations – The R&D credit is also subject to limitations of the general business credit. Its total and others included in the general business credit are limited to 25% of the taxpayer's net tax liability over \$25,000. To the extent that a research credit is not available for use in the current year or immediate prior year, unused credits have a 20-year carry forward.

If you have questions related to this credit or need assistance in developing the base amounts needed to compute this credit, please give this office a call.

Are you Liable for a Gift Tax Return?

Frequently, taxpayers think that gifts of cash, securities or other assets they give to other individuals are tax-deductible and, in turn, the gift recipient sometimes thinks income tax must be paid on the gift received. Nothing is further from the truth. To fully understand the ramifications of gifting, one needs to realize that gift tax laws are related to estate tax laws.

When a taxpayer dies, his or her gross estate (to the extent it exceeds the excludable amount for the year) is subject to estate taxes. Naturally, individuals want to do whatever they can to maximize their beneficiaries' inheritances and limit the estate's amount of inheritance tax. Because giving away one's assets before dying reduces the individual's gross estate, the government has placed limits on gifts, and if those gifts exceed the limit, they are subject to gift tax that must be paid by the giver.

Gift Tax Exclusions – Certain gifts are excluded from the gift tax.

- **Annual Exclusion** – This is the annual amount that an individual can give to any number of recipients. This amount is adjusted for inflation, and for 2011, it is \$13,000. For example, a taxpayer with five children can give \$13,000 to each child in 2011 without any gift tax consequences. The taxpayer cannot deduct the gifts, and the gifts are not taxable to the recipients. Generally, for a gift to qualify for the annual exclusion, it must be a gift of a “present interest.” That is, the recipient’s enjoyment of the gift can’t be postponed into the future. For gifts to minor children, there is an exception to the “present interest” rule where a properly worded trust is established.
- **Lifetime Limit** – In addition to the annual amounts, taxpayers can use a portion of the federal estate tax exemption (it is actually in the form of a credit) to offset an additional amount during their lifetimes without gift tax consequences. However, to the extent this credit is used against a gift tax liability, it reduces the credit available for use against the federal estate tax at the taxpayer’s death. For 2011, the credit-equivalent lifetime gift tax exemption is \$5 million (up from \$1 million), the same as for the estate tax exemption.
- **Education & Medical Exclusion** – In addition to the amounts listed above, there are two additional types of gifts that can be excluded from the gift tax:
 1. Amounts paid by one individual on behalf of another individual directly to a qualifying educational organization as tuition for that other individual.
 2. Amounts paid by one individual on behalf of another individual directly to a provider of medical care as payment for that medical care. Payments for medical insurance qualify for this exclusion.

If during the year your gifts exceed the sum of the annual, education, and medical exclusions, you are required to file a gift tax return.

Gifts of Capital Assets – Sometimes a gift might be in the form of securities, real estate, or other items that have appreciated in value. In these situations, the gift value is the item’s fair market value at the time of the gift. However, when the recipient of the gift sells that asset, he or she will measure his or her gain from the giver’s tax basis. For example, a parent gifts 100 shares of XYZ, Inc. worth \$9,000 to his or her child. If the parent originally paid \$5,000 for the shares and if the child sold the shares for \$9,000, the child (the recipient) would be liable for the tax on the \$4,000 gain. In effect, the parent (giver) transferred the taxable gain in the stock to the child. This can be beneficial from a tax standpoint if the child is in a lower tax bracket than the parent. **Caution:** Watch out for unintended gifts such as an elderly parent placing a child on title of the home or other assets.

Gift-Splitting by Married Taxpayers – If the gift-giver is married and both spouses are in agreement, gifts to recipients made during a year can be treated as split between the husband and wife, even if the cash or property gift was made by only one of them. Thus, by using this technique, a married couple can give \$26,000 a year to each recipient under the annual limitation discussed previously.

If you have additional questions or would like this office to assist you in planning an appropriate gifting strategy, please give us a call.

Manage the Tax on Your Social Security Benefits!

Social Security (SS) income is not taxable until a taxpayer’s AGI (without Social Security income) plus 50% of his or her Social Security income, tax-exempt interest income, and certain other infrequently encountered additions exceeds a specific threshold. The threshold is \$32,000 for married taxpayers filing jointly, zero for married taxpayers filing separately and \$25,000 for all others. Once the threshold is exceeded, the Social Security income subject to tax varies from 50% to 85%.

Few taxpayers understand this threshold for SS taxation and make no attempt to employ strategies to minimize the SS taxability or take advantage of the unused threshold amount.

