

### STAY WITHIN THE TAX RULES WHEN COMBINING BUSINESS AND PERSONAL TRAVEL

Whether for a day, a week or longer, many of the costs associated with business trips may be tax-deductible. The tax code includes a myriad of rules designed to prevent abuses of tax deductible business travel. One concern is that taxpayers will disguise personal trips as business trips. However, there are times when taxpayers can include some personal activities along with business travel and not run afoul of the IRS.

#### Business Travel

You are considered "traveling away from home" for tax purposes if your duties require you to be away from the general area of your home for a period substantially longer than an ordinary day's work, and you need to sleep or rest to meet the demands of work while away. Taxpayers who travel on business may deduct travel expenses if they are not otherwise lavish or extravagant. Business travel expenses include the costs of getting to and from the business destination and any business-related expenses at that destination.

#### Business Mixed With Personal Travel

Travel that is primarily for personal reasons, such as a vacation, is a nondeductible personal expense. However, taxpayers often mix personal travel with business travel. In many cases, business travelers may be able to engage in some non-business activities and not lose all of the tax benefits associated with business travel.

The primary purpose of a trip is determined by looking at the facts and circumstances of each case. An important factor is the amount of time you spend on personal activities during the trip as compared to the amount of time spent on activities directly relating to business.

Let's look at an example. Amanda, a self-employed architect, resides in Seattle. Amanda travels on business to Denver. Her business trip lasts six days. Before departing for home, Amanda travels to Colorado Springs to visit her son, Jeffrey. Amanda's total expenses are \$1,800 for the nine days she was away from home. If Amanda had not stopped in Colorado Springs, her trip would have been only six days and the total cost would have been \$1,200. According to past IRS precedent, Amanda can deduct \$1,200 for the trip, including the cost of round-trip transportation to and from Denver.

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### Weekend Stayovers

Business travel often concludes on a Friday but it may be more economical to stay over Saturday night and take advantage of a lower travel fee. Generally, the costs of the weekend stayover are deductible as long as they are reasonable. Staying over a Saturday night is one way to add some personal time to a business trip.

### ADD TO YOUR RETIREMENT PLAN VOCABULARY

The definition of retirement may be in flux, but the vocabulary describing your retirement plans remains the same. Here are three common terms.

**Catch-up contributions.** When you are age 50 or older, you can choose to make additional contributions to your retirement plans above the usual annual limits.

For 2011, maximum catch-up contributions are:

- \$5,500 when you participate in a 401(k), 403b, 457 or SARSEP.
- \$2,500 for your SIMPLE IRA or SIMPLE 401(k).
- \$1,000 for traditional or Roth IRAs.

**Hardship withdrawals.** The IRS defines a hardship as an immediate and heavy financial need such as medical or funeral expenses, and your retirement plan spells out if and when you can take hardship withdrawals.

Remember, the amount you withdraw is not a loan, so you will not be able to pay the money back into your account. Instead, hardship distributions are income to you, and can be subject to a 10% early withdrawal penalty. In addition, you may be barred from making contributions to your account for six months after taking a hardship distribution.

**Rollover.** A rollover is a transfer of assets from one retirement plan to another. To keep the transaction tax-free, you generally must deposit the assets into the second plan within 60 days.

Note that not all withdrawals are eligible for a rollover. Hardship withdrawals are an example of rollover-ineligible funds.

# Perspective

## An Inside View

Dear Clients and Friends,

It seems we are surrounded by depressing news on a daily basis. To put it mildly, almost everyone is frustrated with the government's lack of accomplishment and the continued volatility of the stock market. While there is plenty of negative news to go around, I did come across a few positive things published by Alliance Bernstein recently, to weigh against the negativity.



Nick Nolan

- Corporations are highly profitable and cash rich.
- US Bank balance sheets are in better shape than they were before the financial crisis.
- Falling commodity prices should relieve inflationary pressures on emerging markets, which could lead to less restrictive credit conditions.
- Lower oil prices provide an effective tax cut to global consumers.
- Interest rates in most developed economies remain at historically low levels.
- Yield curves are very steep.

Ok, so I found six positive signs, but what can we do individually?

A message from investment advisor Michael Johnson of Wealth Planning Corporation suggests among other things, the following:

**Do nothing in a state of anxiety.** Wait until you are calmer and more rational. If possible seek out the opinion of one or two other non-anxious persons.

**Although an unpleasant experience, remind yourself that market contractions will not last forever.** Stocks are well above the 2009 lows. No one can predict what will happen in the coming weeks. Stocks may continue to decline, but I believe it would be a serious mistake for investors to panic and sell out. There are reasons for optimism and one is that US companies are in great financial shape. In general stocks are cheap.

