

Bookkeeping Bits

Loans To Shareholders

The IRS is stepping up enforcement action relating to loans that S corporations make to shareholders. Shareholder distributions are taxable once they reduce the balance of the accumulated adjustments account to zero. In general, a shareholder cannot withdraw more money from an S corporation than the sum of earnings through the end of the year minus previous shareholder 'draws.' To avoid taxation of these distributions, the common practice in the past has been to treat withdrawals of cash or property from the corporation as a loan to the shareholder. The loan would then sit on the books until some future date. Enter now the provisions of IRC Section 7872.

The law has been on the books for a number of years,

originating in 1986. IRC Section 7872 applies to loans that a corporation makes at below-market-rate or interest-free rates. The IRS is now stepping up enforcement actions for loans to shareholders in the small corporate setting. Such loans must be set up with market interest rates and terms.

In general, such loans will result in interest income to the S corporation and interest expense for the shareholder. The interest income is taxable income for the corporate shareholders through their K-1. The interest expense is deductible for the shareholder only in certain circumstances, such as the money was used for investing or purchasing a home or second home.

Even then the interest expense may not lower the shareholder's tax bill depending on their other itemized deductions and overall adjusted gross income.

Shareholders of corporations should review all loans on the books to insure that the loans bear interest at a market rate. Shareholder loans not bearing market rate interest and terms should either be converted to equity (if sufficient balance in accumulated adjustments account) or immediately set to begin accruing interest at market rates to the income of the corporation.

If you have any questions please don't hesitate to contact our office.



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Tax Tips—American Opportunity Credit

From Knudsen Accounting Services, P.C.

More parents and students can use a federal education credit to offset part of the cost of college under the new **American Opportunity Credit**. This credit modifies the existing Hope credit for tax years 2009 and 2010, making it available to a broader range of taxpayers. Income guidelines are expanded and required course materials are added to the list of qualified expenses. Many of those eligible will qualify for the maximum annual credit of

\$2,500 per student.

Here are some of its key features:

- Tuition, related fees and required course materials, such as books, generally qualify. In the past, books usually were not eligible for education-related credits and deductions.
- The credit is equal to 100 percent of the first \$2,000 spent and 25 percent of the next \$2,000.

That means the full \$2,500 credit may be available to a taxpayer who pays \$4,000 or more in qualified expenses for an eligible student.

- The full credit is available for taxpayers whose modified adjusted gross income (MAGI) is \$80,000 or less (\$160,000 or less for filers of a joint return). The credit is reduced or eliminated for taxpayers with incomes above these levels. These

income limits are higher than under the existing Hope and lifetime learning credits.

- Forty percent of the American opportunity credit is refundable. This means that even people who owe no tax can get an annual payment of the credit of up to \$1,000 for each eligible student.

If you have any questions please call : 248-5487 Knudsen Accounting

Meet the Staff



Hi, I'm Nancy Howell, Online Bookkeeping and New Client Implementation Manager for OBI. I received my BS degree in Accounting from the University of Montana and began my career as a CPA at KPMG Peat Marwick in the audit department. I later worked as the Controller for a private computer software firm where I was responsible for all financial, human resource and administrative segments of the business. In July of 2005 I joined Online Bookkeeping.

I have lived in Billings for 20+ years and love spending time with my husband and 3 kids (the oldest of whom is leaving the nest in a couple of months). I enjoy gardening, running, swimming and serving in various facets in our church.

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QuickBooks Tips—Company Snapshot in 2010

By: Nancy Howell, Manager of New Client Implementation
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New bells & whistles in QuickBooks 2010! Company Snapshot

Now that all of our Online Bookkeeping Clients have upgraded to QuickBooks 2010, we'd like to share some of the many enhancements that might benefit our users. One feature that might be new to you is the **Company Snapshot** window which was enhanced further in QB2010. An icon for the Company Snapshot should already appear on your icon bar, or you can find it in the **Company** menu. This snapshot gives you a visual overview of all the major facets of your business in one window, including:

- ◇ Money going in and out
 - ◇ Comparison of income and expenses over various periods of time
 - ◇ Top customers by Sales
 - ◇ Customers who owe Money
 - ◇ Best selling items
 - ◇ Reminders
- And much more

QuickBooks has already provided a default snapshot, but you can customize this page to your specific needs. To customize, click the **Add Content** button (upper left corner), click the **Show Preview** to see a multitude of charts, graphs, and other available options, Click **Add** to make your selection, and **Done** when finished. If you no longer want a certain panel in your snapshot, just click the X in the upper right corner. The content will go back into the gallery for later selection if you change your mind.

To move the panels around, just click and drag the header of the panel to a different location.

There is also a 2nd tab to the company snapshot called the **Payment Snapshot**. This second screen provides a multitude of payment related information panels and options to complete tasks.

All of the graphs offer a drop down window to change the date/period so that you can analyze your current data with prior data.

You can print the entire snapshot (using the print drop down arrow at upper right corner), or you can print an individual panel (using the drop down arrow in upper right corner of panel).

You can set the Company Snapshot as your opening page (**Edit, Preferences, Desktop View, My Preferences, Save current desktop, OK**).

The Company Snapshot is customized for each individual user. The changes you make to this window are only for you. Other users won't be able to see your personalized snapshot.

May 15: Deadline for Non-profit Organizations to file information returns (Form 990), or request an extension form (8868).



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