



Online Advisor – April 2011

Major Tax Deadlines For May 2011

- * May 16 - Deadline for calendar-year exempt organizations to file 2010 information returns.
- * May 31 - 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 increases dollar threshold for tax liens

The IRS recently announced that it will moderate its use of tax liens to collect back taxes. A federal tax lien gives the IRS a claim on a delinquent taxpayer's property for unpaid taxes.

This change means the IRS won't use a tax lien unless at least \$10,000 in back taxes is owed; the previous threshold had been \$5,000. In addition, the IRS says it will "withdraw" more tax liens once the back taxes have been paid. A withdrawal removes the lien from the taxpayer's credit record, whereas a lien "release" as previously used left the lien on the credit record for at least seven years.



Nonprofit organizations may have tax obligations

If you're an officer or on the board of a community organization, you may wonder about the tax requirements that apply to your group. Generally an organization will not owe taxes if two things are true:

- * It has registered as an exempt nonprofit organization with the IRS, and
- * It has no business income from activities unrelated to its exempt purpose.

Registration is quite straightforward. The IRS grants exempt status to groups organized for charitable or mutual benefit purposes. You must submit your application within the first 15 months of the group's existence. The package consists of an application form, a copy of your Articles of Incorporation or similar document, and a user fee. Some groups, such as churches or those with annual receipts of less than \$5,000 don't even have to register to be considered exempt.

More questions arise on the definition of unrelated business income. Generally, you will owe tax on income from any trade or business that is not substantially related to the organization's exempt purpose. Fortunately, the definitions are quite favorable in this area. The business really has to be quite distinct from the primary purpose of the organization before income becomes taxable. For example, a charity doesn't pay tax if it runs a thrift shop and uses the proceeds for its charitable work. Generally, rents from leasing out real property, interest income, and dividends are not subject to tax.

Once it's registered, an exempt organization will have to file an annual information return on Form 990 or 990-EZ unless its yearly gross receipts do not exceed \$50,000. Those exempt organizations with receipts of \$50,000 or less must still file an annual return electronically on Form 990-N. Just as with a tax return, there are penalties for filing Form 990 or 990-EZ late or failing to file. There is no penalty on an organization that is required to file Form 990-N but fails to do so; however, if an organization fails to file an annual return for three consecutive years, its exempt status is revoked.

Generally, the filing deadline is the 15th day of the fifth month after the organization's year-end. For 2010 returns, the deadline for calendar-year organizations is May 16, 2011. For assistance with this or any of your tax filings, contact our office.

New Business

New law repeals expanded 1099 reporting rules

On April 14, 2011, President Obama signed legislation - the "Comprehensive 1099 Taxpayer Protection and Replacement of Exchange Subsidy Overpayments Act of 2011" - repealing expanded reporting rules for businesses and landlords that had been created by laws passed in 2010.



* **Business reporting.** The Form 1099 reporting rules were changed by the 2010 health care legislation. Under the "Patient Protection and Affordable Care Act of 2010," every business, charitable organization, and governmental unit was required to file a Form 1099 for payments to any vendor or supplier of goods or services (other than a tax-exempt organization) totaling \$600 or more for the year. Both the recipient and the IRS had to receive a copy of the Form 1099. These rules were scheduled to take effect for payments made after December 31, 2011.

Before the passage of the health care law, payments to corporations were generally exempt from the Form 1099 reporting requirements. The 1099 law just signed by President Obama completely repeals the expansion of business reporting requirements, and the reporting rules return to what they were before health care legislation.

* **Rental property reporting.** Similarly, new Form 1099 reporting requirements were recently imposed on landlords. Under the "Small Business Jobs Act of 2010," owners of rental properties were generally required to file a Form 1099 for rental-related payments to any provider for services totaling \$600 or more for the year. These reporting rules were to apply to recipients who provided professional services, such as accountants, as well as workers like plumbers and electricians. They were to be effective for payments made after December 31, 2010.

