



## Online Advisor – May 2010

### Major Tax Deadlines For May 2010

- \* May 17 - Deadline for calendar-year exempt organizations to file 2009 information returns.
- \* June 1 - Deadline for IRA, SEP, SIMPLE, Roth IRA, MSA, and education savings account trustees to file annual statements (Form 5498) with the IRS, with copies to participants.

**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

#### IRS to focus audit activity in these areas

The IRS has announced its audit plans, which includes audits in the following three areas:

- \* A three-year random audit program started by the IRS in 2007 will now be continued indefinitely. These random audits of individual income tax returns are used by the IRS to collect noncompliance data for adjusting general audit formulas and updating tax gap estimates.
- \* Another audit target: tax returns claiming the homebuyer tax credit. The IRS expects to open 200,000 audits by the end of 2010 to address potential fraud in claiming this credit. The Service will also be watching the recapture of the credit via public databases of real estate sales. Generally, those who sell a home within three years of taking the tax credit must pay it back.
- \* According to IRS Commissioner Douglas Shulman, the Service is planning to focus significant audit resources on individuals with millions of dollars in assets or income, including the business entities controlled by these high-income taxpayers.



### **Taxes and your child's summer job**

Is your child looking for a job this summer? If so, you both may have questions about taxes. Here are three common concerns.

**\* Is a tax return required?** The answer depends on several factors, including the total amount of income received. For instance, if wages are the only source of income, your child can generally earn up to \$5,700 during 2010 before a federal tax return is necessary. However, unless your child can claim an exemption from withholding, a return may be required even when wages earned are lower than the filing requirement. That's because filing is the only way to claim a refund of overpaid taxes.

In addition, self-employment income, tips, and interest, dividends, and stock sales can affect the filing requirement.

**\* Can my child open an IRA?** Anyone under age 70½ who has earned income can contribute to a traditional IRA. There's no age restriction for Roth accounts, though the amount of the contribution phases out at higher income levels (starting at \$105,000 for single individuals in 2010).

If your child will receive a federal income tax refund, you could choose to have it deposited directly into an IRA account. As an alternative, you can provide the funds for an IRA and let your child keep the refund. The maximum standard contribution for 2010 is \$5,000.

**\* Are there any tax breaks if my child works for me?** You can take a business tax deduction when you pay a reasonable wage for work your child performs in your business. If your business is a sole proprietorship or a partnership you and your spouse operate, and your child is under age 18, you don't have to pay social security, Medicare, or federal unemployment taxes. The child's wages are subject to income taxes.

If you have other questions about the tax implications of a summer job, give us a call.

### **New Business**

#### **IRS alerts businesses to tax benefits**

The "HIRE Act," passed in March, provides tax incentives for companies to hire unemployed workers. One of these incentives is an exemption from social security payroll taxes for every qualified worker hired after February 3, 2010, and before January 1, 2011.

A new IRS form is now available for employers to document this payroll tax exemption for hiring unemployed workers. Form W-11 (Hiring Incentives to Restore Employment Act Employee Affidavit) is to be filled out by the new hire, certifying under penalty of perjury that he or she was either unemployed or worked fewer than a total of 40 hours during the 60 days prior to taking the current job. The W-11 forms are not filed with the IRS; the employer must retain them along with other payroll records.



The recent health care reform legislation included a new health care tax credit for certain small businesses that provide health insurance to their employees. The IRS is in the process of mailing postcards to more than four million small businesses and tax-exempt organizations to make them aware of this new credit for 2010.

The credit is generally available to small companies and tax-exempt organizations that pay at least 50% of the cost of single coverage for their employees. For tax years 2010 to 2013, the maximum credit is 35% of premiums paid by eligible employers (25% for tax-exempts).

### **How to improve your chances of getting a business loan**

Despite the recent bank bailouts, credit is still tight for small business owners hoping to expand their operations or entrepreneurs embarking on new ventures. How can you improve the chances of obtaining a bank loan for your small business? Take a lesson from the Boy Scout motto: Be prepared.

Specifically, you will need to gather documents to provide the lender with a complete picture of your situation. In addition, be prepared to present a persuasive argument in your favor.

#### **\* Documents**

What documents do you need? The list may vary slightly from bank to bank, but typically you'll be required to produce these five items.

