



Online Advisor – November 2010

Major Tax Deadlines For November 2010

During November: It's wise to estimate your 2010 income tax liability and review your options for minimizing your 2010 taxes. Call us if you would like to schedule a tax-planning session.

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 restrictions on health accounts

This year a tax advantaged health account (such as a flexible spending account, health reimbursement account, health savings account, or medical savings account) can be used to purchase aspirin, flu medications, allergy pills, cold medicines, and other over-the-counter medications.

Effective January 1, 2011, funds from these accounts can no longer be used to purchase over-the-counter drugs unless the taxpayer has a prescription for them. Insulin is an exception and will still be eligible for tax-free reimbursement without a doctor's prescription.



Adopting a child provides tax benefits

Are you giving some thought to adopting a child? Since the adoption process can be a costly one, the federal government provides some significant financial assistance with the adoption tax credit.

Here are some of the basic rules.

- * It's important to remember that we are talking about a tax credit and not a tax deduction. The adoption tax credit is even more valuable since it can reduce your actual tax liability by up to \$13,170 for 2010. Any unused credit can be carried forward five years. The adoption credit can also offset the alternative minimum tax.
- * Qualifying expenses include agency adoption fees, attorney fees, court costs, and adoption-related travel expenses.
- * Nonqualifying expenses include fees to a surrogate mother.
- * The adoption credit is subject to phase-out provisions. For 2010, the credit begins to phase out once modified adjusted gross income reaches \$182,520, and the credit is completely eliminated at modified adjusted gross income of \$222,520.
- * The timing of the credit depends on the nature and the progress of the adoption. For domestic adoptions, if the adoption is not finalized by the end of the year, the credit is computed in the second year. For foreign adoptions, the credit is not computed until the year the adoption is finalized.
- * Special needs adoptions can be eligible for the maximum credit even if actual expenses are less.
- * Some employers provide adoption financial assistance. These proceeds can generally be excluded from taxable income, but the reimbursed expenses can't also be used to figure the adoption tax credit.

Please call us if you are considering adoption. We can help assess your eligibility for the tax credit, help estimate the available tax assistance for your adoption, and develop a procedure for documenting your expenses.

New Business

W-2 reporting of health costs optional for 2011

The IRS and the Treasury are giving employers additional time to adjust payroll systems and procedures to meet the requirement to include the cost of employer-sponsored health coverage on employees' W-2 forms. This reporting requirement was mandated in the 2010 health care reform legislation and was scheduled to take effect with the issuance of W-2 forms for 2011.

Reporting the cost of coverage will be optional for Forms W-2 issued for 2011. Employers who fail to report the cost of health coverage for their employees will not be subject to penalties. The IRS notice included a reminder that the reporting requirement is for informational purposes only. The

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amount reported on an employee's W-2 is not taxable income to the employee.

It's time for year-end business tax planning

You've guided your business through a tough economic climate and kept it profitable. Now it's time to turn your attention to tax planning so you can keep those profits in your pocket. Here are three 2010 tax-cutting moves to consider.

* **Section 179 deduction.** If you purchased business equipment or vehicles - or intend to before year end - increased Section 179 expensing can help your cash flow. Section 179 provides a write-off of up to \$500,000 of the cost of new or used assets placed in service during your 2010 tax year. The amount you can deduct is limited when annual asset purchases exceed \$2 million.

* **Bonus depreciation.** In addition to Section 179, you can claim bonus depreciation, which gives you a deduction of up to 50% of the cost of new assets. Used assets don't qualify. When you buy equipment eligible for both tax breaks, you first reduce the initial basis by the amount of Section 179 deduction claimed, then apply the bonus percentage to the balance. Any remaining cost is expensed over the asset's life.

Bonus depreciation is scheduled to expire December 31, 2010.

* **Health insurance.** To establish your deduction, have your S corporation reimburse you for medical, dental, and certain long-term care insurance premiums that you paid out-of-pocket. Be sure your S corporation issues a 2010 Form W-2 "Wage and Tax Statement" that includes the premiums.

Other year-end planning includes taking advantage of credits for energy-efficient building improvements, making sure you qualify for the home office deduction, and scheduling corporate distributions. Please contact our office for guidance soon in order to maximize your tax savings for 2010.

What's New in Finances

Recession changed the way we live

According to 2009 census statistics, the recession that began in late 2007 has had a major impact on the way we live and the choices we make. What the data shows:

- * The percentage of Americans living in poverty rose from 13.2% in 2008 to 14.3% in 2009.
- * Median household income fell 2.9% from \$51,726 in 2008 to \$50,221 in 2009.



* For the first time since the government began gathering this data, the percentage of women 18 and older who are married fell below 50%. The percentage of adults in the 25 to 34 age group who have never married increased from 34.5% in 2000 to 46.3% in 2009. Analysts suggest that lack of jobs and economic uncertainty may be responsible, at least in part, for these changes.

* More families are getting by with just one car. The number of homes that have more than one car dropped, and the percentage of workers who worked from home increased from 3.9% to 4.3%.

* The percentage of people getting a college or advanced degree increased 27.9% in 2009, possibly another effect of the recession as people couldn't find jobs and chose to add to their job skills with additional education.

What the financial overhaul law means for you

So what's all the fuss over the new "Wall Street Reform Act"? The headline-grabbing law raised quite a furor on Wall Street, but what does it mean for you and me? Here is how the law will affect ordinary folk.

The biggest news associated with the "Reform Act" is the creation of a new federal agency, the Consumer Financial Protection Bureau. The mandate of the Bureau is to create and enforce regulations that will protect consumers of financial products much as the government now regulates safe practices for products such as vehicles and food. Areas of enforcement will include credit and debit cards, mortgages, and student loans.

Financial institutions will be required to clearly state the terms of consumer loans and follow strict guidelines designed to ensure that borrowers get a loan they can afford. Deceptive practices, such as hidden interest rate increases, will be illegal. Surprisingly, one important consumer financial product was left untouched. Car loans will not be regulated by the new agency, so "buyer beware" continues when borrowing for a car.

How you use your credit or debit card might also change. Bank overdraft fees will no longer be automatically assessed on debit card transactions. Instead, banks are required to give their customers a choice of accepting overdraft protection - along with the fee charged when overdrawn - or to allow their debit card to be rejected by the retailer when there are insufficient funds in the buyer's account.

Also, the fee that credit card companies charge retailers to process customer charges will be limited by the Federal Reserve, which might trickle down to savings for consumers on their purchases. On the flip side, retailers have the option to require a minimum debit card charge of up to ten dollars, and colleges can set a maximum charge limit for tuition payments. Many of the changes in the law are directed to banks' financial health, hopefully making your bank stronger and safer. The FDIC insurance limit has now been permanently increased to \$250,000. Financial institutions must restrict their investment in hedge funds and private equity products. And banks will have to increase their capital reserves, with no institution allowed to become so large that it represents more than 10 percent of the banking market.



Many of the law's practical implications have yet to be worked out. So, stay tuned for more changes to come. If you have any questions or concerns about this and other financial legislation, please call our office.

Take a Break

How long have I been waiting?

The "Wall Street Journal" compared waiting times for medical services with those for various other activities. Here's how average wait times stack up:

- * McDonald's drive-through window: 2 minutes, 54 seconds.
- * Security line at Atlanta International Airport: 25 minutes.
- * California Department of Motor Vehicles: 42 minutes, 32 seconds.
- * Primary care doctor's office: 22 minutes.
- * Hospital emergency room: 4 hours, 7 minutes.

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