CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – February 2010

Major Tax Deadlines
For February 2010

* February 1 - Employers must provide 2009 W-2 statements to employees.

* February 1 - Payers must provide 2009 Form 1099s to payees. (Brokers have until February 16 to provide Form 1099-B and consolidated statements to customers.)

* February 1 - Employers must generally file Form 941 for the fourth quarter of 2009 and pay any tax due.

* February 1 - Employers must generally file 2009 federal unemployment tax returns and pay any tax due.

* February 16 - Deadline for providing Forms 1099-B and 1099-S to recipients.

For March 2010

* March 1 - Farmers and fishermen who did not make 2009 estimated tax payments must file 2009 tax returns and pay taxes in full.

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

New law provides early deduction for Haiti relief contributions

On January 22, President Obama signed a law that could give you an early tax deduction for contributions you make for earthquake relief in Haiti.

If you itemize deductions on your return, you may elect to take a charitable deduction on your 2009 return for contributions you made for qualified Haiti disaster relief. The contributions must have been made after January 11, 2010, and before March 1, 2010. The law also provides another way to substantiate these charitable contributions. Normally, you would need a bank record or written communication from the charity to back up your deduction. However, under the new law if you make a monetary contribution through your cell phone via a text message, you may use your telephone bill to substantiate your contribution. The telephone bill must show the name of the charitable organization, the date of the contribution, and the amount of the contribution.

If you claim a Haiti relief deduction on your 2009 return, you may not also claim it on your 2010 return (which you will be filing in 2011). You should compare the tax benefit of a 2009 deduction or a 2010 deduction. For 2009, higher-income taxpayers have a limit on their total itemized deductions. This limit is eliminated for 2010, so the deduction may actually provide a bigger tax break if taken on your 2010 tax return.

If you need additional information or filing assistance, please contact our office.

Take a tax deduction for worthless stock
Financial firms, car manufacturers, clothing retailers. As an investor, you know businesses in these industries went through bankruptcy proceedings in recent months — events that are painful to remember if you owned stock in a now defunct company. Once the investment is worthless, you might prefer to forget about it.

Not so fast! Even if a stock has no value on a securities exchange, you may still get some benefit in the form of a tax deduction.

How it works. When you own securities, such as stocks, stock rights, or bonds that become completely worthless, you can claim a capital loss on your tax return. You report the loss in the year the investment loses all value, using the last day of the year as the disposal date no matter when the stock stopped trading. That's important because it affects whether you have a short- or long-term capital loss.

Example. Say you owned common stock in a company that finalized bankruptcy proceedings in July 2009. You include the loss on your 2009 return, with December 31, 2009 as the date of disposal.

What if you just realized a stock became worthless in a prior year, but you forgot to claim the loss? Under a special rule, you generally have up to seven years from the due date of your original return to file for a refund.
Determining when a stock is completely worthless is not always as clear-cut as you might think. Alternative methods, including a sale to your brokerage firm or abandonment of the investment, can also secure the loss.

Give us a call. We can help you review your portfolio to make sure you can qualify to take a deduction for losses on your income tax return.

New Business

Employment audits begin this year

The IRS is launching a three-year auditing project that will examine about 6,000 U.S. companies for compliance with employment tax obligations. The project is the first of its kind in 25 years, and its primary objective is to collect data to identify areas of noncompliance across all industry sizes and sectors, including nonprofits and governmental entities.

Among the issues the audits will look at:

* Classification of workers as employees or independent contractors, including executives rehired as consultants, dual status employees, and employee leasing arrangements.

* Fringe benefits, including expense reimbursement arrangements and noncash benefits.

* Executive compensation and fringe benefits, executive retirement contracts, golden parachutes, and stock options.

The project will target 2,000 employers each year, with the first audit letters scheduled to go out this month or next.

Tips for financing a new business

All small businesses start with something in common: they devour cash. They need cash for inventory, office space, insurance, legal fees, business licenses, remodeling costs, and the list goes on. Because very few start-ups can secure equity financing from venture capitalists, most business owners must get needed cash from a combination of personal assets and debt. If you're thinking about starting a small business, here's a short list of financing sources to consider.

