CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – April 2010

Major Tax Deadlines For April 2010

* April 15 - Individual income tax returns for 2009 are due.

* April 15 - 2009 calendar-year partnership returns are due.

* April 15 - 2009 annual gift tax returns are due.

* April 15 - 2009 income tax returns for calendar-year trusts and estates are due.

* April 15 - Deadline for making 2009 IRA contributions.

* April 15 - Deadline for employers to make contributions to certain retirement plans.

* April 15 - First installment of 2010 individual estimated tax is due.

* April 15 - Deadline for amending 2006 individual tax returns (unless the 2006 return had a filing extension).

* April 15 - Deadline for original filing of 2006 individual income tax return to claim a refund of taxes. Each year some taxpayers have tax refunds due them for prior years, and unless a return is filed to claim the refund by the three-year statute of limitations, the refund is lost forever.

NOTE: Businesses are required to make federal tax deposits on dates determined by various factors that differ from business to business.

Payroll tax deposits: Employers generally must deposit Form 941 payroll taxes (income tax withheld from employees' pay and both the employer's and employees' share of social security taxes) on either a monthly or semiweekly deposit schedule. There are exceptions if you owe $100,000 or more on any day during a deposit period, if you owe $2,500 or less for the calendar quarter, or if your estimated annual liability is $1,000 or less.

* Monthly depositors are required to deposit payroll taxes accumulated within a calendar month by the fifteenth of the following month.

* Semiweekly depositors generally must deposit payroll taxes on Wednesdays or Fridays, depending on when wages are paid.

For more information on tax deadlines that apply to you or your business, contact our office.

What's New in Taxes

Health care reform legislation passes

Congress passed two bills that will reform the country's health care system. The first bill, the "Patient Protection and Affordable Care Act" (H.R. 3590), was signed by President Obama on March 21, 2010. The companion bill, the "Health Care and Education Reconciliation Act of 2010" (H.R. 4872), makes several changes to the "Patient Protection Act." It was signed into law on March 30. Taken together, these two pieces of legislation will have a major impact on the health care industry and on the taxes paid by businesses and individuals.

Provisions in these laws will go into effect over the next several years, creating an estimated $438 billion in new taxes on employers and individuals. Among the key tax provisions in the health care reform laws:

* Starting in 2013, the payroll Medicare tax, now 1.45% of wages, will increase to 2.35% on amounts above $200,000 earned by individuals and above $250,000 earned by couples filing jointly.

* Starting in 2013, a new 3.8% Medicare tax will be imposed on unearned income for single taxpayers with incomes over $200,000 and couples with incomes over $250,000. Unearned income includes interest, dividends, capital gains, rental income, and income from passive activities.

* Starting July 1, 2010, a 10% tax will be imposed on indoor tanning services.

* Starting in 2013, the 7.5% income threshold for deducting unreimbursed medical expenses increases to 10% for those under age 65.

* Starting in 2011, contributions to flexible spending accounts for medical expenses are limited to $2,500. Beginning in 2011, over-the-counter medications generally cannot be purchased with these funds.

* Starting in 2011, the penalty for using health saving account funds for nonqualified expenses increases from 10% to 20%.

* Beginning in 2018, insurance companies will be assessed a 40% excise tax on health insurance plans with annual premiums exceeding $10,200 for individuals and $27,500 for families.

* The tax credit for adoption expenses is increased to $13,170 for 2010, and the credit is extended through 2011.

The health reform legislation contains over 2,500 pages. It is estimated to cost $940 billion over ten years, cut the federal deficit $143 billion over ten years, and reduce the number of uninsured individuals by 32 million.

Should you be making quarterly tax payments?

During the tax year you must prepay a substantial amount of the taxes you'll owe for that year, or you risk being hit with an underpayment penalty. If you're an employee, that's usually not a problem. Your employer will withhold taxes from each paycheck. You can adjust the amount withheld so that it covers your total tax bill, even if you have extra income from moonlighting or investments. But if you're self-employed or retired, you might need to make estimated tax payments.

To avoid a penalty, the total of your withholding and estimated tax payments must generally be at least 90 percent of your tax liability for the year, or 100 percent of your last year's tax liability. There's no penalty if your underpayment is less than $1,000. Special rules apply to farmers, fishermen, and higher-income taxpayers.

You pay your estimated taxes by making four payments, due in April, June, and September of the current year, and in January of the next year. You can't just wait until the last date to pay what you owe. You must start paying estimated taxes as you earn taxable income. You must be sure to pay enough to avoid an underpayment penalty for each period. Again, special rules apply to farmers and fishermen.

Please contact our office if you think you might need to make estimated tax payments. The quarterly calculations can be complicated, and we can help you figure out how much you need to pay on each date.

New Business

"HIRE Act" has tax breaks for businesses

The "Hiring Incentives to Restore Employment Act" ("HIRE Act") was signed into law by President Obama on March 18, 2010. The law includes temporary tax breaks for businesses that hire workers who have been unemployed for at least 60 days, and it extends for one year the higher expensing limit for business equipment purchases.

*** Hiring incentives.** The "HIRE Act" provides $13 billion in tax incentives to private businesses that hire unemployed workers. Employers can receive an exemption from social security payroll taxes for every qualified worker hired after February 3, 2010, and before January 1, 2011. For new hires kept on the payroll for at least 52 weeks, employers may qualify for a tax credit for each retained worker of the lesser of $1,000 or 6.2% of wages paid during the 52-week period.

