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# Client Information Bulletin

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## Know Tax Angles to Lifetime Gifts

*New law encourages family transfers*

**D**ue to recent tax law changes, you may want to consider giving generous gifts to other family members. The gifts can reduce the size of your taxable estate. Here is a brief overview of the basic rules.

**Annual gift-tax exclusion:** Under the annual gift-tax exclusion, you can give away a specified amount each year to a recipient without paying any federal gift tax. The exclusion, which is indexed for inflation, is \$13,000 for 2011. For example, you might give up to \$13,000 to each of your two children and three grandchildren—a total of \$65,000 in gifts—without triggering any gift tax.

Furthermore, the annual gift-tax exclusion is doubled to \$26,000 if your spouse joins in the gift-giving. In other words, you might give away \$26,000 to each of the five family members, free of gift tax. That totals \$130,000 in tax-free gifts. By taking this approach for five years in a row, you can reduce your taxable estate by \$650,000.

**Cumulative gifts:** The amount of any gifts made above the annual gift-tax exclusion may be sheltered by the lifetime gift-tax exemption (although this reduces the available tax shelter for your estate). Prior to the 2010 Tax Relief Act, the estate- and gift-tax systems were severed, with the lifetime gift-tax exemption remaining locked at \$1 million. But now the new tax act reunifies

the two systems with a maximum exclusion amount of \$5 million per person for 2011 and 2012. (The exemptions are also portable between spouses.)

Therefore, going back to our previous example, a married couple could effectively give away up to \$10 million over the next two years in addition to the amount covered by the annual gift-tax exclusion (e.g., \$650,000 for five years). That provides plenty of flexibility for most families.

**Educational and medical gifts:** You can pay qualified expenses directly to a medical provider or educational institution on behalf of others without incurring any gift-tax liability. For instance, if your child or grandchild is attending college, pay the youngster's tuition directly to the school. These gifts do not count against the amounts sheltered from gift tax by the annual gift-tax exclusion.

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Note that your family may also save income tax when you give gifts to other family members. Typically, the income subsequently earned from the gifts is taxed to a family member who is in a lower tax bracket than you are. For instance, you might decide to transfer income-producing property to a minor child. However, don't overlook the impact of the "kiddie tax." If a child younger than 19 or a full-time student younger than 24 receives more than \$1,900 in unearned income in 2011, the

excess is generally taxed at the income tax rate of the child's parents—regardless of the source of the gifts.

As the end of the year approaches, you can set up a gift-giving program to maximize the tax benefits. For example, you can give \$13,000 to a family member in December and another \$13,000 to the same person in

January. Since the gift-tax exclusion is annual, both gifts are sheltered from gift tax.

*Conclusion: Whatever you decide to do, coordinate your life-time gifts as part of an overall estate plan. The estate-tax laws are scheduled to "sunset" after 2012, so check to make sure that your plan is flexible enough to accommodate changes.*

## Five Steps to Improve Business Security

### *Sensible ways to protect your company*

**S**ome small businesses are facing a big problem: security issues. In today's fragile economy, losses sustained due to nonexistent or inadequate security measures could severely damage a small company and even jeopardize its

very existence. Fortunately, taking action now to shore up your business security may provide sufficient protection for the future. Here are five steps for business managers to follow:



**1. Surveillance cameras:** Cameras can protect against theft by both customers and staff members. Place security cameras strategically in

certain areas, storerooms and offices. For example, to prevent retail theft, a business security camera might be used outside the store to monitor ingress and egress. Other cameras might be positioned so you can view cash registers. And cameras stationed throughout a store may monitor customer behavior and other suspicious activity (e.g., possibility of shoplifting).

**2. Alarm systems:** An alarm or security system can deter external business theft, especially in situations where cash is regularly handled by employees and customers. The system may also discourage break-ins after normal business hours. It can automatically alert the police if an

intruder enters when employees are not present. Security passwords should be privileged to a select few.

**3. Security guards:** If your business deals with valuable items such as jewelry, it may make sense to hire a security guard to patrol the premises. In addition to an alarm system, security guards can offer protection after hours and/or take shifts during regular working hours. Using security guards thwarts theft and provides general corporate security.

