



## Online Advisor – August 2010

### Major Tax Deadlines For August 2010

\* **August 2** - Due date for filing retirement or employee benefit plan returns (5500 series) for plans on a calendar year. (The normal deadline is July 31, but since that day is a Saturday this year, the deadline moves to the next business day, August 2.)

**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

#### Homebuyer tax credit is extended

If you signed a contract before May 1 to buy a home, but have been unable to close the deal, you still have time to apply for the homebuyer tax credit. The deadline for finalizing the paperwork on your new home has been extended through September 30, 2010.

#### Here's what you need to know:

\* The extension applies only if you already had a contract in place by April 30, 2010. The new deadline is available for first-time homebuyers and long-time residents.

\* The maximum credit remains unchanged (\$8,000 for first-time homebuyers and \$6,500 for long-time residents), as do other rules for qualifying.

\* You can claim the credit on your 2009 or 2010 federal income tax return. You'll have to complete Form 5405, First-Time Homebuyer Credit and Repayment of the Credit, and attach proof that you meet the requirements.

Not sure if you qualify? We can help. Please call for more information.



## **Check out disability-related tax breaks**

A variety of tax breaks are available to help disabled taxpayers cope with the financial burdens of disability. Tax relief falls into three categories. First, many types of disability payments are exempt from taxes. Second, disabled taxpayers can deduct a number of special expenditures related to their disability. Finally, some special tax credits are available. Businesses that improve access for the disabled are also eligible for tax credits and deductions.

### **\* For businesses**

For example, business owners who pay an interpreter to assist the hearing-impaired could qualify for a tax credit. The cost of services, materials, and equipment purchased to assist the visually impaired or those with other disabilities may also qualify for credit. The credit, which reduces the taxes you owe, can be as much as \$5,125, and you can carry unused amounts forward to future returns. Your company is eligible if prior-year gross receipts were no more than \$1 million or you employed no more than 30 full-time workers. You might also be able to take advantage of the barrier removal deduction when you make your company's vehicles, walkways, parking lots, and other facilities user-friendly and convenient for the disabled. This deduction lets you claim up to \$15,000 per year for certain modifications to business property you own or lease. The benefit: Instead of depreciating the cost of these changes, which spreads the deduction over a longer period, qualified expenses can reduce taxable income in the year you pay for them.

### **\* For individuals**

On your personal return, if your spouse or dependent has a disability, you might be able to claim a dependent care credit for caregiver and other expenses you pay so you can work. In this situation, the usual under-age-13 rule for dependents does not apply. The credit can be as much as 35% of your expenditures, subject to certain restrictions. Disabled taxpayers can usually deduct some or all of the cost of home improvements made to relieve their disability. This covers items such as access ramps, wider doorways, stair lifts, or even a special air filtering system. Other tax law provisions relating to disabilities include relief from penalties for early withdrawals from retirement accounts, special adoption credit rules for eligible children, and the exclusion from income of certain disability payments.

If you would like more details on tax breaks for the disabled or for those helping the disabled, give us a call.

## **New Business**

### **Do midyear tax planning**

It's time to do a midyear review of your business tax planning. Here are five ideas to consider.

**1. Hire your kids.** If your child is under age 18 and works for your unincorporated business, there are no social security or Medicare taxes on the child's pay. Wages paid to the child are also deductible. Just make sure the compensation is reasonable for the work actually performed.

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**2. Track your business driving.** For 2010, the rate for business-related mileage is 50 cents per mile, and you can deduct actual costs for parking fees and tolls in addition to mileage. Keep detailed records to substantiate your deduction.

**3. Deduct equipment purchases.** You can expense up to \$250,000 of business equipment purchased this year.

**4. Check your benefits.** If you offer health benefits to your employees, look into tax-advantaged plans such as health savings accounts, flexible spending accounts, or health reimbursement arrangements. These plans can reduce your taxes and help control your benefit costs. Also, check the new tax credit for health insurance you provide to employees. You must meet certain requirements to qualify.

**5. Establish a retirement plan if you don't already have one.** Examining the choices now gives you time to select the best plan for your business and to get the paperwork completed. Then you'll be set to make contributions as your cash flow allows - and to take the deduction on your 2010 tax return. Another plus: You may be able to claim a credit on this year's tax return for the costs of establishing the plan.

