

Anchin Advantage

Dedicated to Helping You Grow Your Business

Anchin, Block & Anchin LLP

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Kiddie Tax “Loophole” Closing Fast

If you have college-bound kids, there’s still a narrow window of opportunity to take advantage of the 5% capital gains tax rate. Starting in 2008, the kiddie tax – which applies your marginal rate to your children’s investment income – will be expanded to include dependents under 19 and dependent full-time students under 24.

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The “40% Solution” a Win-Win Situation

The mergers and acquisitions that make the business sections of the New York Times and the Wall Street Journal are often tales of attempted hostile takeovers or a change of ownership that will result in massive lay-offs. They are rarely “good news” stories.

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IRS Issues Alert Regarding Email Scams

Beware: The IRS does not send unsolicited email.

Nor does the IRS ask for detailed personal and financial information in an email.

Nor does the IRS ever ask you for a PIN number, password or similar access information for bank or credit card records in an email.

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Anchin unveils new look, Expert Partner message *see page 2*

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Kiddie Tax *(continued from page 1)***No More Free Lunch**

Currently, the top capital gains tax rate for investments held more than one year is 15%. Taxpayers in the 10% and 15% tax brackets, however, pay only 5% on capital gains recognized this year and no tax at all on gains recognized from 2008 through 2010.

The kiddie tax is designed to prevent parents from shifting investment income to their children, who generally enjoy lower tax rates. Prior to 2006, the kiddie tax applied to children under 14. Currently, it applies to children under 18. In 2007, for example, the first \$850 of investment income earned by a child under 18 is tax-free, the next \$850 is taxed at the child's rate, and earnings in excess of \$1,700 are taxed at the parents' rate.

Until recently, many parents of college-age kids were preparing to take advantage of tax-free capital gains to help pay for tuition, fees, and other expenses. The idea was to give appreciated stocks, mutual funds, or other investments to your kids so they could sell them tax-free (between 2008 and 2010) after they turn 18 when the kiddie tax no longer applies. By raising the kiddie-tax threshold to 19 (24 for full-time students), Congress effectively eliminated this strategy.

Still Time for Kids Over 17

Between now and the end of 2007, you

can still take advantage of the 5% capital gains rate for a child who is 18 or older or who turns 18 this year. You don't even have to wait for his or her birthday. So long as the child's 18th birthday is in 2007, he or she can sell investments any time during the year without triggering the kiddie tax.

Example: In August 2007, Dave and Ann give \$30,000 worth of appreciated stock (with a \$10,000 tax basis) to their daughter, Julia, to help pay for Julia's college expenses. Julia's 18th birthday is December 22, 2007, and she has no other income for the year. Julia sells the stock in September 2007 and pays \$1,000 (5%) in capital gains taxes on the \$20,000 profit. By shifting this income to Julia, the family saves \$2,000 in federal income taxes (assuming her parents would have been subject to the 15% rate).

Other Considerations

Before you take advantage of this strategy, there are several other issues to consider. If you give stock or other assets to your child, unless the transfer is within your \$1 million lifetime gift tax exemption or your annual gift tax exclusion (currently, \$12,000 for gifts by individuals and \$24,000 for gifts by married couples), you'll have to pay gift tax.

Also, keep in mind that the 5% rate only applies to the extent that your child's income falls within the lowest tax

brackets. This year, for example, the end point for the 15% bracket is \$31,850 in taxable income. If your gift pushes your child's income beyond that limit, the excess capital gain will be taxed at the 15% rate.

Finally, there are some significant exceptions to the kiddie tax. It doesn't apply to a child who is married and files a joint return. And the expanded kiddie tax doesn't apply to a child whose earned income provides more than half of his or her support. Depending on their income levels, children that fall into these categories may be able to take advantage of tax-free capital gains next year. And remember, if your child is 19 or older and is not a full-time student, the kiddie tax poses no obstacle to the income-shifting strategies discussed above.

Plan Carefully

Recent changes to the kiddie tax have made tax planning more challenging. Your Anchin tax advisor can help you design a strategy for financing college costs while minimizing your family's tax burden.