The new law repeals these Form 1099 reporting rules for landlords. As with the repeal for business reporting, it's like the requirements never existed.

Repeal of the expanded business and rental property expense reporting rules will eliminate a flood of paperwork for most small business and rental property owners.

Check out disability-related tax breaks

A variety of tax breaks are available to help disabled taxpayers cope with the financial burdens of disability. Businesses that improve access for the disabled are also eligible for tax credits and deductions.

For example, business owners who pay an interpreter to assist the hearing-impaired could qualify for a tax credit. The cost of services, materials, and equipment purchased to assist the visually impaired or those with other disabilities may also qualify for credit.

The credit, which reduces the taxes you owe, can be as much as \$5,000, and you can carry unused amounts forward to future returns. Your company is eligible if prior-year gross receipts were no more than \$1 million or you employed no more than 30 full-time workers.

You might also be able to take advantage of the barrier removal deduction when you make your company's vehicles, walkways, parking lots, and other facilities user-friendly and convenient for the disabled.

This deduction lets you claim up to \$15,000 per year for certain modifications to business property you own or lease. The benefit: Instead of depreciating the cost of these changes, which spreads



the deduction over a longer period, qualified expenses can reduce taxable income in the year you pay for them.

If you would like more details on the disability-related tax breaks your business might qualify for, contact our office.

What's New in Finances

It's not too late to convert to a Roth IRA

If you procrastinated on converting your regular IRA to a Roth last year, you can still do so in 2011. Although converting your IRA generates taxable income in the year of the transfer, later withdrawals of contributions and income from the Roth are tax-free. Making this transfer while income tax rates remain low could pay off big time. And your conversion opportunities are not limited to just traditional IRAs. You can also convert your 401(k), 403(b), or 457 plan to a Roth.

What you need to know about private mortgage insurance

If you're in the market for a home, you've probably heard of private mortgage insurance or PMI. It's insurance that protects lenders - not borrowers - if the mortgage goes into default. Lenders generally require PMI if you're unwilling or unable to make a down payment of at least 20% of the home's purchase price. Depending on your credit history, your income, the size of your mortgage and other factors, PMI can run from \$50 to several hundred dollars a month. After building up equity in your home (in technical terms, when your loan-to-value ratio drops below 80% of the original loan balance), your PMI policy can be cancelled. But building up that much equity, especially with a conventional long-term mortgage, can take a decade or longer.

Is everyone who can't afford a 20% down payment required to take out a PMI policy? If you're financing a home with a conventional mortgage, the short answer is: probably. Homes financed with a Veteran's Administration (VA) or Federal Housing Administration (FHA) mortgage don't require PMI. That's because the federal government protects these lenders by paying off the outstanding mortgage balance if the borrower defaults. Lenders who finance conventional mortgages don't have that protection. From the lender's perspective, if you borrow more than 80% of the home's market value, you're more likely to default on the loan. To compensate for this greater perceived risk, conventional mortgage lenders generally require you to purchase PMI. Those lenders who don't require PMI will compensate for their risk in other ways, such as jacking up your mortgage's interest rate.

On the plus side, a conventional mortgage with PMI may enable you to acquire a home that's otherwise outside your budget. On the other hand, the availability of PMI may entice you to purchase a home that's more expensive than you can realistically afford. Consider also that PMI premiums add an extra cost to your monthly house payment.



So if you're looking to finance that dream home, be sure to consider all the factors - including PMI. If you need assistance, give us a call.

Take a Break

"Tax Freedom Day" came later this year

"Tax Freedom Day" fell on April 12 in 2011, three days later than in 2010. According to the Tax Foundation, all the money earned by taxpayers in the first 102 days of 2011 will go to pay their federal, state, and local taxes.

Another statistic from the Tax Foundation: If the government were to collect enough taxes to fund all spending for 2011 (with no deficit), Tax Freedom Day would be May 23, 2011. That's 41 more days of work to provide the additional \$1.48 trillion needed.

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