CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – September 2010

Major Tax Deadlines
For September 2010

* **September 15** - Due date for individuals to pay third quarter installment of 2010 estimated tax.

* **September 15** - Due date for filing 2009 tax returns for calendar-year corporations that had an extension of the March 15 filing deadline.

* **September 15** - Due date for filing 2009 partnership tax returns that had an extension of the April 15 filing deadline.

* **October 1** - Deadline for businesses to adopt a SIMPLE retirement plan for 2010.

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

President signs "Education Jobs and Medicaid Assistance Act of 2010"

On August 10, President Obama signed into law the "Education Jobs and Medicaid Assistance Act of 2010." The law will fund the jobs of an estimated 140,000 teachers who would otherwise have lost their jobs, and it will help states with Medicaid costs.

To pay for these provisions, the law makes a number of changes to the foreign tax credit and eliminates the advance payment option for the earned income credit.

If you need details of provisions that affect you or your business, contact our office.

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Consider seven ways to cut your 2010 taxes

1. Tax rates are likely to go higher in 2011, so you might benefit from shifting income into 2010 and delaying deductions until 2011. It's always a matter of personal circumstances, so analyze the two-year results of shifting income and deductions before you do anything.

2. Remember that required minimum distributions from retirement plans are back this year. If you're over 70½, your 2010 distribution must be taken by December 31 or a 50% penalty may apply. If you turn 70½ this year, you could wait until April 1, 2011, to take your first distribution. In deciding, consider the likelihood of higher tax rates next year and the fact that a delay means you'll have two taxable distributions for 2011.

3. With the $100,000 income limit dropped for converting a traditional IRA to a Roth, consider doing a conversion before year-end. You can elect to pay the tax over two years' tax returns, 2011 and 2012, or pay in full on your 2010 return.

4. Consider buying needed equipment for your business to benefit from the first-year expensing option.

5. If you're planning to add employees soon, do so before January 1, 2011. If you hire someone who has been unemployed for a while, you could qualify for an exemption from social security payroll taxes on the new hire's wages. Keep the new worker for at least a year and you could also qualify for a tax credit of up to $1,000.

6. Start a pension plan for your small business. You may be entitled to a credit of up to $500 in each of the plan's first three years.

7. Review your portfolio and start thinking about offsetting gains and losses for the year. You can deduct an excess of $3,000 of losses against ordinary income.

New Business

Important deadline extended for small charities

All nonprofit organizations (except for churches and church-related groups) must file an annual return with the IRS. Failure to do so for three consecutive years results in the loss of the organization's tax-exempt status. The filing deadline for the 2009 return was May 17, 2010, and thousands of small charities hit the three-year failure to file point on that date.

The IRS had conducted an extensive notification program to remind charities of their filing obligation, but large numbers still have not filed. Now the IRS has extended the filing deadline to October 15, 2010, hoping that small charities will bring their filings up to date and avoid losing their tax-exempt status.

If you are responsible for a nonprofit organization and need details or filing assistance, give our office a call.

Look into this new 2010 tax credit for your small business

When small business owners think about the recent health care reform, they may be thinking only of its long-term implications. But the legislation actually provides an immediate tax break for qualified small businesses and nonprofit organizations. Beginning this year, the "Patient Protection and Affordable Care Act" offers a tax credit of up to 35% of employer-paid health care costs. Does your business qualify? The answer lies in a little math.

* First, you must have fewer than 25 full-time employees. Keep in mind that owners and their family members who draw a salary are not counted in the total. Neither are seasonal employees working 120 days or less per year. The term "full-time employee" is actually a bit of a misnomer; the IRS is really counting full-time equivalents, or FTEs. To figure your FTEs, add up the annual hours you paid to non-owner, nonseasonal employees (full-time or part-time) and divide by 2,080. If the result is less than 25, you're ready to move to the next step.