If college is still several years away, consider investing in a tax-advantaged savings vehicle, such as a Section 529 Plan. These plans allow you to withdraw funds tax-free to pay for qualified education expenses, so the kiddie tax doesn't even come into play. ●

Anchin unveils new look and Expert Partner message



Anchin is pleased to introduce our new look and logo, which convey the energy and forward thinking spirit of our Firm. Anchin's new brand statement, "Your Expert Partner," reflects the way we connect clients with expert partners who provide them with industry knowledge and innovative insights.

How may we help you? ●

40% Solution *(continued from page 1)*

But the truth of the matter is that mergers and acquisitions take place virtually every day between privately-held businesses, and in many instances, the current owners retain control of the company they have nurtured. We call it the “40% solution” and it is a transaction that often turns out to be a win-win situation for both parties involved.

From a seller’s perspective, the “40% Solution” is ideal for business owners who are trying to strategically raise capital or are interested in taking advantage of the company’s historical success. As its name implies, the owner of the selling company sells 40 per cent interest in the company yet retains the controlling interest. The owner may choose this option for any number of reasons:

- To raise capital to reinvest in the business. A capital infusion often paves the way for expansion, new product line development, or advanced research and development. The influx of funds also allows the owner to support a growth strategy he/she wants to carry out but is reluctant to act upon due to the degree of risk involved.

- To raise capital for personal reasons. The owner may be in need of cash for a variety of personal reasons, or he or she feels it is time for a “reward” after years of hard work and sacrifice devoted to building the company. This scenario is particularly true when the economy is strong and owners have the opportunity to get top dollar for a share of the business.
- To begin the transition process to the next generation of ownership / leadership. The owner seizes the opportunity to cash in on 40% of the business, retains control, and starts to transfer ownership of the company to the next generation.

In a recent transaction, the father-son ownership team of a food company shared in the buy-out process. The father, in his 70s, used his share of the buy-out to fund a well-deserved retirement. The son, in his 40s, continues to run the company with managerial guidance and support from the venture capital firm that bought the 40% ownership. Though this situation pertains to a food company, the same situation can apply across a wide range of industries.

Buyers of the minority interest in a company generally fall into two

categories: financial buyers and strategic buyers. Financial buyers are often venture capitalists who view the purchase as an investment which will provide a lucrative return. Generally, they own minority interest in a variety of other companies as well and often sit on the boards of directors of those companies.

Strategic buyers, on the other hand, tend to be other owners who want to grow via acquisitions and/or integrate or diversify their products or services. These owners are usually willing and able to seize an opportunity to expand their business into a new industry, to strengthen their supply chain, or to introduce their products to new markets.

The merger and acquisition process has tremendous potential to help owners achieve their long-term goals. However, owners who would like to consider the “40% Solution” should consult experienced advisors who have completed such transactions.

For more information regarding merger and acquisition services through Anchin Capital Advisors, contact Sol Lipshitz at 212.840.3456. ●

Email Scams *(continued from page 1)*

That means if you ever receive an email purporting to be from the IRS that is not a response to a question that you have asked, **DO NOT OPEN**. It’s possible that the email link and its attachment is a “Trojan horse” that can take over the hard drive in your computer and give a hacker remote access to your files.

Should you receive such an email, forward it to phishing@irs.gov and follow the ensuing instructions.

The IRS issued this warning after several attempted e-mail scams during the late summer. The IRS and the Treasury Inspector General for Tax Administration

work with the U.S. Computer Emergency Readiness Team (US-CERT) and other internet service providers to have these “phishing” sites taken offline as soon as they are reported.

Phishing (pronounced fishing) refers to the practice that email scammers use to trick victims into revealing private personal and financial information over the Internet.

Again, should you receive such an email, **DO NOT OPEN**. Forward right away to phishing@irs.gov. Since the establishment of this mail box last year, the IRS has received almost 18,000 emails from taxpayers reporting phishing incidents.