If a taxpayer’s only income for the year is from Social Security, then there is no tax on the

Social Security. However, if that is true and the taxpayer has other possible source(s) of income, the taxpayer can actually take in additional income without causing any of his SS income to become taxable. Take, for example, a 68-year-old single individual with an annual SS income of \$18,000. The threshold for single individuals is \$25,000, and subtracting the SS income in this example from the \$25,000 leaves a \$16,000 difference ($\$18,000 \times 50\% = \$9,000$. Then $\$25,000$ minus $\$9,000 = \$16,000$). That is an additional \$16,000 of income the taxpayer could have had that year without causing any of his or her SS benefits to become taxable. For 2011, a single individual age 65 or older gets a standard deduction of \$7,250 and an exemption of \$3,700. Thus in our example, if the taxpayer had an IRA and took a distribution from it of \$16,000, he or she would have only been taxed on \$5,050 ($\$16,000 - \$7,250 - \$3,700$), and the tax would have been a minimal \$505 because he or she is in the lowest possible tax bracket, 10%.

If that same taxpayer had been saving his or her IRA for his or her beneficiaries to inherit, then he or she just saved them a lot of money, because they would be taxed on the IRA based on their tax rates, which will no doubt be higher. They can inherit the bank account he or she put the distribution in without any tax (assuming the total value of his or her estate is under the estate tax exemption amount for his or her year of death). He or she also reduced his or her IRA value so when he or she reaches the 70½ mandatory distribution age, he or she will not have to take out as much, potentially again reducing his or her tax.

If a taxpayer is 70½ years of age or over, he or she is required to start taking required minimum distributions (RMD) from IRAs and most other retirement plans. The amount of the RMD can impact the taxation of the taxpayer's Social Security benefits. For 2011, a taxpayer aged 70½ and over can make a direct IRA to charity distribution, which also counts toward the taxpayer's RMD for the year. The distribution is not included in income (therefore not impacting the taxability of the Social Security), and the charitable contribution is not deductible, since the distribution from which the contribution was made is not includable in the income for the year.

An added benefit is when a taxpayer has a substantial charitable contribution and he or she only marginally itemizes. Donations to charities are tax-deductible only when a taxpayer itemizes deductions. By replacing the RMD income and charitable contribution with a direct IRA-to-charity rollover, the taxpayer has the satisfaction of contributing to a favorite charity while at the same time being able to exclude the distribution from income and utilize the standard deduction to reduce his or her tax bite.

Since You Asked...

You Asked: I took a hardship loan from my employer's 401(k) plan, and I am unable to continue making the payments. What will happen?

Answer: Hardship loans up to \$50,000 are permitted from most employer plans, and there are no tax implications as long as the loan is paid back in installments over a period not to exceed five years. If you stop making the loan payments, the employer is required to treat the balance due as a deemed distribution, making the entire balance immediately taxable. In addition, if you are under the age of 59½, the distribution will be subject to the federal 10% early withdrawal penalty; your state may also impose a penalty. You should first consider other alternatives, as the tax result can be severe.

You Asked: With interest rates so low, I am considering refinancing my original home loan. Are there any tax ramifications I should be concerned about?

Answer: Since this is the first time you have refinanced the loan and as long as you don't take any cash out, the interest will continue to be fully deductible, provided the loan does not exceed \$1 million. This is true even if you extend the term of the loan. However, if you take out some cash (i.e., the new loan amount is greater than the principal balance of the old loan), then the interest on the first \$100,000 of the cash taken is treated as equity debt interest, and, although deductible for regular tax, it is not deductible to the extent that you are subject to the alternative minimum tax.

Tax Calendar

For the complete 2011 Tax Calendar, see IRS Publication 509 at <http://www.irs.gov/pub/irs-pdf/p509.pdf>.

September - December:

- Time for your 2011 and 2012 Tax Planning. Contact this office to schedule a consultation appointment.

September 15, 2011:

- The third installment of 2011 individual estimated taxes is due.
- This is the FINAL extended filing due date for your 2010 calendar year partnership returns (Form 1065), fiduciary returns (Form 1041), S corporation returns (Form 1120S), and corporation returns (Form 1120).

October 17, 2011:

This is the FINAL extended filing due date for your 2010 individual income tax return.

December 31, 2011:

- Last day for taxpayers who began their minimum IRA distributions in a year before 2011 to make their required withdrawals for 2011. As Dec. 31st is a Saturday in 2011, to allow IRA trustees/custodians ample time to process distribution payments, taxpayers should request distributions well ahead of this date.
- This is generally the LAST day that you can pay taxdeductible expenses for the year. IRA contributions and some self-employed retirement plan contributions can be made after the close of the year.