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# The NOHRE REPORT

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## *Nohre & Co., S.C. Flu Vaccination Clinic*

### *Sponsored by Wisconsin Industrial Nursing Service (WINS)*

Nohre & Co. is hosting a flu vaccination clinic on Tuesday, November 15<sup>th</sup> from 11:00 a.m. until 1:00 p.m. at our Eau Claire office at 4228 Southtowne Drive. The cost will be \$19 per vaccination for our clients and their spouses. Other family members and friends are welcome, but will be subject to the standard rate of \$30 per vaccination. Sorry, vaccinations for children under the age of nine cannot be administered.

Payment must be made the day of your vaccination unless you are covered under Medicare Part B and present your card or you are covered under Medica or Health Partners Insurance and have your group number. Otherwise, you will be presented with a receipt that you can submit to your insurance provider for reimbursement.

If you are interested, please respond before October 14th with your name and the number receiving vaccinations to [debbie@nohre.com](mailto:debbie@nohre.com) or you can call us (715) 834-2225.

## STRUCTURING LOANS TO FAMILY MEMBERS



In today's challenging economy, more and more family members are seeking financial help in the form of loans from parents and other relatives. While there is nothing inherently wrong with helping a family member, there are important practical and tax matters that you should consider before making an intra-family loan.

**Treat the decision to lend seriously.** Give careful thought to whether you want to loan money to your son, daughter, or other family members. You'll also want to consider how much you can comfortably give. Don't put your own financial future at risk by lending money you can't afford to lose. Saying "no" may not be easy, but doing so now can help avoid a more difficult situation down the road.

**Put it in writing.** Should you decide to lend money to a family member, make the deal as businesslike as possible. While it may seem overly formal to document a loan to a family member, without one, the Internal Revenue Service (IRS) could argue that there was no loan at all—that the money you gave was really a gift.

Many families choose to make no-interest or below-market interest loans to family members. This could be problematic if the loan is determined to be a below-market interest loan. According to the IRS Code, a below-market loan is one that has an interest rate lower than the applicable federal rates (AFR) established by the IRS as the minimum for loans. These rates are set monthly by the federal government.

For a demand loan (a loan payable at any time, or on the lender's demand) if the lender does not charge interest at least equal to the AFR, he or she is considered to have received "imputed" interest. This means that the lender owes tax on the amount he or she would have received if the AFR had been used. And, for gift tax purposes, the lender is treated as if he or she gave the borrower a taxable gift of an imputed interest amount each year the loan is in force.

There are, however, two important exceptions to the imputed interest rules. The first exception is known as the \$10,000 gift loan exception. This means that the below market imputed interest rules do not apply to individual loans with an aggregate outstanding amount of not over \$10,000 on any given day. However, this exception does not apply if the loan proceeds are used to purchase income-producing assets.

A second exception protects even larger, low- or no-interest loans. For below market gift loans up to \$100,000 between individuals, the amount of interest added to the lender's taxable income is limited to the borrower's net investment income (investment interest, dividends, royalties and rents). In cases where the borrower's net investment income is less than \$1,000, the lender will not be required to include any imputed interest from the loan in his or her taxable income.

For example, if you gave your child an interest-free loan to buy a home or start a business, you wouldn't pay any tax on imputed interest as long as he or she doesn't earn net investment income over \$1,000. If your child's investment income exceeds \$1,000, the imputed interest income rules apply.

Tread carefully. Clearly, loaning money to family members is not something that you should do casually. It can damage personal relationships, and cause income, gift and estate tax planning problems. If you have any questions, call your account manager at (715) 834-2225.

### *Politically Correct Statements for Kids*

- Your bedroom isn't cluttered. It's just "passage restrictive."
- Kids don't get grounded anymore. They merely hit "social speed bumps."
- You're not shy. You're "conversationally selective."
- It's not called gossip anymore. It's "the speedy transmission of near-factual information."
- You're not late. You just have a "rescheduled arrival time."
- You're not long-winded. You're just "abundantly verbal."
- No one's tall anymore. He's "vertically enhanced."
- You don't have detention. You're just one of the "exit delayed."
- A student isn't lazy. He's "energetically declined."
- You're not being sent to the principal's office. You're "going on a mandatory field trip to the administrative building."
- You're not sleeping in class. You're "rationing consciousness."
- Your locker isn't overflowing with junk. It's just "closure prohibitive."
- Your homework isn't missing. It's just having an "out of notebook experience."
- You weren't passing notes in class. You were "participating in the discreet exchange of penned meditations."

## HOW THE GIFT TAX RULES WORK

The gift tax applies to the transfer by gift of any property. You make a gift if you give property (including money), or the use of or income from property, without expecting to receive something of at least equal value in return. If you sell something at less than its full value or if you make an interest-free or reduced interest loan, you may be making a gift. The donor (person who makes the gift) is responsible for payment of the tax.

