

NEWSLETTER

Not much change in IRS inflation-adjusted tax numbers for 2010

The IRS is required to adjust many tax numbers for inflation each year. Because there was little inflation last year, there's very little change in 2010 numbers. Here are the numbers you'll need for your 2010 planning.

- The standard mileage rate for business driving drops from 55¢ per mile to 50¢ per mile, effective January 1, 2010. The rate for medical and moving mileage drops from 24¢ per mile to 16.5¢ per mile. The general rate for charitable mileage remains at 14¢ per mile.
- The maximum earnings subject to social security tax remains at \$106,800. The earnings limit for those under full retirement age is \$14,160. For those at full retirement age, there is no earnings limit.
- The "nanny tax" threshold remains at \$1,700 for 2010. If you pay household workers more than this amount during the year, you're responsible for payroll taxes.
- The "kiddie tax" threshold is unchanged for 2010. If your child under age 19 (under age 24 for students) has more than \$1,900 of unearned income this year (e.g., dividends and interest income), the excess could be taxed at your highest rate.
- The maximum individual retirement account (IRA) contribution you can make in 2010 remains unchanged at \$5,000 if you're under age 50 and at \$6,000 if you are 50 or older.
- The maximum amount of wages employees can put into a 401(k) plan remains at \$16,500. The 2010 maximum allowed for SIMPLE plans is \$11,500. If you are 50 or older, you can contribute up to \$22,000 to a 401(k) and \$14,000 to a SIMPLE plan.

For details or for assistance as you begin your 2010 tax planning, give our office a call.

It's tax time - AGAIN!

It's time to file various tax returns once again. If any of the following tax deadlines will apply to you, circle the dates on your 2010 calendar.



* January 15 – Due date for the fourth quarterly installment of 2009 estimated taxes for individuals unless you file your tax return and pay any taxes due by February 1.

* February 1 – Employers must furnish 2009 W-2 statements to employees. Payers must furnish payees with Form 1099s for various payments made. The deadline for providing Form 1099-B and consolidated statements to customers is February 16.

* February 1 – Employers must generally file annual federal unemployment tax returns.

* March 1 – Payers must file information returns, such as Form 1099s, with the IRS. This deadline is extended to March 31 for electronic filing.

(continued on page 2)

Wages or dividends? An important S corporation issue

S corporations are the most popular form of corporate business structure. There are excellent tax planning benefits uniquely available to S corporation shareholders who are also employees, not the least of which is the opportunity to manage self-employment and payroll tax liabilities. Unlike sole proprietorships, for example, S corporations can pay wages to shareholder-employees and also distribute income to them as corporate dividends, which are free of the payroll taxes that apply to wages.

* Do a comparison. If your business is a sole proprietorship with net income of \$200,000, 92.35% of this amount (or \$184,700) will be subject to self-employment tax. The social security portion of the tax is 12.4% on the first \$106,800. The Medicare tax of 2.9% applies to the full \$184,700. So your self-employment tax will be \$18,600. You can take a deduction for 50% of this tax.

If you incorporate and elect to be taxed as an S corporation, the result can be dramatically different. Again assume that your business income is \$200,000, and the corporation pays you a salary of \$60,000 (which you can demonstrate as reasonable). You and the corporation, as your employer, will pay a combined 15.3% on your \$60,000 salary as payroll (FICA) taxes. The total tax is \$9,180. The remaining \$140,000 of business income can be distributed to you as S corporation dividends free of payroll or self-employment taxes. The result is a significant tax savings.

The IRS is very much aware of the potential for abuse by taxpayers paying unreasonably high or low salaries. In the example above, if the IRS determined that your salary was set low to avoid taxes, you could face a reclassification of all or part of your \$140,000 S corporation dividends as wages subject to payroll taxes. The key: Pay reasonable and well-documented salaries.



* So what is "reasonable"? Determining whether wages are reasonable involves many factors, including the nature of the services performed, the responsibilities involved, the time spent, the size and complexity of the business, prevailing economic conditions, compensation paid by comparable firms for comparable services, and salaries paid in prior years. There are no hard and fast rules, and there is no definition of "reasonable" in the tax law. To analyze this strategy for your particular business situation, give us a call.

Thanks! We appreciate you

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

It's tax time - AGAIN!

(continued)

* March 1 – Employers must send Form W-2 copies to the Social Security Administration. This deadline is extended to March 31 for electronic filing.

* March 1 – Farmers and fishermen who did not make 2009 estimated tax payments must file 2009 tax returns and pay taxes in full.

* April 15 – Individual income tax returns for 2009 are due.