Online Advisor – December 2010

Major Tax Deadlines
For December 2010

* **December 15** - Fourth estimated tax payment for 2010 is due for calendar-year corporations.

* **December 31** - Last day to set up a Keogh retirement plan for 2010. Deductible contributions for 2010 can be made any time up to the filing deadline for your 2010 return.

* **December 31** - Deadline to complete 2010 tax-free gifts of up to $13,000 per recipient.

* **December 31** - Deadline for paying expenses you want to be able to deduct on your 2010 income tax return.

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

Save energy and taxes: An IRS reminder

The IRS recently issued a bulletin reminding taxpayers that making energy-saving improvements to their homes before the end of the year can lower their taxes for 2010.

The credit allows you to claim up to 30% of the cost of energy-efficient windows, doors, certain roofs, high-efficiency heating and air conditioning systems, water heaters, and other energy-saving improvements to your principal residence. The maximum credit for amounts spent in 2009 and 2010 is $1,500.

A second energy credit is available to encourage investment in alternative energy equipment such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines, and fuel cell property.

The IRS cautions homeowners to check the manufacturer's tax credit certification statement before purchasing or installing any of these improvements. The certification statement can usually be found on the manufacturer's website or with the product packaging. Not all energy-efficient improvements qualify for the tax credits. The manufacturer's certification is different from the Department of Energy's Energy Star label, and not all Energy Star labeled products qualify for the tax credits.

How to deal with an audit notice

The number of IRS audits has doubled over the past ten years. Coupled with the new informational filing requirements for businesses, your chances of an IRS audit notification are not insignificant. If the IRS should come calling, here are some things to consider.

First, be aware that the IRS can contact you either by mail or phone. The majority of audits take the form of a mailed notice requesting certain information. These are often easily handled, but don't automatically assume that you know what the IRS wants. The best first step is to contact our office and provide us with a copy of the notice. It's critical to reply to the request by the deadline shown on the notice. For added safety, respond using certified mail.

However, the IRS might first notify you of an audit by phone. Phone notifications are on the rise, and, unfortunately, scam artists are taking advantage of this fact. The call you receive might not be from the IRS at all, but instead from an imposter hoping to gain access to your personal information.

If it is truly the IRS on the line, be aware that the agent will carefully document every word you say and perhaps use those words against you. To protect yourself, simply take down the agent's name and contact information, and tell the agent that your professional representative will be following up with him or her. Don't engage in idle chitchat or answer any questions, even innocent-sounding ones.
Later on, the audit might result in a personal visit to your home or business to allow the agent to gather more information. These audits are referred to as field audits. You could also be summoned to the agent's office. In either case, never go it alone. Keep us and/or your attorney abreast of all developments. And never just ignore a notice - that could make matters much worse.

Your best defense against an audit might be to take steps to minimize your risks. Maintain complete and accurate records. Save important tax receipts for seven years. And stay familiar with the latest tax rules.

The odds of an IRS audit might be rising, but knowing what to do, and who to contact first can make the experience less stressful. Our office stands ready to assist you should the IRS ever call your number.

New Business

New 1099 reporting rules may be repealed

The recent health care reform legislation included a new reporting requirement for businesses. Beginning in 2012, a Form 1099 must be filed with the IRS for payments of $600 or more made to corporations. Previous law required such reporting only for amounts of $600 or more paid to unincorporated businesses.

"The Small Business Jobs Act of 2010" added another reporting requirement, this one to take effect January 1, 2011. Landlords will be required to file Form 1099s with the IRS for payments of $600 or more made for rental property expenses.
Responding to the complaints from businesses that these new reporting requirements would be very burdensome, Senate Finance Committee Chairman Max Baucus has announced legislation that would repeal both of these provisions.

Stay tuned to see if repeal will actually happen. If it doesn't, get your business ready for these new requirements.

"Small Business Jobs Act of 2010" includes several familiar tax breaks

If you are a small business owner who thought all the best tax breaks were behind you, think again. The recently passed "Small Business Jobs Act of 2010" restores some familiar tax perks and adds a few new ones. The law was signed by President Obama on September 27, 2010.

*** Depreciation rules**

The new law extends the first-year 50% bonus depreciation rule that had expired last year, and makes it retroactive to include qualified new equipment purchases made any time in 2010.
Congress also expanded the Section 179 business expensing provision to allow a deduction of up to $500,000 for purchases of new or used equipment in 2010 and 2011. The previous limit was $250,000. What's more, under the old rule, the deduction was reduced for companies with annual equipment purchases above $800,000. Now the threshold has been raised to $2 million.

*** Credit carryback**

The Small Business Jobs Act expands the business tax credit carryback limitation from one year to five for private companies with gross receipts of no more than $50 million. And capital gains tax on sales of qualified small business stock will be reduced to zero for original issue stock purchased by the end of 2010. However, you still need to hold the stock for five years to qualify.

*** Start-up costs**

If you start a new business this year, you might score an added tax perk. The annual start-up cost deduction of $5,000 was raised to $10,000 for 2010. The deduction is reduced dollar-for-dollar for any start-up expenses exceeding $60,000.

