Capital Accounting & Tax, Inc.
200 Sandy Springs Place, Suite 200
Atlanta, GA 30328
(404) 531-0018

Money Matters
12 Year End Tax Tips for 2010

Host- Wes Moss, CFP®
Guest- Woody Alpern, CPA

1. **IRA to ROTH CONVERSION – SPLIT ROTH IRA(s) INTO MULTIPLE ACCOUNTS PER ASEET CLASS (Bonds, Mutual funds, ETFs, Growth Stocks, Income Stocks, Etc)**. This way, if one segment of your ROTH investments drop, you can reconvert back that particular asset class to an IRA tax and penalty free. You will have until October 17th, 2011 to do this reconversion.
2. **SOLVING UNDERPAYMENT PENALTY OF ESTIMATED TAXES** – The IRS will charge you interest at the applicable Federal rate if you have not paid in enough taxes by the time you file your tax return in April. This is particular applicable to taxpayers that have income not subject to withholding (dividends, interest, capital gains, self employment income, ROTH conversion income). By increasing your withholding on your final paycheck at year end, you can reduce or eliminate this penalty. Additionally, consider taking an eligible rollover distribution from a qualified retirement plan before year. Insist on the rollover having 20% withholding tax taken. Then timely roll over the gross amount of the distribution (increased by the amount of the withheld tax) to a traditional IRA. No part of the distribution will be includible in income for 2010, but withholding tax is consider paid in pro-rata over the entire year, thereby reducing or likely eliminating your underpayment penalty.
3. **PULL YOUR IRS TRANSCRIPTS PRIOR TO FILING YOUR RETURN TO REDUCE ERRORS & AUDIT RISK** – Many unnecessary audits are caused by taxpayers simply failing to include all items of income and expense on their tax returns which cause a mismatch flagging of your return at the IRS. The IRS is required under the Freedom of Information Act to furnish you with a copy of your "Wage & Income Transcripts". Request this in mid February to assure all items reported to the IRS are reflected on our tax return.
4. **AVOID 3.8% INVESTMENT INCOME SURTAX PRIOR TO 2013** – Consider recognizing capital gains on real estate, stocks, bonds, prior to 2013. For taxpayers with adjusted gross income over $200,000 and marrieds above $250,000, the surtax is levied

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on the smaller of net investment income or the excess of AGI over thresholds. Remember, you can always buy back appreciated publically traded investments rather easy (must wait 31 days to avoid "wash sales rules"), and this way you have saved 3.8% on that appreciation.

5. **OFFSET CAPITAL GAINS WITH CAPITAL LOSSES –** Remember, capital gains can be offset with capital losses. Consider selling investments with gain prior to year-end and also consider selling your losers to offset this gain. They are netted together. If you end up with a net over capital loss, $3,000 of it can be used to offset other income and the remainder carried forward. If you love the particular winner you're selling, consider buying an ETF that matches the sector, or wait 31 days and buy the exact investment back.
6. **PAY YOUR JANUARY 2011 MORTGAGE EARLY –** This way, you get the January interest deduction accelerated into 2010, thereby increasing your 2010 mortgage interest deduction. Be sure to earmark the payment as mortgage interest, so the mortgage company includes it as such on the 1098 they send you for 2010. This tip can be applied to all tax deductible expenses that you want to accelerate into 2010. If you know you have tax deductible expenses that will be due in January, why not pay them at the end and thereby accelerate the tax deduction into this year.
7. **GIFT HIGHLY APPRECIATED STOCK IN KIND (not cash)** – If you plan on being charitable prior to year-end, consider gifting the charity your appreciated stock. Let the charity sell the stock. You get the charitable contribution deduction at the FMV of the stock at the date of gift and you don't have to recognize the capital gain on the stock, a double tax bonus.
8. **STUDENT LOAN INTEREST PAID BY MOM & DAD –** The IRS treats student loan interest paid by your parents as a gift. Therefore, a child who is not claimed as a dependant can qualify to deduct up to $2,500 of student loan interest paid by their parents, and he or she doesn't have to itemize to deduct this interest.
9. **GA GOAL SCHOLARSHIP** -The Georgia Goal Scholarship Program allows you to give charitable contributions to many Georgia schools and Georgia gives you a dollar for dollar income tax credit back on your Georgia return. This is particularly beneficial if you happen to be in AMT. In essence, if in AMT, you will be getting a free charitable contribution deduction because you can deduct the contribution as an itemized deduction but you get it back as a Georgia state income tax credit on your Georgia return. Make sure you go to the www.goalscholarship.org website and review the numerical examples of how this works.