To discuss the tax-saving ideas best suited for your business, give us a call.

#### **Are all your business eggs in one basket?**

Many small business owners share one problem, especially in their early days. It's being over-reliant on a single customer or supplier for much of their business. If you're in that position, your business is operating with higher risk. Just as with investments, you don't want all your eggs in one basket. Your goal should be a well-diversified portfolio of customers and suppliers.

That's in an ideal world. In the real world you may have to live with the situation, at least short-term. But there are steps you can take to understand your risk and, over time, to change it.

**\* Measure the problem.** Work with your managers and accountant to quantify how your sales break out by customer. You only need to do this for the top five or ten customers to see whether you have an over-reliance problem. If you're a manufacturer or retailer, take a similar look at your principal suppliers. Quantify how dependent you are on the top few.

**\* Understand the risks.** List the factors that could jeopardize your business with your chief customer or supplier. These will vary with your specific circumstances. They might include a natural disaster that interrupts your customer's business or that prevents you from shipping or receiving goods. It could be a change in the marketplace or a new technology that cuts demand for your product. It could be actions by your competitors. It might even be problems in your own operation, such as a drop in quality, delays in shipping, or poor inventory control. The list may be daunting, but until you understand the risks, you can't develop solutions.



\* **Look for ways to minimize your risks.** Brainstorm with your managers on long-term steps to reduce each risk. It might be to enter new markets or to tweak your product design. Think through contingency plans to address possible disasters or find alternative suppliers. Discuss how you would respond to changes in the marketplace. Try to set measurable goals for change and clearly assign responsibility.

For assistance with this issue or with any of your business concerns, give us a call.

### **What's New in Finances**

#### **Some college financing statistics**

\* According to 2009 data, the average cost of a public college education is \$6,585 a year, up 6.4% from the previous year.

\* Average tuition to a private institution is \$25,143, up 5.9%.

\* According to FinAid.org, two-thirds of four-year college undergraduates have debt to repay.

Graduate students and those going into professions borrow from \$27,000 to \$114,000.

\* Over the past decade, student loans have more than doubled from \$41 billion to \$85 billion.

#### **Safeguard your financial records**

Every year there are natural disasters that remind us how easily we can lose essential tax and financial records. After a disaster, you're more likely than ever to need certain records to file insurance claims or apply for loans.

It's smart to take the time to identify key records, make copies, and find a secure place to store them. Here are some suggestions to get you started.

\* You don't need to copy every tax and financial record. Your banks, credit card companies, and investment brokerages will have records of your accounts and can probably supply details of recent transactions if needed. Your employer will have current payroll records, and IRA or 401(k) plan trustees will have details of your accounts.

\* Keep a master list of all account numbers, with a contact phone number for each. That will make it easier to recover information after a disaster. If you handle transactions online, include your user ID and passwords.

\* Keep copies documenting the purchase of your home or investment properties. Also keep records of expenses for remodels or other improvements that change your cost basis in the property.

\* Your broker should have details of your original investments in stocks or bonds, but copy details of any investments you purchased independently. That includes numbers of U.S. savings bonds that you own.



\* Make sure your will and estate planning documents are stored safely, either at your lawyer's office or in another secure place.

\* Consider keeping copies of your last three years' tax returns, even if your tax preparer has duplicates. And finally, include a recent backup disk from your home computer.

The best place to store your records depends on a number of factors. A bank safe deposit box should protect against most disasters. Sometimes a fireproof home safe is sufficient. Wherever you decide to keep your records, take the time to prepare now.

### **Take a Break**

#### **Interesting geography trivia**

\* Alaska: More than half of the coastline of the entire United States is in Alaska.

\* Istanbul, Turkey: Istanbul, Turkey is the only city in the world located on two continents.

\* Siberia: Siberia contains more than 25% of the world's forests.

\* Sahara Desert: In the Sahara Desert, there is a town named Tidikelt, Algeria, which did not receive a drop of rain for ten years.

\* Antarctica: Technically, though, the driest place on Earth is in the valleys of the Antarctic near Ross Island. There has been no rainfall there for two million years.

\* Roads: Chances that a road is unpaved in the U.S.A. is 1%. In Canada, it's 75%.

\* Waterfalls: The water of Angel Falls (the world's highest) in Venezuela drops 3,212 feet (979 meters). Angel Falls is 15 times higher than Niagara Falls..

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