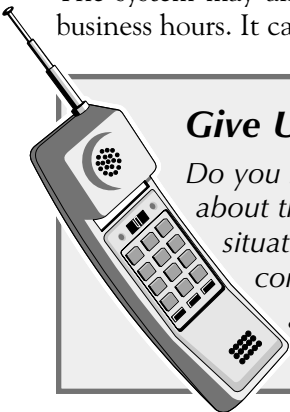
**4. Computer security:** To protect the security of information, many businesses that rely on computers do not allow employees to save files to a hard drive. Instead, the files are saved to a corporate network. This allows the company to monitor all files created, saved and edited within the system, while tracking who has access to those files. These information security measures can prevent disgruntled employees from copying internal documents to a personal disk. It reduces the chance that valuable data can be sold or provided to competitors.

**5. Internet security:** Information security goes beyond files stored on the corporate network. Due to a fear of identity theft, many customers will not transact business online with any company not using secure servers (i.e., their information is encrypted to prohibit third parties from being able to intercept and view it). This type of security measure has become standard for Web-based businesses. If your managers ignore the threat and the sensitivities of your customers and prospects, you risk losing valuable business. Even worse, if the data falls into the wrong hands, both the business and customers could suffer.

*If you do not feel comfortable implementing these suggestions yourself, or having another staff member do it, you might use an outside security consultant. The consultant can perform a thorough assessment and recommend the types of security measures that fit both your needs and your wallet. Don't put this off until it's too late.*

### **Give Us A Call!**

*Do you have any questions or comments about this newsletter or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*



## Plug-in Tax Breaks for Energy Saving

### *Stimulus for homeowners and businesses*

The tax law provides a number of powerful energy-saving incentives to homeowners and businesses. Here's a brief overview of the key tax rules in this area.

**Tax breaks for homeowners:** Currently, the residential energy credit is equal to 10% of the cost of qualified energy-saving improvements. However, a lifetime dollar cap of \$500 was reinstated by a tax law change last year. The credit, which has been extended several times, is now scheduled to expire after 2011.

Previously, a maximum lifetime credit of \$1,500 was allowed, spanning 2009 and 2010. If you have already claimed a residential energy credit exceeding the \$500 limit, you are not eligible for a credit in 2011.

The list of qualified energy-saving expenses is expansive. It includes the following:

- ◆ exterior windows and doors (including storm windows and skylights)
- ◆ air-conditioning systems
- ◆ qualified water heaters and furnaces
- ◆ hot-water boilers
- ◆ metal and asphalt roofs
- ◆ stoves
- ◆ advanced main air circulating fans
- ◆ insulation materials

Furthermore, you may be able to claim credits for geothermal heat pumps, solar water heaters and fuel cells. Credits for these expenses are available through the end of 2016.

Note that a special credit may also be claimed for plug-in electrical vehicles. The credit amount is based on fuel capacity (subject to a phaseout once a manufacturer sells 200,000 units). This credit is available to both purchasers and lessees. **Caution:** The credit for alternative fuel vehicles, including popular hybrid models, expired after 2010.

**Tax breaks for business owners:** If you own a business building, you may be able to claim a tax deduction equal to \$1.80 per square foot for energy systems placed in ser-

vice after 2006 and before 2014. A partial deduction of up to \$.60 per square foot is available for improvements to the building envelope, lighting systems, or heating and cooling systems.

To qualify for this deduction, the following conditions must be met:

- ◆ The property must be installed as part of the interior lighting systems; the heating, cooling, ventilation or hot air systems; or the building envelope.
- ◆ The property must otherwise be depreciable or amortizable.
- ◆ The property must be installed on or in a building in the United States that meets strict standards of the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE).
- ◆ The property must be certified as part of an overall plan designed to reduce the total annual energy and power costs by 50% or more in comparison to a reference building meeting the minimum requirements of the ASHRAE standards.

There are other potential tax benefits for certain types of businesses. Consult with your professional advisers.