**Continue allocation and rebalance where possible.** Put available long-term money to work. It takes courage, but how many of us were glad we were invested in 2009 and 2010 after what happened in the fall of 2008. However, never invest short-term money or emergency funds.

**Stay focused on balancing your own budget and paying off your debts.** Avoid accumulating new debt if possible.

I hope you find these reminders to be helpful. If not try these:

- Take a deep breath and tell yourself to relax;
- Watch a sunrise;
- Turn off the news and watch the 3 stooges;
- Exercise and eat healthy;
- Hug someone you love;
- Pray.

Maybe, after all, laughter is the best medicine.

Sincerely,

*Nick*

Nicholas F. Nolan III, President

## ARE COSTS FOR SUMMER CAMP DEDUCTIBLE?

In the school-free summer months, many parents are looking for activities for their children. The possibilities include sending a child to day camp or overnight camp. Parents may wonder whether these costs are deductible. At least two possible tax breaks come to mind: the dependent care credit, and the deduction for medical expenses. The most likely tax benefit is the child (or dependent) care credit.

**Dependent Care Credit.** To qualify for the dependent care credit, expenses must be employment-related. They must enable the parent to work or to look for employment. The IRS had indicated that the costs of sending a child to overnight camp are not employment-related. However, the costs of sending a child to day camp are treated like day-care costs and will qualify as employment-related expenses (even if the camp features educational activities). At the same time, the costs of sending a child to summer school or to a tutor are not employment-related and cannot be deducted.

In some situations, the IRS requires expenses to be allocated between child care and other, nonqualified services. However, the full cost of day camp generally qualifies for the dependent care credit, without an allocation being required. If the parent works part-time, camp costs may only be claimed for the days worked. However, if the camp requires the child be enrolled for the entire week, then the full cost is qualified.

Example. Tom works Monday through Wednesday and sends his child to day camp for the entire week. The camp charges \$50 per day and children do not have to enroll for an entire week. Tom can only claim \$150 in expenses. However, if the camp requires the child be enrolled for the entire week, Tom can claim \$250 in expenses.

Dependent care costs also may be reimbursed by a flexible spending account (FSAs) under an employer-sponsored arrangement. FSAs allow pre-tax dollars to fund the account up to specified maximum. Each FSA may limit what it covers so check with your employer before assuming the day camp or similar child care is on its list of reimbursable expenses.

**Medical Expenses.** The cost of camp generally is not deductible as a medical expense. The cost of providing general care to a healthy child is nondeductible personal expense.

Example. The child's mother works; the child's father is ill and cannot take care of the child. The cost of sending the child to summer camp is not deductible as a medical expense; however, the cost may still qualify for the dependent care credit.

However, camps specifically run for handicapped children and operated to assist the child may come under the umbrella of medical expenses. The degree of assistance is usually determinative in these situation.

**Dependency Exemption.** In any case, the cost of sending a child to camp can be treated as support, for claiming a dependency exemption. For a parent to claim a dependency exemption, the child cannot provide more than half of their own support. The parent must provide some support but does not necessarily have to provide over half of the child's support. If the child is treated as a qualifying relative (because he or she is too old to be a qualifying child), the parent must still provide over half of the child's support.

# Business Solutions

Professional Accounting Expertise

## HOW IS A MAJOR REPAIR ON A BUSINESS VEHICLE DEDUCTED?

A major repair to a business vehicle is usually deductible in the year of the repair as a “maintenance and repair” cost, if your business uses the actual expense method of deducting vehicle expenses. If your business vehicle is written off under the standard mileage rate method, your repair and maintenance costs are assumed to be built into that standard rate and no further deduction is allowed.

### Standard mileage rate

The standard mileage rate for business use of a vehicle is 51 cents per mile for the first half of 2011 and 55.5 cents per mile for all business travel during the second half of 2011. The standard mileage rate replaces all actual expenses in determining the deductible operating business cost of cars, vans and/or trucks. If you want to use the standard mileage rate, you must use it in the first year that the vehicle is available for use in your business. If you use the standard mileage rate for the first year, you cannot deduct your repairs for that year. Then in the following years you can use the standard mileage rate or the actual expense method.

### Actual cost

You can deduct the actual vehicle expenses for business purposes instead of using the standard mileage rate method. In order to use the actual expenses method, you must determine what it actually cost for the repairs attributable to the business. If you have fully depreciated your vehicle you can still claim your repair expenses.