* Next calculate your employees' average wages. Just as in the calculation of full-time workers, you don't count wages paid to owners, family members, or seasonal workers. After subtracting out the above pay, divide the net figure by the number of FTEs above, and if the result is less than $50,000, you are still in the running for the credit.

* To meet requirement number three, your business must cover at least 50% of the cost of employees' health insurance. For 2010, you need only pay 50% or more of the single coverage premium even if the employee is enrolled in a family plan. Next year this special rule goes away. From now through the year 2013, the maximum tax credit is 35% of the employer's share of the premiums. But only businesses with 10 or fewer full-time employees and average wages of $25,000 or less actually get this rate. The percentage drops as the number of employees or the average pay increases. Another little wrinkle: Beginning in 2014, the maximum credit rises to 50%, but the tax break becomes available only to those businesses that purchase their health insurance through a state exchange. And even then, you can only claim the credit for two years.

Nonprofit organizations that meet the same qualifications mentioned above can receive a maximum credit this year of 25%.

If you're a small business owner, look into this tax perk as soon as possible. For help in running the numbers, just give us a call.

What's New in Finances

Health care law brings out scam artists

The new health care law is confusing to many, and the con artists are wasting no time in taking advantage of people's uncertainty about the new rules. State insurance commissioners warn that con artists are calling, e-mailing, and even showing up at people's doors trying to sell insurance policies they say are required under the new law.

The facts are that the requirement to have health insurance doesn't begin until 2014, and there is no jail sentence involved for those who don't carry insurance.

Scam artists are preying on people who are uninformed or confused about the new health care law. To protect yourself, become familiar with the main provisions in the law. And be sure to follow the general rules to avoid becoming a victim of fraud: Don't give your credit card, bank account, or social security numbers to anyone you don't know, and don't sign up for anything without checking its legitimacy.

Get ready for the new "basis" reporting rules

Beginning next year, new reporting rules could make it easier for investors to report the tax consequences of securities sales. Responsibility for establishing your "basis" is being shifted to brokers and other financial institutions. But don't discard your records just yet: the new rules are being phased in gradually and don't apply to any securities acquired before 2011.

Be aware that the new rules are complex. The IRS recently issued proposed regulations providing some clarity, and further guidance is expected.

Here's the basic premise. When you sell securities, you may realize a capital gain or loss equal to the difference between the sale price and the basis. Your basis is generally the acquisition cost plus certain adjustments like broker's commissions. If you've kept adequate records, it's relatively easy to figure out a gain or loss when you've acquired all the shares of a security at the same time and you sell all the shares at the same time.

But complications often arise if you buy or sell shares at different times and in different lots. The IRS presumes that basis is determined by using a "first-in, first-out" method for shares that are sold. You may use an average cost method for establishing the basis of mutual fund shares. Alternatively, you might identify shares of a security you're selling as coming from a specific lot, thereby increasing your loss or decreasing your gain for tax purposes.

Under the "Emergency Economic Stabilization Act of 2008," financial institutions must begin providing basis information to both investors and the IRS on Form 1099-B, as follows:

* Corporate stock acquired after 2010.

* Stock for which the average cost method is permissible - such as mutual funds or stock in a dividend reinvestment plan - acquired after 2011.

* Other financial products - including notes, bonds, commodity contracts, and options - acquired after 2012.

Financial institutions are also required to report whether a gain or loss is short-term or long-term (i.e., held longer than one year). Currently, net long-term gain qualifies for favorable tax treatment. Under the proposed regulations, brokers may adjust your basis if the "wash sale" rule applies. This rule prevents a loss deduction if you acquire "substantially identical" securities within 30 days of the sale.

For details or assistance with the new reporting rules, call us.

Take a Break

That's easier said in which language?

According to the Global Language Monitor, the English language has more words than many other major languages. Here are the word counts.

* English - 999,985

* Chinese - 500,000

* Japanese - 232,000

* Spanish - 225,000

* Russian - 195,000

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.