

# THE ELLS OUTLOOK

September-October 2011

## It's Tax Planning Time!

Implementing year-end tax strategies enable you to take advantage of favorable tax law provisions and compensate for unfavorable ones. Depending on your circumstances you may decide to capture these benefits on your 2011 tax return or you may want to defer them to 2012. Fluctuations in annual income will determine which is the best choice for you. Act early so you'll be able to take advantage of tax-saving opportunities.

Tax planning strategies focus on three general areas: tax credits, deductions and financial transactions such as investments and retirement accounts.

**TAX CREDITS.** Tax credits are more valuable than deductions because credits reduce taxes dollar-for-dollar while deductions simply lower taxable income. These credits may include Child Tax Credit, Child and Dependent Care Credit, Adoption Tax Credit, Education Tax Credits, Minimum Tax Credit, Foreign Tax Credit, Enterprise Zone Tax Credits, Research and Development Tax Credits, Energy Tax Credits and more.

**DEDUCTIONS.** The timing of when you take deductions for certain qualified expenses is the legal "tax playground" of tax planning. You can elect to pay state and local taxes early to include them in 2011, you can "bunch" deductions to take advantage of the medical deduction and you can pre-pay real estate taxes, to name the most popular tax planning decisions. Take advantage of depreciation and expensing deductions this year as they might not be a favorable strategy in the years to come. Making qualified real property purchases may present a unique but pleasant tax saving opportunity.

**FINANCIAL TRANSACTIONS.** Review your company's retirement plan and make tax smart modifications when appropriate. You may be able to contribute and remove from currently taxable income, up to \$16,500 (\$22,000 if you are 50 or older) to an employer-sponsored 401(k) or 403(b) plan. With the current 15% tax rate on capital gains, now is the time to review your investment portfolio. Perhaps "harvesting" capital losses is a good strategy to utilize before December 31st. Selling your principle residence has significant tax consequences and before signing those closing documents, you may want to contact your ELLS Advisor to review them with you. Remember to include investment interest paid on loans used to buy or carry taxable investments. "Financial Transactions" cover a broad area and your ELLS Advisor can help you to identify other tax-advantaged ways to save money on your taxes.

## ELLS Attends Women's Cancer Research Foundation Benefit Dinner

Women's Cancer Research Foundation (WCRF), a Newport Beach nonprofit organization, strives to find the newest and most effective treatments for women afflicted with breast and gynecologic (endometrial, uterine and ovarian) cancer. Phase II and Phase III clinical trials are being conducted by WCRF.

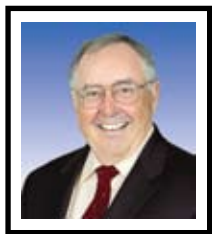


Shareholder **Greg Lewis**, Vilma Thompson of Gynecologic Oncology Associates, Dr. Mark Rettenmaier, Paraprofessional **Karen Kush** and her husband Dennis Kush, Dr. John Micha, Shareholder **Sherry Radmore**, Tax Manager **Carol Painter** and her husband Charles Painter attended the WCRF Annual Benefit Dinner on September 10th. The event was held at the Balboa Bay Club in Newport Beach.

The ELLS team is honored to have been a part of this annual event. We greatly admire WCRF for the dedication and innovation that they bring to the treatment of cancer. Bravo!

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## Ed Lieber – Year End is not just a time for Tax Planning



As the end of 2011 approaches not only do you need to be thinking about tax planning, but it is also time to knock the dust off your business and strategic plans. Outdated goals and objectives or forgotten goals and objectives are as much of a problem as owing Uncle Sam. Your plans are the roadmap for all your business activity. Without plans, your business can start to take the shape of an alien creature, spawning in all directions and losing important elements along the way. Eventually even your customers don't know you or what you are doing and they look elsewhere for services.

Business and strategic plans do not have to be scary beasts. They can simply set goals and objectives including your financial goals. They identify who your customers will be, how you are going to get them, and analyze your competitive strengths, weaknesses and opportunities in the marketplace. A business plan is imperative when setting a budget for the year as well. What are you going to have to invest in order to meet your goals?

