Cirimelli, Pyle & Associates LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – June 2010

Major Tax Deadlines
For June 2010

* June 15 - Second quarter 2010 individual estimated tax is due.

* June 15 - Due date for calendar-year corporations to pay second installment of 2010 estimated tax.

* June 15 - Due date for calendar-year trust and estates to pay second installment of 2010 estimated tax.

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

Tax refunds may be delayed this year

Your tax refund may be a little slow in coming this year. Problems relating to the Making Work Pay Credit, Economic Recovery Payments, and the Homebuyer's Credit are creating delays in refunds.

The IRS is reminding taxpayers that the status of refunds can be checked at the IRS website (www.irs.gov). Click on "Where's My Refund?" For those without Internet access, refund status can be checked by calling IRS toll-free numbers: IRS Refund Hotline at 800-829-1954 or IRS TeleTax System at 800-829-4477.

When checking the status of your refund, have your federal tax return handy and be prepared to give your social security number, your filing status, and the exact whole dollar refund amount shown on the tax return.

Don't overlook state taxes in your tax planning

To keep more of what you make, tax planning at both the state and federal level is essential. Even if you live in an income tax-free state, you may not be able to escape state taxes entirely. Here are some common examples of when you need to pay attention to state tax planning.

* If you own property in another state, you need to be aware of how that state's income taxes and estate taxes will affect you.

* If you have college-bound children, you're probably familiar with tax-advantaged Section 529 college savings plans. Most states offer a Section 529 college savings plan to both residents and nonresidents. While the federal income tax rules are the same for all plans, state tax rules vary.

* If you buy goods from out of state, you may be subject to use tax in your home state. Use tax is the equivalent of sales tax that retailers charge. If you didn't pay sales tax at the source, you may be required to report the purchase to your own state department of revenue along with the appropriate taxes owed.

* If you own a business and advertise in another state, you might be considered to be doing business in that state. This is called nexus. There could be state income tax and sales tax implications.

* If you split the year living in more than one state, you may owe state taxes in each state. Many states require part-year residents to pay state income taxes on some of their income.

* Stay informed about state estate tax changes. Changes to the federal estate tax rules have cost states billions of dollars in lost tax revenue. As a result, many states have changed their estate tax laws to make up for the shortfall.

* Finally, don't assume that because income is tax-free for federal income tax purposes, it is free from state income tax. States individually decide how closely the state tax rules will follow the federal rules.

For assistance with all your tax planning needs, please call us.

New Business

IRS releases 2010 vehicle depreciation limits

The IRS has released the annual depreciation limits for business vehicles first placed in service during 2010. For passenger automobiles, the deduction limits for the first three years are $3,060, $4,900, and $2,950, and $1,775 for each succeeding year. For trucks and vans, the deduction limits for the first three years are $3,160, $5,100, and $3,050, and $1,875 for each succeeding year.

Another IRS announcement related to business vehicles: Because two-wheeled vehicles are being used more and more for business travel, the IRS may soon provide a standard mileage rate for the business use of motorcycles.

Should your business operate as an LLC?

You've beaten the odds. Your business has succeeded and your profits are growing. But you struggle with the uncertainty of whether you are operating under the right legal form. Should you incorporate? Form a partnership? Perhaps you should consider a form of business that has become very popular: the LLC.

Limited liability companies (LLCs) offer a flexible alternative to partnership and corporate legal forms. While partnerships provide a seamless pass-through of income and losses to partners, they offer little protection of personal assets from creditors. Corporations, on the other hand, provide asset protection, but income can be taxed at both the corporate and individual levels. LLCs make available the best of both worlds: asset protection with passthrough of income and losses directly to the owners.

LLCs are not the only form of business to allow this. S corporations are used by small, closely held entities to achieve the same goals. But LLCs are preferred under certain conditions. For example, income and losses in an LLC can be allocated to members disproportionately, thereby allowing for different ownership classes. S corporation income must be allocated to members based on ownership percentage. Also, unlike S corporations, LLC members can be individuals, trusts, or any other type of entity. This may provide more options in estate planning.

In the real estate industry, LLCs often get the nod over S corporations because it may be easier to increase basis and allow for the deduction of losses.
Deciding on a legal form for your business is not easy. Each form has its advantages and disadvantages. The best first step is to sit down with your tax and legal advisors and share your goals. The proper form of business can be the launching pad you need to reach the next level of success. For details or assistance, give us a call.

What's New in Finances

Two prior IRA rules are still in effect for 2010

Rule #1. Note that while converting a traditional IRA to a Roth IRA is now open to everyone, regardless of income, contributing to a Roth IRA is still not allowed for higherincome taxpayers. For 2010, Roth IRA eligibility phases out for singles once income reaches $105,000 and for joint filers once income reaches $167,000.

Rule #2. For 2010, annual minimum distributions from most retirement plans (except for Roth IRAs) are once again required for those aged 70½ and older. In 2009, these required minimum distributions (RMDs) were suspended. 2010 required distributions must be taken by December 31, 2010. Taxpayers who turn 70½ in 2010 may choose to delay taking their first distribution until April 1, 2011.

For additional information or assistance with your IRA decisions, give us a call.

The big 2010 question: To Roth or not?

For the first time ever, high-income taxpayers are eligible to convert a traditional IRA to a Roth IRA. Prior to 2010, you could not convert to a Roth in a year in which your modified adjusted gross income exceeded $100,000. But this limit was removed by a 2006 tax law change that took effect January 1, 2010. So the question of the year is, should you do a conversion? There are numerous factors to take into account.

First, you must understand the critical differences between the two IRAs. With a traditional IRA, contributions may be partially or wholly tax-deductible, but distributions are generally taxable at ordinary income rates. In contrast, contributions to a Roth IRA are never taxdeductible, but qualified distributions from a Roth in existence at least five years are completely exempt from tax. Qualified distributions are those made after age 59½, due to death or disability, or used for first-time homebuyer expenses (lifetime limit of $10,000). Also, unlike a traditional IRA, mandatory distributions after age 70½ aren't required for a Roth.

Thus, by converting to a Roth, you pay an up-front tax on the current value of IRA assets in exchange for future tax-free withdrawals. For a conversion occurring in 2010, you can choose to split the taxable income evenly over the following two years, 2011 and 2012.
In analyzing whether you should convert or not, consider the following points:

* If you have to pay all or part of the conversion tax with funds in your traditional IRA, the benefit of the conversion is diluted. The account can grow even larger if you have other resources to pay the required tax.

* Consider state income tax implications. In some situations, the combination of federal and state income tax liability could discourage a conversion.

* Both your current income tax rate and your projected income tax rate can affect your decision. For instance, if you're now in a high tax bracket but expect to be in a much lower bracket in retirement, you may be less inclined to convert from a traditional IRA.

Conversely, the prospect of rising tax rates generally favor a Roth conversion.

* Spreading out the tax liability for a 2010 conversion over the next two years may not be the right choice in your situation.

* Converting to a Roth could trigger alternative minimum tax (AMT) liability.

* Be aware that you don't have to convert the entire balance in an IRA or all your IRAs. Partial conversions are permitted. Finally, you have the ability to "recharacterize" a Roth back into a traditional IRA if it suits your needs.

Call us if you would like to discuss the suitability of a Roth conversion in your personal situation.

Take a Break

A few tax facts...

* Tax Freedom Day is the day the average taxpayer has paid all his or her taxes for the year. Tax Freedom Day for 2010 was April 9.

* There are at least 500 different tax forms, each with many additional pages of instructions.

* An estimated 300,000 trees are cut down each year to produce the paper for all the IRS forms and instructions.

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.