



Online Advisor – January 2011

Major Tax Deadlines For January 2011

- * **January 18** - Final 2010 individual estimated tax payment is due, unless 2010 tax return is filed and taxes are paid in full by January 31, 2011.
- * **January 31** - Employers must provide 2010 W-2 statements to employees.
- * **January 31** - Payers must provide 2010 Form 1099s to payees. (Brokers have until February 15 to provide Form 1099-B and consolidated statements to customers.)
- * **January 31** - Employers must generally file Form 941 for the fourth quarter of 2010 and pay any tax due.
- * **January 31** - Employers must generally file 2010 federal unemployment tax returns and pay any tax due.

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

Congress extends Bush-era tax cuts for two years

After weeks of wrangling over the details, both the Senate and the House passed a bill that will extend the tax rates in effect in 2010 for another two years. President Obama signed the "2010 Tax Relief Act" into law on December 17, 2010.

Here's an overview of the key provisions in the law.



* **Tax rates.** The existing tax rates established in the 2001 and 2003 tax laws will continue for all taxpayers through 2012. This means the top tax rate for 2011 and 2012 will remain at 35% instead of reverting to 39.6% as it would have done had the "2010 Tax Relief Act" not passed.

* **Capital gains and dividends.** The top rate for long-term capital gains will remain at 15% for taxpayers in all but the two lowest ordinary income brackets; those taxpayers will continue to have a 0% rate on capital gains. Dividends will continue to be taxed at the 15% and 0% rates instead of reverting to ordinary income rates as high as 39.6%.

* **Itemized deductions and personal exemptions.** Higher-income taxpayers will not have their itemized deductions limited and their personal exemptions phased out for another two years.

* **Education tax breaks.** The law extends the American Opportunity Tax Credit through 2012. The income exclusion for up to \$5,250 of employer-provided education assistance to employees is continued for two years. The higher contribution limit of \$2,000 and other enhancements to Coverdell Education Savings Accounts were extended for two years.

* **Alternative minimum tax (AMT).** The AMT was given another "patch" for 2010 and 2011, a move that will keep the tax from hitting millions more taxpayers. For 2010, the exemption amount is \$47,450 for individuals and \$72,450 for married couples filing joint returns. For 2011, the exemption is \$48,450 for singles and \$74,450 for couples. Without this adjustment, the exemption amounts for 2010 and 2011 would have been \$33,750 for singles and \$45,000 for couples.

* **Payroll tax.** A new tax break is created for workers who pay social security taxes. For 2011, the employee rate for social security tax is cut from 6.2% to 4.2% on wages up to \$106,800. Self-employed individuals will pay 10.4% on self-employment income up to \$106,800. Employers will continue to pay 6.2% on employee wages. This payroll tax rate cut does not affect the Medicare portion of payroll taxes for either employees or employers.

* **Extenders.** Tax breaks that have come to be called "extenders" because they're typically extended retroactively every year, but just for a year, are again extended by the new law. Effective for 2010 and 2011 returns, taxpayers have the option of deducting state and local sales taxes instead of state and local income taxes. The deduction for up to \$4,000 of higher education expenses and the deduction for teachers who buy classroom supplies are extended. Those age 70½ or older may again contribute up to \$100,000 tax-free from an IRA to a charity.

* **Other provisions.** The law extended several tax breaks for businesses, set the estate tax top rate at 35% with a \$5 million exclusion, and extended unemployment benefits for 13 months.

Do you owe the "nanny tax"?

You might owe the "nanny tax," and if you overlook it, you could be hit with additional interest and penalties.

* **What is the nanny tax?** It's simply employment taxes on the wages you pay to certain domestic workers, such as babysitters or housekeepers. If you paid a domestic worker more than



\$1,700 in 2010, you may be required to report and pay social security and Medicare taxes on their wages. You might also owe federal unemployment tax.

*** To whom does the tax apply?** It doesn't matter what type of work is performed (gardening, babysitting, nursing, or general household chores). What does matter is whether your worker is considered to be your employee or an independent contractor. Independent contractors are typically self-employed and, therefore, exempt from the nanny tax. Generally, if you control how and when workers do their jobs, they're probably your employees. Independent contractors operate their own businesses. For example, a nanny who takes care of your kids in your home is probably an employee, but a day care provider who cares for many children is not.

Some employees are exempt. For example, you generally don't have to pay nanny taxes on wages paid to your spouse, your child under age 21, or any part-time employees under age 18. But there are exceptions, so you should check the rules carefully.

*** Avoid penalties and interest.** If you fail to pay the tax, you could be liable for interest and penalties on the tax owed, and possibly even a penalty for underpaying estimated taxes. You might also have obligations to pay state employment taxes.

If you hire someone to work in your home, it's worth contacting our office to discuss your tax obligations. January 31, 2011, is the deadline for sending W-2 forms to your workers if the nanny tax applies for 2010.

New Business

New law includes business provisions

The "2010 Tax Relief Act" includes several provisions that will affect businesses. Here are the highlights.

*** 100% bonus depreciation.** The new law increases the current 50% bonus depreciation to 100% for qualified business equipment purchases made from September 9, 2010, through December 31, 2011. 50% bonus depreciation will be available for purchases made in 2012.