*** Retirement conversion**

Roth IRAs are back in the news. You probably knew that a traditional IRA could be converted into a Roth in 2010 with the resulting taxable income spread equally in 2011 and 2012. Now you can do the same thing with a 401(k), 403(b) or 457(b) plan, if your retirement plan will allow it.

*** Cell phones**

One very practical and welcome tax change is the removal of cell phones from the "listed property" category, which means you no longer have to meet strict recordkeeping requirements for your business use of a cell phone. Businesses no longer have to include the personal use of a business cell phone in an employee's income.

*** Information reporting**

Waiting for the catch to all this good tax news? Here it is. The new law calls for even more information return filing and increased penalties for failing to file such information. Beginning in 2011, rental property owners will be required to report payments of $600 or more made to goods and service providers.

The new small business tax law gives business owners a lot to think about and not much time to act. To discuss ways to maximize the benefits for your business, give our office a call today.

What's New in Finances

Check gift cards carefully before you give

For years, gift cards have been a popular way to solve the problem of what to give at holiday time. But too often the cards had expiration dates, inactivity fees, and other restrictions that cut into the joy of giving.

New rules enacted last year will eliminate some of the issues consumers have had with gift cards. Under the Credit Card Accountability, Responsibility and Disclosure Act (CARD Act), gift cards purchased after August 22, 2010, cannot have expiration dates of less than five years. Inactivity fees can't be charged unless the card hasn't been used for at least 12 months.

But its still advisable to check the details on any gift card you're thinking of buying. Watch for fees charged just to purchase the card, inactivity fees, and outdated disclosure information about the card. Also be aware that if the retailer whose card you buy goes bankrupt, the gift card is likely to be worthless.

As with any purchase, the key to getting your money's worth is knowing exactly what you're getting before you buy.

Is it time to refinance your home mortgage?

Mortgage interest rates are at historic lows. According to the Mortgage Bankers Association, the average interest rate for 30-year, fixed-rate mortgages dropped to 4.25% in September, 2010, and the average rate for 15-year mortgages fell to 3.73%. These are the lowest rates in almost 50 years.

If you're currently paying mortgage interest at a higher rate, you may be tempted to refinance your existing mortgage, even if you already refinanced once or twice before. But should you do it? The decision may not be as simple as it first seems.

Comparing interest rates is not enough. Here are some other factors to consider before you refinance.

* **Compare apples to apples.** Always request a good-faith cost estimate from any lender. This report should disclose all the fees and closing costs, such as points, credit report fees, inspection fees, private mortgage insurance, and appraisal fees. Use this information to evaluate competing loan proposals.

* **Calculate your breakeven period.** This is the length of time it takes you to recover the costs a lender typically charges to refinance your mortgage. To do this, divide your refinancing costs by your monthly savings (your current loan payment minus your new loan payment). If you plan on selling your home in the near future, refinancing may not save you money because it usually takes several years to recover refinancing costs through a lower monthly payment.

* **Check for prepayment penalties.** Before you pay off your existing loan, check for an early payment penalty clause. Your note agreement will spell out the exact terms of the prepayment penalty, if any, or you can check with your lender. A prepayment penalty will lengthen your breakeven period.

* **Analyze the loan term.** To save interest, avoid stretching out your total loan period when you refinance. Let's say you've been paying for ten years on a 30-year loan. If you take out a new loan with a 30-year term, you will increase your total payoff period to 40 years. Instead, consider making your new loan term coincide with the remaining term of your old loan (in this example, 20 years).
Another alternative is to continue making the same monthly payment toward your new 30-year loan. If you do that, you'll pay off your loan in a shorter period of time. This could save you a substantial amount of interest.

* **Take taxes into account.** In evaluating a refinancing, don't overlook the potential tax deductions.

* **Loan points.** Most lenders charge points, also known as a loan origination fee, on home loans. If you itemize deductions on your tax return, you can generally deduct points paid on a refinancing, but not all in the first year. Instead you must spread your deduction pro rata over the life of the new mortgage. To qualify, paying points must be an established practice in your area, and the amount paid can't be more than what is normally charged in the area.

If you've refinanced in the past, you could be eligible for another deduction. When you pay off a prior refinancing, you can immediately deduct any remaining points from the previous mortgage.
If you refinance to get a lower interest rate or shorter loan term and also to tap your equity to make improvements to your home, points attributable to the home improvement portion can be deducted immediately. Any remaining points must be deducted pro rata over the loan's term.

* **Other deductions.** If the lender charges a prepayment penalty for paying off the previous loan early, you can generally deduct the amount paid. Most other closing costs, such as appraisal or title insurance fees, are not deductible. However, you should bring your loan documents to your tax appointment because there could be additional deductions.

Other factors may also come into play. For instance, after you refinance, you may have to adjust your tax withholding or estimated tax payments to reflect a lower interest deduction. And lenders now require more detailed financial information and documentation. We can help you with the paperwork and with making the best choices in your particular circumstances.

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Take a Break

Easy on the eyes, but hard on the budget

The federal government is requiring cities to change street name signs from all capital letters to capital and lower case letters in order to make them easier for our aging population to read. Also, Federal Highway Administration rules require communities to make road signs such as "stop" and "yield" easier to read at night.

Good idea? Maybe. But the federal government is not providing any money for the required changes.
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