



## Online Advisor – September 2011

### Major Tax Deadlines For September 2011

- \* September 15 - Due date for individuals to pay third quarter installment of 2011 estimated tax.
- \* September 15 - Due date for filing 2010 tax returns for calendar-year corporations that had an extension of the March 15 filing deadline.
- \* September 15 - Due date for filing 2010 partnership tax returns that had an extension of the April 18 filing deadline.
- \* October 3 - Deadline for businesses to adopt a SIMPLE retirement plan for 2011.

**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

#### Use adjusted numbers in your long-range planning

As you start to look ahead in your tax planning, here are some adjusted tax numbers you will find useful.

- \* The amount you can set aside in a health savings account (HSA) in 2012 will increase to \$3,100 for an individual and to \$6,250 for a family. If you're 55 or older, you're allowed an additional \$1,000 contribution. HSAs permit taxpayers who have high-deductible health insurance plans to



set aside pretax dollars that can be withdrawn tax-free to pay medical expenses not reimbursed by insurance.

\* Another 2012 adjustment: The social security wage base is expected to increase to \$110,100. That's \$3,300 higher than the 2011 wage base. Unless Congress acts to extend the 2% rate cut in the social security tax, the 2012 rate will return to 7.65% on the wage base for both employers and employees.

### **Take a refresher course on saving for college the tax-smart way**

With tuition costs climbing ever higher, setting aside funds for college can be a formidable task. Here's a refresher course on the various programs and tax breaks you can use to lessen the financial burden of college.

\* **Coverdell education savings accounts.** These accounts offer several advantages over other college savings plans. First, there's flexibility. Like an IRA, you can choose from a wide variety of investments to meet your individual needs. Also, funds in the account can be withdrawn tax-free if used for qualified education expenses such as tuition, room and board, books, even a computer. Unlike other programs, qualified expenses include costs of elementary and secondary school.

However, the maximum annual contribution for a beneficiary is \$2,000 — from all sources. Also, funds must be used by age 30. If the funds are not spent on college by the time the beneficiary is 30 years old, the unspent money must be withdrawn (subject to income tax and a 10% penalty) or rolled over into another family member's education savings account.

\* **Section 529 plans.** If you want to put a large lump sum into a college savings account, a Section 529 plan may be your best option. In this type of account, there are no phase-out limits for high earners, and plan sponsors set maximum allowable contributions.

\* **Custodial accounts.** With custodial accounts (Uniform Transfers to Minors Act or UTMA), you can generally invest in a wider variety of investments than with a 529 plan. The proceeds can be taken out penalty-free - even if used for something other than education. The biggest potential disadvantage is that you gift the funds irrevocably to the child. At a certain age, your child controls the account and could spend the funds on a sports car instead of college.

\* **American opportunity credit.** With this credit you reduce your taxes dollar for dollar for education expenses incurred during four years of college. The credit has an annual limit of \$2,500 per student.

\* **Lifetime learning credit.** The limit for this credit is \$2,000 per tax return, and qualified expenses include tuition, fees, and books for both undergraduate and graduate programs. You're limited to using only one credit (American opportunity or lifetime learning) per student.

\* **Other options.** Roth IRAs and U.S. savings bonds are additional options worth considering. You may also qualify for an interest deduction on education loans. If you need help reviewing the options that best fit your situation, give us a call.



## **New Business**

### **Small Business Alert! Hackers target small companies**

If you think your business computers are safe from hacking attacks because your company is too small to appeal to hackers, think again. Though the big international companies are indeed attractive to hackers, these web criminals are beginning to find small businesses lucrative targets too.

The U.S. Secret Service and Verizon Communications forensic analysis unit handled 761 data breaches in 2010, a significant increase from the 141 breaches investigated in 2009. Of the 761 attacks in 2010, 482 or 63% involved companies with 100 or fewer employees.

These statistics make it clear that being small does not mean a company is safe from hackers. A 2010 survey reported in the Wall Street Journal showed that 64% of small and medium sized retailers in the U.S. believed their businesses weren't vulnerable to credit card data theft by hackers. Only 49% had done a review of their security safeguards.

### **IRS explains the new bonus depreciation rules**

Under the "Tax Relief Act of 2010," you may be able to write off the entire cost of business property placed in service this year, thanks to 100% "bonus depreciation."

Prior to this law, a business was able to claim 50% bonus depreciation on qualified new (but not used) property placed in service in 2010. This included property with a cost recovery period of 20 years or less, most computer software, qualified leasehold improvement property, and certain water utility property. Bonus depreciation could be coordinated with Section 179 first-year expensing and regular depreciation deductions (subject to the annual limits).