*** Section 179 expensing.** The first-year expensing option was increased to \$500,000 for 2010 and 2011 by the "Small Business Jobs act of 2010." The investment limit was set at \$2 million. The new law just passed provides a \$125,000 expensing limit for tax years beginning in 2012. The investment limit for 2012 is set at \$500,000; both limits will be adjusted for inflation.

*** Research tax credit.** The research tax credit had expired at the end of 2009. The new law extends the credit retroactively through 2010 and 2011.

*** Work Opportunity Tax Credit.** The new law extends the Work Opportunity Tax Credit through 2011. It had been scheduled to expire after August 31, 2011.

Reducing business overhead: How to fight the battle of the bulge

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You may not realize this, but one of the best opportunities to increase your business's bottom line can be found by reviewing its overhead. These expenses, consisting of mundane but necessary essentials such as office supplies, utilities, credit card processing, and insurance, each have their own unique savings opportunities. Business owners and managers often get complacent and let these recurring items grow over time, eventually bloating their company's overhead costs. So, how do you harness these potential savings opportunities to fight this overhead battle of the bulge?

Consider these practices as a way to cut your costs.

1. Get new bids from vendors in such competitive industries as credit card processing and shipping. They'll be eager for your business, thus allowing you to negotiate better rates on these items.
2. Review insurance policies that may need updating. As your business's circumstances change over time, it is important to determine if you are over-insured or if certain types of coverage are not needed anymore.
3. Learn to buy strategically. Many common items used in your business can be purchased at deep discounts through wholesale clubs or trade associations which usually have pre-negotiated discounts on many goods and services.
4. Develop a cost reduction mindset and discard the flawed notion that profitability only comes through a sales-oriented strategy.
5. Involve all your employees. Those employees performing day-to-day tasks are often better equipped to spot money-saving opportunities. Offer a cash or time off reward to motivate employees.

Learn to be prudent and resourceful in managing your overhead, and you'll see immediate results in your bottom line.

What's New in Finances

New law sets estate tax rates and exemptions

The 2001 tax law eliminated the estate tax for 2010. The tax was scheduled to return in 2011 with a 55% top rate and an exclusion amount of \$1 million. Under the new law, the estate tax is retroactively reinstated for 2010 with a maximum estate tax rate of 35% and an exclusion amount of \$5 million (\$10 million for married couples). The new rate and exclusion amount will apply through December 31, 2012. Along with these changes, the new law reinstates the step-up in basis for inherited property.

For deaths occurring in 2010, estates have a choice between applying the estate tax with a step-up in basis to fair market value for estate property or no estate tax with a modified carryover of the decedent's basis.



The new law allows a surviving spouse to utilize the unused portion of the deceased spouse's estate tax exclusion amount, providing the surviving spouse with a larger exemption from the estate tax.

Under the new law, the gift tax maximum rate is set at 35%, with an exclusion amount of \$5 million, effective through 2012.

Where you hold an investment matters

You'll probably be doing a 2011 review of your investment portfolio for tax and rebalancing purposes. As part of your review, check to be certain you are holding your specific investments in the right type of account. Your goal is to hold investments that produce ordinary taxable income in tax-deferred accounts and to hold those that produce tax-free or tax-favored income in your regular taxable accounts.

Consider this situation. If you hold tax-free municipal bonds in a tax-deferred retirement account, you are "sheltering" interest income from taxes that never would be taxed in the first place. Withdrawals from the retirement account will be taxed as ordinary income at ordinary income rates, and that includes interest from the municipal bonds. The result is that normally tax-exempt earnings eventually become subject to income tax.

Another example: Long-term capital gains are taxed at lower rates than interest income. So investments generating interest might be better held in retirement accounts, while investments generating capital gains might be better held in taxable accounts. Remember, withdrawals from retirement accounts (other than Roth IRAs) are taxed at ordinary income rates even if the income comes from long-term capital gains.

Tax-deferred retirement plans should outperform an investment account that is exposed to annual taxation. But if you're not careful where you hold specific types of investments, you could end up with less rather than more income.

Take a Break

Take our annual "Are You Paying Attention" test

Exercise your brain by answering the following four questions?

1. What do you put in a toaster?
2. Say "silk" five times. Now spell "silk." What do cows drink?
3. If a red house is made from red bricks and a blue house is made from blue bricks and a pink house is made from pink bricks and a black house is made from black bricks, what is a greenhouse made from?
4. Without using a calculator: You are driving a bus from London to Milford Haven in Wales.



- * In London, 17 people get on the bus.
- * In Reading, 6 people get off the bus and 9 people get on.
- * In Swindon, 2 people get off and 4 get on.
- * In Cardiff, 11 people get off and 16 people get on.
- * In Swansea, 3 people get off and 5 people get on.
- * In Carmathen, 6 people get off and 3 get on.

You then arrive at Milford Haven. Without going back to review, how old is the bus driver?

Click for the answers.

1. Did you say "toast"? The answer is "bread."
2. Did you say "milk"? Cows drink water.
3. Did you say "green bricks"? Greenhouses are made from glass.
4. Don't you remember your own age? It was YOU driving the bus.

95% of people taking this test answer most of the questions incorrectly.

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