The federal gift tax applies to taxable gifts made during your lifetime. Since the gift tax applies only to "taxable gifts," not every gratuitous transfer is taxed. The general rule is that any gift is a taxable gift. However, there are exceptions to this rule.

The following are not taxable gifts:

- Gifts that are not more than the annual exclusion for the calendar year (currently \$11,000).
- Tuition or medical expenses you pay for someone (educational and medical exclusions). Payments must be made directly to the education or medical service provider.
- Gifts to your spouse.
- Gifts to a political organization for its use.
- Gifts to qualified charities (a deduction is available for these amounts).

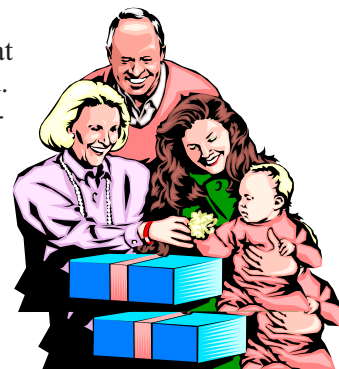
The annual exclusion applies separately to each donee. For example, each spouse can make non-taxable gifts of up to \$11,000 to each of their children and/or grandchildren each and every calendar year. If gifts are made by only one spouse, an election is available to treat the gifts as split between husband and wife, so that up to \$22,000 may be transferred tax-free to an individual donee by a married couple.

### How to Report and Pay the Gift Tax

Generally, you do not need to file a gift tax return unless you give someone, other than your spouse, money or property worth more than the \$11,000 annual exclusion. Your taxable gifts are reported on the United States Gift Tax Return, Form 709, which is due April 15<sup>th</sup> of the following year (at the same time as your income tax return).

Although a return may be required, no actual gift tax will become payable until your cumulative lifetime taxable gifts exceed the applicable exclusion amount. An individual is allowed to make up to \$1 million of taxable gifts during their lifetime before gift tax is actually payable. Above \$1 million, tax is assessed at rates of 41 to 47 percent. However, at death, the amount you have used of your lifetime exclusion by making gifts is deducted from your estate tax unified exclusion (currently \$1.5 million, increasing to \$3.5 million in

2009, repealed in 2010) that would otherwise be allowed. To the extent that the exclusion is reduced, more estate tax may be payable. Because of this, your gifting strategy should be coordinated with your estate planning goals in mind.



If you have any questions, call your account manager at (715) 834-2225.

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### *Exemption Reminder*

A sales and use tax exemption was created in 2003 Wisconsin Act 99 for fuel and electricity consumed in manufacturing tangible personal property in Wisconsin. This exemption takes effect on January 1, 2006.

To claim this exemption, manufacturers must provide an exemption certificate to the supplier of the fuel and electricity. The Wisconsin Sales and Use Tax Exemption Certificate (Form S-211) has been revised to include lines for manufacturers to indicate the percentage of fuel and electricity that is exempt. The revised form can be obtained on the Wisconsin Department of Revenue's Web site at [www.dor.state.wi.us/forms/sales/index.html](http://www.dor.state.wi.us/forms/sales/index.html).

Prior to January 1, 2006, sales of fuel and electricity consumed, destroyed, or losing its identity in the manufacture of tangible personal property generally are not exempt from sales or use tax. Instead, a business may claim a franchise or income tax credit for the sales and use taxes paid on fuel and electricity consumed in manufacturing tangible personal property in Wisconsin. Unused credits may be carried forward for 20 taxable years. The manufacturer's sales tax credit may not be claimed for taxable years that begin after December 31, 2005.

For more information about how to carry forward the manufacturer's sales tax credit, see pages 4-6 of Wisconsin Tax Bulletin #137 and page 44 of Wisconsin Tax Bulletin #138. The bulletins are available at <http://www.dor.state.wi.us/ise!wtb/index.html>.

If you have any questions regarding this exemption, please call your account manager at (715) 834-2225.

## *Meet the Nohre Staff*



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Gary has over eighteen years of experience with large regional and local certified public accounting firms and in private industry with manufacturing and distribution companies.

He earned his Bachelor of Science in Accounting from St. John's University in Collegeville, MN in 1977. Gary is a Certified Public Accountant (CPA) and specializes in manufacturing and distribution and general business services.

#### Areas of Expertise

Year-end Financial Reporting  
Small Business Consulting  
Tax Planning and Preparation

Compilations, Reviews, and Audits  
Accounting Services

#### Organizations

American Institute of CPAs (AICPA)

MN Society of CPAs (MNCPA)

#### Hobbies

Bicycling, running, most outdoor sports and grandchildren

*The*  
**NOHRE**  
**REPORT**

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#### NEWSLETTER POLICY

**This newsletter is designed to present information on business and tax matters in general terms and is not intended to be used as a basis for specific action without obtaining further advice.**

**Editor:** Al Mazorol

*Please forward comments to [newsletter@nohre.com](mailto:newsletter@nohre.com)*

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