The "Tax Relief Act," signed December 17, 2010, improves and extends the tax benefits. It allows a business to claim 100% bonus depreciation for qualified property placed in service from September 9, 2010, through December 31, 2011 (through 2012 for property with a cost recovery period of ten years or more and certain aircraft and transportation property). 50% bonus depreciation can be claimed for qualified property placed in service during 2012.

The "Tax Relief Act of 2010" did not change the definition of "qualified property"; it remains the same as it was before.

#### **\* IRS issues guidance**

Recently, the IRS issued new guidance on using bonus depreciation. It focuses on the following areas:

#### **\* Depreciation step-down**



You're allowed to "step down" from 100% bonus depreciation to 50% bonus depreciation this year if it suits your needs. For example, it may not be advantageous for a business to front-load its depreciation deductions to receive the maximum amount. The IRS guidance spells out the procedure for cutting back to 50% bonus depreciation.

**\* Company vehicles**

The first-year depreciation deduction for "luxury cars" and other vehicles is enhanced by \$8,000 due to the bonus depreciation rules.

Be aware that certain heavy-duty SUVs and other vehicles weighing more than 6,000 pounds are exempt from the luxury car limits. If purchased after September 8, 2010, and before January 1, 2012, they may qualify for 100% bonus depreciation.

**\* Qualified leasehold property**

The IRS says that qualified restaurant and retail improvement properties may be eligible for 100% bonus depreciation under the definition of "qualified leasehold property."

**\* Component depreciation**

A business may be able to deduct certain components of a business building over a faster cost recovery period than the usual 39-year period required for an entire building. The IRS ruling authorizes an election to use 100% bonus depreciation for qualified components of a self-constructed building.

Even with the recent IRS guidance, the depreciation rules remain very complicated. For assistance in applying the rules for maximum tax benefit to your business, contact our office.

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

### **No more paper savings bonds after 2011**

For the past 76 years, investors had the option of buying U.S. savings bonds at a bank or credit union. After December 31, 2011, that will no longer be the case. Savings bonds can then only be purchased electronically through TreasuryDirect, sponsored on the Internet by the Treasury's Bureau of Public Debt.

Bonds have been available through TreasuryDirect since 2002, but investors have been slow to purchase bonds electronically. Only 11% of bonds purchased from October 2010 through June 2011 were bought through TreasuryDirect.

Selling bonds exclusively through electronic means will save the government \$70 million over five years. The Treasury points out that investors benefit too: electronic bonds are less likely to be misplaced, and they are automatically redeemed when they mature.

**CIRIMELLI, PYLE AND ASSOCIATES LLP**

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



The change won't affect outstanding paper bonds.

### **How grandparents can help with college costs**

Are you a grandparent wanting to fund your grandchild's education? You'll find several ways to do this, each with its own limitations and tax consequences.

\* **Gifts.** The simplest is just to make an outright gift of cash to your grandchild each year. In 2011, you can give up to \$13,000 without any gift tax liability. If your spouse also wants to join in the gift, you can jointly give each grandchild up to \$26,000 each year.

\* **Direct payments to the institution.** There's also a way to give higher amounts and still avoid any gift tax consequences. You can give unlimited amounts if you make the payments directly to a qualified education institution on behalf of your grandchild. But there's one drawback. The payments can only be for tuition. Payments for dormitory fees, meals and accommodations, or books don't qualify. You can still give your grandchild an additional \$13,000 for these other items though.

\* **Education savings accounts.** If you decide against making direct tuition payments, consider making part of your \$13,000 gift as contributions to a Coverdell education savings account or a Section 529 plan. These plans and accounts generally offer tax-free growth of college savings. Age, income, and contribution limits may apply, however.

Your grandchild's total college savings could affect his or her eligibility for scholarships or other tax benefits. That's why you should coordinate your gifts as part of a comprehensive education plan. Contact our office for help setting up a tax-smart college savings plan.

### **Take a Break**

#### **Does this explain Washington politics?**

You're familiar with the names of groups of animals, such as a HERD of cows, a FLOCK of chickens, a SCHOOL of fish, and a GAGGLE of geese.

Less familiar groups include a PRIDE of lions, a MURDER of crows, an EXALTATION of doves, and a PARLIAMENT of owls.

The most aptly named could be a group of baboons, which is either a TROOP or a CONGRESS. Is that what the problem in Washington is these days?



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