Most businesses start with a vision. From that vision you explore and develop strategies to make that vision profitable so that you can continue to grow that vision. Often times business owners are consumed with the day to day operations and soon you are working in your business not on your business. This is the time of year to sit down and evaluate where the business is on your strategic road map. Do you need to make a left, have you gotten lost?

It is important to remember that these plans are living creatures, they change as the marketplace changes. You have to be flexible, nimble and aware. A well thought out business plan should be kept in front of you all year helping you stay the course and remain focused on your goals. This will aid in planning your financial future.

Sit down with your ELLS advisor and your business plan. We have extensive knowledge of not just your business but of the economic environment, trends in the economy and ways to help your business be more profitable.

## Top Tax Scams: Part 3

In the last two issues we reported the top seven tax scams, as put out by the IRS. Here are the remaining five scams that made the IRS list, rounding out the "Dirty Dozen".

### ***Abusive Retirement Plans***

Roth Individual Retirement Arrangements (IRAs) are one retirement vehicle that the IRS finds can be an abusive retirement strategy. They are mainly looking for transactions in which taxpayers are attempting to avoid the limits on contributions or not properly reporting early distributions. Be wary of advisors who encourage you to shift appreciated assets at less than fair market value into an IRA or companies owned by their IRAs to circumvent annual contribution limits. Other variations have included the use of limited liability companies to engage in activity that is considered prohibited.

### ***Disguised Corporate Ownership***

Corporations or entities can be formed and/or operated for the sole purpose of disguising ownership by using a third party to request employer identification numbers. These entities are used to underreport income, take false deductions, fail to file tax returns, engage in money laundering and other financial crimes.

### ***Zero Wages***

One illegal strategy used to lower taxes is filing a phony wage or income related informational return. Scammers file a "corrected" Form 1099 or a Form W-2C as a way to fraudulently reduce taxable income. They might even file Form 4852 stating that a company refuses to issue a corrected W-2. This type of scam can come with a hefty \$5,000 penalty.

### ***Misuse of Trusts***

Trusts can be a great tool in estate and tax planning, however, transactions that promise reductions of income tax and deductions of personal expenses can be too good to be legitimate. These types of trusts are not likely to deliver on the promise of tax benefits and are often used to hide assets and avoid tax liability. Private annuity trusts and foreign trusts have caught the eye of the IRS. They are concerned about taxpayers using them to shift income and deduct personal expenses. It is important that you seek advice before creating any trust. This is what your ELLS Advisor is here for!

### ***Fuel Tax Credit Scams***

Taxpayers that use fuel for off-highway business purposes may be eligible for the Fuel Tax Credit, however, individuals claiming the credit for nontaxable uses or when their occupations or income levels exceed the limitations are considered to be fraudulent.

Always consult your ELLS Advisor when considering financial decisions. We will help you stay away from these scams!

## Use Tax

Does your business buy anything over the internet from vendors outside the state of California? Did your business receive over \$100,000 in gross receipts last year? It should come as no surprise that this makes you a “qualified purchaser” and you are required to pay use tax to the state of California.

The State Board of Equalization (BOE) is no longer automatically registering businesses as “qualified purchasers,” however, they will be holding the business accountable for registering and filing use tax returns. The BOE has the power to go back up to eight years and collect use tax on purchases made out of state. Be aware that purchases made over the internet are still subject to use tax and are not protected under the Internet Freedom Tax Act. This act only protects consumers from paying use tax on purchases, not businesses.

Your ELLS Advisor can help you get registered with the BOE as well as make sure you are filing your use tax returns.

## California Income Tax Voluntary Compliance Initiative

The second round of the Voluntary Compliance Initiative (VCI 2) has officially been launched by the Franchise Tax Board (FTB). This program allows taxpayers who have underreported tax liabilities through tax avoidance transactions or unreported offshore income, to amend 2010 and prior year income tax returns. Taxpayers will be required to pay tax and interest in full but will be able to obtain a waiver for the penalties. Abusive tax avoidance transactions include use of a tax shelter, undisclosed reportable transactions, listed transactions, gross understatement of income or noneconomic substance transactions. An offshore financial arrangement can be used to avoid or evade California income or franchise tax thru the use of offshore accounts and offshore entities or use of a foreign financial institution. The voluntary program runs from August 1 - October 31, 2011.