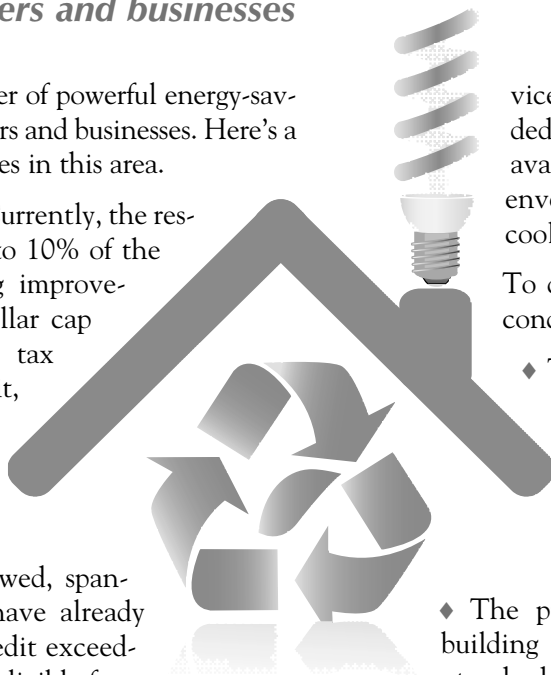
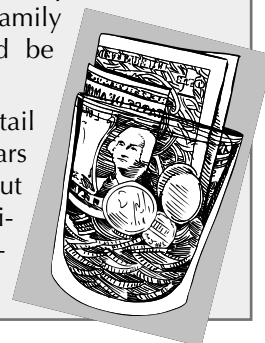
*In summary: This is just the tip of the iceberg. More details about energy tax incentives are available upon request.*

### ***Dipping Into the Tip Jar***

How far can an employer's liability for actions extend? A new case seems to test the limits.

**Facts:** The Starbucks coffee chain has been sued in a wrongful death action after a patron chased someone stealing money from a tip jar on the counter. The patron died when the thief tried to escape in a car and accidentally backed over him. The family has argued that Starbucks should be held liable for the consequences.

Does this mean that owners of retail establishments should remove tip jars from counters? Not necessarily, but business owners must remain vigilant against potential personal injuries on the premises.





# Credit Card vs. Debit Card: Key Differences

## *Comparison of the main pros and cons*

**T**he bill for dinner at the restaurant is presented, and you have graciously offered to pay. Should you use a credit card or a debit card? You may think that it does not matter, but there are some important differences.

**Credit cards:** Essentially, a credit card allows you to use the issuer's money to make a purchase. Then you pay back the issuer later. If you pay the bill within the billing period—usually 15 to 45 days—there is usually no interest charge. However, if you do not make payments in a timely fashion, you must pay interest at the established rate, on top of the regular charge for purchases.

Used responsibly, credit cards offer several advantages. They help build a strong credit rating when you pay your bills on time. Issuers often offer rewards for gifts, discounts and the like. In addition, you have some protection if someone steals your card or information. If you spot a fraudulent charge, you can call the card issuer, dispute the charge and have the amount removed from your balance. Conversely, if your debit card information is stolen, it can take weeks or even months to investigate the matter. In the meantime, you are out the funds.

**Debit cards:** A debit card is linked to your bank account, so your outlays are automatically subtracted from your account. This is a convenient alternative to paying cash, especially for online shopping. A debit card can also help you with your monthly budget. If you use the card regularly, your monthly statement can provide a

valuable overview of expenses and payments. And, unlike a credit card, your bank balance is reduced with each debit card transaction, so you are less likely to overspend—at least in theory.

But debit cards generally offer less protection than credit cards. Once you have used a debit card, the retailer has your money, so you do not have any leverage. For disputed charges, there is no guarantee you will ever get your money back. **Comparison:** When you pay for goods or services with a credit card and you are not satisfied with the purchase, the card issuer can legally withhold payment from the retailer until the matter is resolved.

If you are more inclined to use a credit card and expect to carry a balance, you may prefer a “plain-vanilla” card with no annual fee and a low annual interest rate. The interest you would have to pay on other cards with incentives will more than likely offset the available perks. Information comparing various credit cards can easily be found via the Internet. You can also apply for cards online, but limit your applications to one or two, to avoid damages to your credit rating.

Finally, be aware that card issuers can raise your interest rate, but there are restrictions under recent law changes.

*So which type of card should you choose—credit or debit? Many consumers keep both in their wallets or purses. No matter which one you use, be careful not to spend more than you can legitimately afford.*

## Facts and Figures

### *Timely points of particular interest*

**Open E-mail**—A supervisor became upset when he discovered that an employee would miss work on an extended maternity leave. The two exchanged e-mails about the issue. The employee then forwarded the e-mail chain to an attorney. Subsequently, the employee sued for pregnancy bias and the employer used the e-mails against her. **Result:** The e-mails were not legally privileged because of the stated company policy.

**IRA in Bankruptcy**—In a new case, a daughter who inherited her mother's IRA subsequently filed for bankruptcy. The daughter's creditors claimed that they should be able to reach the IRA funds. However, the district court in Texas disagreed with the creditors. **Reason:** The money had been rolled over from one IRA to another, and funds in an IRA are exempt from bankruptcy procedures.

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