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10. **REQUIRED MINIMUM DISTRIBUTIONS ARE BACK** – Remember to make sure you compute and take your required minimum distribution from your retirement accounts by year-end. This applies to beneficiaries who inherited IRAs as well (other special rules may apply for inherited IRAs, and you should consult your ax advisor for details). If you turned 70.5 in 2010, you can elect to defer your first year RMD until April 1st, 2011 but then in 2011 you will have two RMDs, one on April 1st, and one by December 31st. Failure to take them is a huge 50% tax penalty on the amount of RMD you were supposed to take.
11. **DON'T BUY MUTUAL FUNDS THIS LATE IN THE YEAR** – Many mutual funds must make year-end distributions. Purchasing shares just before year end (known as the record date which is the date that determines which shareholders will receive the distribution) is causing you to basically purchase a tax liability. This is because the price of the shares just before the distribution includes the income that is about to be paid out. Consider purchasing an ETF (they distribute little or no income) or wait until January before purchasing the mutual fund.
12. **3 IRS AUDIT FLAGS** – The IRS is cracking down, and in fact has highered thousands of new revenue agents. Let's face it, our Government needs money. Therefore, audits and penalty assessments are going to become much more common place for the unforeseen future. These are 3 hot areas under attack by the IRS: (1) *Home Office Deduction* – make 100% sure that if you take the home office deduction, you can prove conclusively that it is your primary and exclusive place of business. Make sure you have no other office available to you. If audited, the IRS can and many times does insist on coming to your home to actually see and measure the square footage of your home office. They may also contact your employer to make sure your employer doesn't also provide you with an office; (2) *Treating Employees as Independent Contractors* – The IRS is all over this one. It is very difficult to meet the various tests that the courts have established for classifying someone that works on your behalf as an independent contractor. If they are an independent contractor, (I strongly advise that you consult with an experienced tax professional to help with this determination), then make absolutely sure you send them a 1099 by January 31st of the 2011. However, sending them a 1099 does not mean you are exempt from severe penalties if the IRS later determines that in fact they were employees rather then independent contractors; and (3) *Reasonable Compensation* - small business owners must pay themselves "reasonable compensation". This is another area particularly under attack by the IRS for people who own their own business and are S-Corporations. The IRS is

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well aware that distributions from an S-Corporation escape what is known as “self employment tax” (which is about an extra 15% tax). Additionally, since self employment tax is scheduled to be increased as part of the new Health Care Law, the IRS is focusing even more on this low hanging fruit. An unwritten but court tested safe harbor is to pay yourself in the form of W-2 wages between 40% to 50% of your overall net self employment income. So, if you think your business will net $100,000 this year, $40,000 to $50,000 of that should be paid to yourself as actual W-2 salary and wages prior to year-end. Not showing this much as “officer’s compensation” on the S-Corporation return is causing many of these returns to be flagged for an audit and the penalties for this error are very hefty.

Howard “Woody” Alpern
CPA/PFS/CTRS

Capital Accounting & Tax, Inc.
200 Sandy Springs Place Suite.#300
Atlanta, GA 30328
www.YourWealthTax.com

Tel: (404) 531-0018 **Ext:** 201
Fax: (404) 531-0010