## — Around The Calculator —

### ELLS Welcomes Two New Team Members.

ELLS is proud to announce the addition of **Jeen Heo, CPA** to the ELLS Audit & Assurance Team. Jeen brings over 10 years of public accounting experience to ELLS. He lives in Tustin with his wife and two sons. When he is not auditing financial statements, Jeen enjoys golf, tennis, soccer and spending time with his family.



**Anand Krishna** joined ELLS in September as our IT Manger. Krishna brings over 10 years of IT experience to ELLS, along with a love of Hawaii and classic rock music. He lives in Laguna Niguel with his wife. Krishna will continue to move ELLS forward on the information super highway!

Congratulations to Shareholder **Sherry Radmore** for starting off our September anniversaries by ringing in 26 years on September 16th. Wow Sherry, very impressive! Auditor **Kerry Osborne** celebrated 4 years with ELLS on September 17th. The tax department celebrated two 5 year anniversaries; **Jeff Boxx, CPA** on September 25th and **Nancy Chung, CPA** on October 10th. Director of Marketing, **Lindsay Conderman** celebrates 2 years on October 13th.

In compliance with Treasury Department Circular 230, unless stated to the contrary, any Federal tax advice contained in this newsletter, including attachments and enclosures, was not intended or written to be used and cannot be used for the purpose of avoiding penalties. Articles included herein are brief and necessarily not complete discussions. They should not be acted upon without seeking further professional advice. This newsletter is available to other interested parties by contacting our office.

Shareholder **Sherry Radmore**, Steve Stafford of Brown & Streza, Dan Winton of Winton Law, Shareholder **Greg Lewis** and Tax Manager **Yana Weaver, CPA** celebrated the opening of Brown & Streza LLP's new location at Irvine Spectrum on August 27th. “Such a fun event and a beautiful office,” remarked Yana Weaver.



Shareholder **Sherry Radmore** facilitated the California Society of Certified Public Accountants Emerging Leaders Group on August 24th. Sherry is pictured with **Nancy Chung, CPA**, who is a participant in the Emerging Leader program and Maria Nazario, who runs the program for the society. The Emerging Leaders Program provides leadership development training to young CPAs. Sherry facilitated a discussion about the importance of communication in the work place.

Congratulations **Kelley (Bendt) Kaiser**, Tax Secretary on tying the knot with Joe Kaiser. The ELLS shareholder group was on hand to celebrate along with administrative supervisor **Joni Bendt** on August 27th at the reception at the Friendly Hills Country Club in Whittier. Congratulations Mr. & Mrs. Kaiser!





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## ELLS CPAs..... Sportier than Ever!

Shareholder **Ed Lieber** organized the 14th Annual Sertoma Fantasy Baseball and Softball Camp August 8-12th in Anaheim. This annual event provides deaf and hard of hearing youth with an opportunity to meet new friends and to learn new skills while playing baseball and softball. This year's campers spent a special morning with famed left-handed Angels pitcher Clyde "Skeeter" Wright (pictured with Ed Lieber) at Angels Stadium.



Shareholders **Maria Arriola** and **Ron Stumpf** attend an Angels games with Chasse Cole and Oscar Diaz of Wells Fargo on September 27th. They enjoyed chatting and cheering for the Angels as they took on the Texas Rangers.



Shareholders **Ed Lieber** and **Ron Stumpf** hit the links with John Hartwig and Leon Blankstein of American Business Bank at the Annual Santa Ana Chamber of Commerce Golf Tournament. The tournament was held on September 26th at the Santa Ana Country Club. "We did really well in the tournament," reported Ed Lieber.



Shareholders **Maria Arriola** and **Ron Stumpf**, Marty Arriola of Image Imports, Peter Cifelli of Bank of America and Mark Rhee of Mid-Atlantic Lubes attended the Fight For Lexi Scleroderma Golf Tournament on August 29th at the Dove Canyon Country Club. A great round of golf for a terrific cause!