The payroll tax forgiveness provided in the law does not apply to the Medicare portion of the tax. Also the new employee cannot displace a current employee unless that employee quit or was fired for cause. Relatives of the employer are not considered qualified employees for these tax breaks.

*** Increased expensing limits.** The 2009 maximum amount that could be expensed for the purchase of new or used business equipment was $250,000, with a dollar for dollar reduction once total equipment purchases for the year exceeded $800,000. The expensing limit fell to $134,000 for 2010, with phase-out set at $530,000. The "HIRE Act" retroactively reinstates the higher 2009 expensing limits for 2010. This is a one-year extension only, and it does not include an extension of bonus depreciation allowed last year. Off-the-shelf computer software will continue to qualify for expensing for 2010 purchases.

The "HIRE Act" does not extend the business and individual tax breaks that expired at the end of 2009; nor does it extend COBRA premium assistance. These provisions are addressed in other bills under consideration by Congress.

Follow the IRS rules if you borrow money from your corporation

Borrowing from your closely held corporation may seem simple, but without proper planning it can be painfully expensive. The IRS often reviews such loans to determine if they're merely disguised cash withdrawals. For example, the IRS may treat an improperly structured loan as a dividend, which would be taxable to you and not deductible by the corporation.

The IRS generally asks the following questions when evaluating a corporation's loan to one of its shareholders:

* Does the borrowing shareholder control the corporation? The greater the degree of control, the more closely the loan will be scrutinized.

* Did the corporation require adequate collateral for the loan?

* Is the borrower financially able to repay the loan within a reasonable time period?

* Did the shareholder sign a promissory note with an appropriate interest rate, a reasonable repayment schedule, and a fixed maturity date?

* Has the borrower been making the required payments on schedule?

* If the borrower missed a payment(s), has the corporation tried to collect?

When a corporation lends money to one of its shareholders, the transaction should be structured as though it were being made to an unrelated party - a stranger. The borrower should sign a promissory note that includes payment terms and a final due date. At a minimum, interest should be charged at the IRS statutory rate in effect at the time of the loan. Requiring adequate collateral will be regarded as a favorable indicator by the IRS, although it is not mandatory. The terms of the loan should be voted on by the Board of Directors, and the details should be entered into the corporate minutes. The borrower should make payments according to the agreed-upon schedule.

Since circumstances are different for each corporation and each shareholder, you should always consult your accountant before transferring money from your company. If we can be of assistance, call us.

CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

What's New in Finances

Watch out for census scams

As the 2010 U.S. Census gets underway, the Better Business Bureau is cautioning people not to become victims of fraudulent census takers who are trying to steal your identity. Here's the advice given by the Census Bureau and the Better Business Bureau.

* Ask for identification from any census taker who comes to your door. Legitimate census workers will have a badge, a Census Bureau canvas bag, and a confidentiality notice.

* Don't respond to e-mails. Census workers may contact you by phone, mail, or in person. The Census Bureau will not conduct any part of the census by e-mail. Never click on a link or open any attachment purporting to be from the U.S. Census Bureau.

* Don't give out information about your credit cards, bank accounts, or other financial accounts. Also be aware that census workers will not ask for money or solicit donations.

Long-term disability insurance: How important is it?

You've probably purchased life insurance or at least considered buying it, especially if you have dependents. But statistically speaking, you're less likely to die during your working years than to suffer some sort of long-term disability. In fact, some studies show that one in five people will be disabled for at least 90 days or longer before they reach age 65.

For most people the ability to earn a living is their greatest asset, and losing that ability can have a devastating impact. In fact, one survey of bankruptcy filers found that one in four attributed their dire circumstances to a disability.

So it makes sense to consider long-term disability insurance. Here are three questions to ask when shopping for this type of policy:

1. What coverage do I already have? Many companies provide their employees with some type of sick leave benefits, short-term disability coverage, or both. Get a handle on your current coverage so you don't end up paying for more insurance than you need. Also, if you've accumulated several weeks or months of sick leave, a policy with a longer waiting period - and generally cheaper premiums - may make sense.

2. How strong is the insurer? Only a handful of major insurers provide individual long-term disability policies. To research the financial strength and reputation of any potential insurer, review the firm's rating information at Moody's or another rating agency. You can also find out whether an individual agent or company is properly licensed by contacting your state insurance department.

3. Is the policy "noncancelable" or "guaranteed renewable"? These terms indicate whether the policy's terms are subject to change. If a policy is "noncancelable," the company can't cancel your policy (except for failure to pay the premiums), and you can renew the policy without an increase in the premiums or a reduction of benefits. On the other hand, a

"guaranteed renewable" policy allows the insurer to increase the premiums under certain conditions.

Many other components - waiting periods, inflation provisions, benefit amounts, definitions of "disability," age, health, and occupation - factor into the cost and benefits of a particular policy. So understanding the ins and outs of long-term disability insurance isn't always a cake walk. But with a little time and effort you can sort through the jargon and find a policy that makes sense for you.

If you need help, give us a call.

Take a Break

About the IRS...

According to statistics reported on its website, the IRS deals directly with more Americans than any other institution, public or private. In 2008, the IRS collected more than $2.3 trillion in revenue and processed over 250 million tax returns. During 2008, individual income tax return filers received tax refunds totaling nearly $270.4 billion.

The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance. For more information on anything in the Online Advisor, or for assistance with any of your tax or business concerns, contact our office.