### Exceptions

Of course, the tax law is filled with exceptions and includes issues relating to the deductibility of vehicle repairs and maintenance. Some ancillary points to consider:

- If you receive insurance or warranty reimbursements for a repair, you cannot “double dip” and also take a deduction;
- If you are rebuilding a vehicle, you may be adding to its capital value and therefore required to deduct costs gradually as depreciation;
- If you use your car for both business and personal reasons, you must divide your expenses based upon the miles driven for each purpose.

## ESTATE BASIS RULES MIGHT AFFECT YOU

Are you the beneficiary of an estate created in 2010? If so, you might want to start thinking about your basis in the assets you inherited.

Here is why.

When the new estate tax became law in December 2010, traditional basis rules were reinstated for 2010 through 2012. Those rules say the value of estate assets is determined at the date of death (or six months later if an election is made). Therefore, as a beneficiary selling inherited assets, you can use the more current date-of-death value as your basis, potentially reducing your capital gain.

The new law also established an opt-out from date-of-death basis for estates created in 2010. Instead of applying traditional rules, these estates can choose to follow the law previously in effect, which valued estate assets using a “modified carryover basis.”

As a beneficiary, your basis in assets inherited under the modified carryover rules starts at either the fair market value at date of death, or the same basis as the person from whom you received the assets, whichever is less. What is the modified part? The basis of certain assets can be increased by no more than a total of \$1.3 million (\$4.3 million for assets inherited by a spouse).

Estates have until September 2011 to make the election to use the modified carryover basis rules.

The choice affects the estate tax return and your individual income tax return. If you are in this situation, please contact us for help in making the right decision.

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## CHECK STATUS OF A CHARITY BEFORE MAKING A CONTRIBUTION

Americans donate hundreds of millions of dollars every year to charity. It is important that every donation be used as the donors intend and the charity is legitimate. The IRS oversees the activities of charitable organizations. This is a huge job because of the number and diversity of tax-exempt organizations and one the IRS takes very seriously.

### Exempt organizations

Charitable organizations often are organized as tax-exempt entities. To be tax-exempt under Code Sec. 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for exempt purposes in Code Sec. 501(c)(3), and none of its earnings may inure to any private shareholder or individual. In addition, it may not be an action organization; that is, it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates. Churches that meet the requirements of Code Sec. 501(c)(3) are automatically considered tax exempt and are not required to apply for and obtain recognition of tax-exempt status from the IRS.

Tax-exempt organizations must file annual reports with the IRS. If an organization fails to file the required reports for three consecutive years, its tax-exempt status is automatically revoked. Recently, the tax-exempt status of more than 200,000 organizations was automatically revoked. Most of these organizations are very small and the IRS believes they likely were unaware of the requirement to file or risk loss of tax-exempt status. The IRS has put special procedures in place to help these small organizations regain their tax-exempt status.

### Contributions

Contributions to qualified charities are tax-deductible. The key word here is qualified. The organization must be recognized by the IRS as a legitimate charity.

The IRS maintains a list of organizations eligible to receive tax-deductible charitable contributions. The list is known as Publication 78, Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986. Similar information is available on an IRS Business Master File (BMF) extract.

In certain cases, the IRS will allow deductions for contributions to organizations that have lost their exempt status but are listed or covered in Publication 78 or the BMF extract. Additionally, private foundations and sponsoring organizations of donor-advised funds generally may rely on an organization's foundation status (or supporting organization type) set forth in Publication 78 or the BMF extract for grant-making purposes.

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Generally, the donor must be unaware of the change in status of the organization. If the donor had knowledge of the organization's revocation of exempt status, knew revocation was imminent or was responsible for the loss of status, the IRS will disallow any purported deduction.

### Churches

As mentioned earlier, churches are not required to apply for tax-exempt status. This means taxpayers may claim a charitable deduction for donations to a church which meets the Code Sec. 501(c)(3) requirements even though the church neither sought nor received IRS recognition that it is tax-exempt.

### Foreign charities

Contributions to foreign charities may be deductible under an income tax treaty. For example, taxpayers may be able to deduct contributions to certain Canadian charitable organizations covered under an income tax treaty with Canada. Before donating to a foreign charity, please contact our office and we can determine if the contribution meets the IRS requirements for deductibility.

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## "WELCOME"



Jacob Schroeder

*Accountant*

We welcome Jacob Schroeder to our Firm as a staff accountant. Jacob has a Masters of Accountancy from Wright State University, a Bachelors Degree in Accounting from Urbana University and an Associates Degree in Accounting from Edison Community College. Jacob's experience is in General Accounting, Financial Statements, Corporate & Individual Taxation, and Payroll.

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