1. Business plan. Draw up a blueprint for business operations for at least one year. Demonstrate how you expect to use the loan proceeds.
2. Cash flow projections. This may be a component of the business plan, but the lender will also expect a detailed analysis of what you expect to earn and the manner in which it will be spent.
3. Prior tax returns. For an on-going business, provide past returns for a minimum of three years. Owners of start-ups may substitute individual returns.
4. Financial status data. The lender will likely ask you to list your main personal assets (e.g., home and cars) and outstanding debts.
5. Credit rating report. A good credit history enhances your viability as a borrower. Obtain a free or low-cost credit report from one of the three major reporting agencies — Equifax, Experian, or TransUnion.



### **\* Questions**

The next step is to convince the lender that you deserve the loan. Be prepared to give answers to some basic questions, such as:

- \* How much money do you need?
- \* How much do you intend to finance personally?
- \* How will you spend the money?
- \* How do you intend to repay the loan?
- \* What collateral do you have to secure the loan?
- \* What type of expertise do you have in your business?
- \* How will you proceed if you don't receive the loan?

When responding to these questions, don't be overly assertive, but try to project an air of confidence. The lender will want you to show the leadership qualities that can sustain a business through both good times and bad. The interview is as much about you, the business owner, as it is about the business.

For assistance in preparing your loan request, give us a call.

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

#### **2010 HSA limits released**

The IRS recently provided the inflation-adjusted contribution limits for health savings accounts (HSAs) for 2010. HSAs allow taxpayers with high-deductible health insurance plans to set aside pretax dollars that can be withdrawn tax-free to pay unreimbursed medical expenses.

The 2010 contribution limit for individuals is \$3,050; the limit for family coverage is \$6,150. A catch-up contribution of an additional \$1,000 is permitted for individuals who are 55 or older.

#### **Working after retirement could affect your benefits and your taxes**

People often work beyond the "normal" retirement age. Here's how extending your work life can affect your taxes and retirement benefits.

"Normal" retirement age is not a fixed number. For social security purposes, the "full" retirement age threshold ranges from 65 to 67, depending on your birth date. However, you can elect to start receiving lower payments as early as age 62, or you can maximize your benefits by forgoing them until you're 70. Once you reach age 70, there's no incentive to



postpone your benefits further, since you'll already have reached your maximum.

\* Earnings limit. If you're working, you probably should forgo the early payment option. Benefits received before full retirement age will be reduced by \$1 for every \$2 earned over an annual limit (currently \$14,160). However, you will receive a compensating increase when you do reach full retirement age, and your payments will not be reduced thereafter no matter how much you earn.

\* Taxable benefits. Whether or not you draw benefits, you'll continue to pay social security and Medicare taxes on any income you earn from wages or self-employment. Up to 85% of your benefits may become subject to income tax, depending on the amount of your other income.

\* Medicare. Medicare eligibility begins the year you reach age 65. The program encompasses four types of coverage: Medicare A (hospital insurance), Medicare B (general medical insurance), Medicare C (Medicare Advantage), and Medicare D (prescription drug coverage).

It's wise to sign up for Medicare A as soon as you're eligible. There's no cost, and the program provides supplemental coverage even if you're already insured at work. Medicare B and D are neither free nor mandatory, but the monthly premiums are reasonable, and either may be used as a stand-alone program or in conjunction with a private plan. If you have "creditable coverage" at work (i.e., coverage that's at least as good as Medicare), you can postpone signing up for Medicare B and/or D until you're no longer employed.

Your employer's plan also may offer Medicare C, which provides for private programs administered under contract with the government. These plans typically merge Medicare A and B benefits with other coverage.

Working beyond retirement age can require several complex decisions. Call us for help with planning the outcome that's best for you.

### **Take a Break**

#### **Anagrams**

If you like anagrams, you'll enjoy these:

DORMITORY

When you rearrange the letters:

DIRTY ROOM

THE EYES

When you rearrange the letters:

THEY SEE

THE MORSE CODE

When you rearrange the letters:

HERE COME DOTS

**CIRIMELLI, PYLE AND ASSOCIATES LLP**

**PHONE: (408) 879-9990 FAX: (408) 879-0992**



**SNOOZE ALARMS**

When you rearrange the letters:  
ALAS! NO MORE Zs

**A DECIMAL POINT**

When you rearrange the letters:  
I'M A DOT IN PLACE

**THE EARTHQUAKES**

When you rearrange the letters:  
THAT QUEER SHAKE

**ELEVEN PLUS TWO**

When you rearrange the letters:  
TWELVE PLUS ONE

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.