*** Personal assets.** The advantages of tapping your own bank account are obvious. You don't have to pay the money back, you don't incur interest, and you don't have to grovel at a loan officer's feet. The disadvantages may not be as clear. Other priorities — college savings, retirement plans - can get shoved aside. So if you're going to use your own assets, set limits. Decide how much risk you're willing to incur, and don't deviate.

*** Friends and relatives.** Convince your brother and your golf partner that your idea is the greatest thing since sliced bread, and they may provide seed money for your new enterprise. If they lend you cash, be sure to set up a formal agreement spelling out the loan details (interest rate, loan term, payment schedule). And remember, many a family relationship and golf partnership have been ruined when a business fails and loans can't be repaid.

*** Home equity loans and lines of credit.** Another possible source of financing, the equity in your house can often be tapped either through a fixed rate loan or a variable rate line of credit. These sources of financing tend to have much lower interest rates than credit cards or personal loans. The disadvantage, of course, is that your house is on the line. Fail to make the payments and you could face foreclosure.

*** Banks and credit unions.** Financial institutions are often reluctant to lend money to businesses without a proven track record, especially in today's credit-challenged market. But that doesn't mean you shouldn't try. To increase your likelihood of success, take time to lay out a detailed business plan (a good idea whether or not you ever visit a bank), and be able to justify your business needs in writing.

Other sources of start-up financing include retirement plans, grants, even credit cards. Remember to think through the amount needed and have a realistic plan for repayment. If you need help with these and other options, give us a call.

What's New in Finances

Tips to get the most from an IRA

* There is still time for a 2009 IRA. If you didn't make contributions to an IRA in 2009, you can still set up and contribute to an IRA for 2009. The deadline for doing so is April 15, 2010. An IRA is a great way to save for your retirement while you cut your current tax bill.

* If your 2009 IRA wasn't fully funded by December 31, 2009, and you make any IRA contributions prior to April 15, 2010, designate to the bank or trustee that these 2010 contributions are for 2009 (up to the maximum allowed). You can then deduct these amounts on your 2009 income tax return for a quicker tax benefit.

* Make your 2010 IRA contributions as early this year as possible to maximize the time you have for tax-deferred growth in the fund.

* Consider converting a traditional IRA to a Roth IRA this year. The previous rule that excluded taxpayers with incomes over $100,000 from doing a conversion to a Roth is eliminated as of January 1, 2010. You'll have to pay tax on the amount converted, but qualifying distributions from the Roth IRA are tax-free thereafter. Furthermore, you won't have to take annual distributions from your Roth IRA when you reach age 70½ if you don't want to.

Do you own too much company stock?

Employees often have too much of their employer's company stock in their 401(k) or other retirement plan. Employees feel they know their company best, overlooking the risks of having too much of an investment in any one company, including their own.
What are some of the risks of loading up on your employer's stock?

*** Tremendous bet in a "safe haven."** Overweighting investment holdings in any company minimizes diversification, exposing your portfolio to increased downside return risk. The belief that employer shares are less risky is an illusion.

*** Double whammy potential.** No company is protected from economic downturns. If your employer's performance weakens, you may lose your income if you lose your job, as well as long-term earnings growth in your retirement portfolio from the company's market value loss.

*** Lock-up periods.** Some companies prohibit employees from converting the employer retirement match contributions in company stock into other investments until after a number of years. In this case, use your own contributions to diversify your holdings.

*** Tendency to forget.** As you move closer to retirement, you may forget the riskiness of your employer's stock to your portfolio. At the same time, contributions of company stock may be growing, based on higher benefit matches — just when portfolio reallocation is becoming more important with your shortening investment horizon.
Your goal should be to create a well-balanced portfolio that suits your age (investment horizon) and your risk tolerance. Call us for assistance in reviewing your retirement situation.

Take a Break

Geography trivia

Check out these bits of geography trivia.

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

* Canada has more lakes than the rest of the world combined.

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

* The water of Angel Falls in Venezuela (the world's highest waterfall) drops 3,212 feet, 15 times higher than Niagara Falls.

* More water flows over Niagara Falls every year than over any other falls on earth.
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