The reported scams have included:

- An “offer” from the IRS of \$80 if you complete an online customer satisfaction survey.
- A notice from the IRS that you may be the subject of a “Tax Avoidance Investigation,” which goes on to ask you to complete an investigation form.
- A notice from the IRS that you are under a criminal probe for submitting a false tax return to the California Franchise Tax Board.

All of these notices are scams; they are not from the IRS. Again, **DO NOT OPEN**.

Do not be the next victim of a fraudulent email scam. ●

Anchin Out and About

In the Community

Financial Services Chair **Gerry Ranzal** presented at two conferences in June sponsored by Financial Research Associates (FRA). His topics included Registration vs. De-registration; Building a Top-Notch Compliance Program; Off-shore Funds 101; and Fees and Deferred Compensation. In July, he led an FRA-sponsored webinar on Offshore Funds.

Partner **Marc Newman** has been named to the Board of Directors of the Institute of Real Estate at Hofstra University.

Members of Anchin's Economic Development Services Group, including partner **Richard Stieglitz, Ricky Wolbrom, David Meade** and **Amanda Friedl**, presented an Empire Zone training session for the Nassau and Islip Empire Zone Coordinators on July 10th. **Paul Gevertzman** and partner **Rob Gilman** presented a program on Real Estate and Economic Development to the Mt. Vernon Chamber of Commerce in mid-June.

Jeffrey Rosenthal, also a Financial Services partner, was appointed to a two-year term as chairman of the New York State Society of CPA's Committee on Stockbrokerage Accounting, and partner **Peter Berlant** presented at the Society's 7th annual Leadership Conference (where he also won the annual conference run!).

The CPA Journal and the New York State Society of CPAs named winners of the 2006 Max Block Distinguished Article awards in three categories: technical

analysis, policy analysis, and informed content. Max Block, a founding partner of Anchin, was managing editor of the NYSSCPA's Journal (now The CPA Journal) from 1958 to 1972. Each year since 1975, The CPA Journal has recognized his contributions and achievements by bestowing the Max Block Distinguished Article Awards. This year's winners were announced in the June issue of The CPA Journal.

For the third consecutive year, Anchin's staff donated thousands of dollars of school supplies and backpacks to Volunteers of America's Operation Backpack, which provides the much-needed supplies to 15,000 children living in the New York City shelter system.

Director **Terry Pissi** served on the Planning Committee for the 11th annual Women, Golf & Business luncheon held in late June at Bethpage State Park. Proceeds benefited the Suffolk County Child Advocacy Center, Pet Peeve's Inc., and United Cerebral Palsy of Suffolk.

In Print

Partner **Evan Snapper**, Business Management Services, was quoted in an article entitled "How Accountants Advise the Super Rich" that appeared in the June/July issue of Private Wealth Magazine.

Marc Newman, co-chair of Anchin's Construction Services Group:

- Who's Who in Accounting on Long Island, Long Island Business News, June, 2007.

- "Creating Separate Entities," Real Estate Weekly, August, 2007.
- "Sizing up the Top 10 Hurdles Builders Face in New York City," New York Construction, July 2007.
- "Benchmarking Can Enhance Company Performance," NY Construction, July, 2007.
- "Sometimes It Pays for a Contractor to Look Back," Real Estate Weekly, July, 2007.
- "Family Business Need Not Be Family Feud," Real Estate Weekly, June, 2007.

Tax partner **Richard Stieglitz** and **Michael Freel**:

- Law Firm Partnership & Benefits Report, "Highlights of Recently Enacted Tax Laws for Law Firms, Clients, Lawyers and Staff," August, 2007.
- Accounting & Financial Planning for Law Firms, "Does Giving Tax Advice Make You a Tax Return Preparer?" August, 2007.

Marc Wieder, chair of Anchin's Real Estate Services Group:

- "Tax Considerations for New York Real Estate Business," Real Estate Weekly, August, 2007.
- "Should You Invest Your IRA in Real Estate," Real Estate Weekly, July, 2007.
- "Why Have There Been So Many Mortgage Defaults," Real Estate Weekly, June, 2007.

Philip Ross, co-chair of Anchin's Construction Services Group:

- "Split Decisions: Benefits of Using Separate Entities," CIC, July, 2007.

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