

NEWSLETTER

Five tax moves to consider now



1. 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.
2. 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.
3. If your business is 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.
4. 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.
5. 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.

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

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

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***Small Business Jobs Act* brings fresh round of familiar tax breaks**

If you are a small business owner who thought all the best tax breaks were behind you, think again. The recently passed *Small Business Jobs Act of 2010* restores many familiar tax perks and adds a few new ones.

The new law extends the first-year 50% bonus depreciation rule that expired last year, and makes it retroactive to include qualified new equipment purchases made any time in 2010. Congress also expanded the Section 179 business expensing provision to allow a deduction of up to \$500,000 for purchases of new or used equipment in 2010 and 2011. The previous limit was \$250,000. What's more, under the old rule, the deduction was reduced for companies with annual equipment purchases above \$800,000. Now the threshold has been raised to \$2 million.

One very practical and welcome tax change is the removal of cell phones from the "listed property" category, which means you no longer have to meet strict recordkeeping requirements for your business use of a cell phone. You also no longer have to include the personal use of a business cell phone in an employee's income.

The *Small Business Jobs Act* expands the business tax credit carryback limitation from one year to five for private companies with gross receipts of no more than \$50 million. And capital gains tax on sales of qualified small business stock will be reduced to zero for original issue stock purchased by the end of 2010. However, you still need to hold the stock for five years to qualify.

If you start a new business this year, you might score an added tax perk. The annual start-up cost deduction of \$5,000 was raised to \$10,000 for 2010. The deduction is reduced dollar-for-dollar for any start-up expenses exceeding \$60,000.

For 2010 only, self-employed individuals can deduct health insurance costs from their self-employment income in computing self-employment tax.

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Reducing Overhead

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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 to do if you get an IRS or state tax notice

The IRS plans to conduct more “correspondence audits” than it has in the past because the Service is finding that these audits produce more revenue than office and face-to-face audits. Correspondence exams can be as simple as asking about a tax return data discrepancy, correcting an error on a return, or asking for a missing form. But the IRS is also using these audits to focus on other issues, including such things as employee business expenses, the earned income credit, charitable deductions, and the tax credit for buying a home.

As states struggle with budget issues, they, too, are getting more aggressive in collecting taxes. One particular state issue is “use taxes.” Like sales tax, the use tax is assessed on items you purchase out of state and use in your home state. If you purchase items on the Internet from an out-of-state company or buy from Canada or overseas, you may be contacted about use taxes.

If you get a letter from the IRS or the state, contact us as soon as possible. Don’t ignore the correspondence because it will not go away. Let us know about the notice when you receive it. It is much easier for us to work with agencies and resolve the problem quickly if we’re involved from the beginning.



Small Business Jobs Act

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Roth IRAs are back in the news. You probably knew that a traditional IRA could be converted into a Roth in 2010 with the resulting taxable income spread equally in 2011 and 2012. Now you can do the same thing with a 401(k), 403(b), or 457(b) plan if your retirement plan will allow it.

Waiting for the catch to all this good tax news? Here it is. The new law calls for even more information return filing and increased penalties for failing to file such information.

Beginning in 2011, rental property owners will be required to report payments of \$600 or more made to goods and service providers.

The new small business tax law gives business owners a lot to think about and not much time to act. To maximize the benefits for your business, give our office a call today

DON'T FORGET TO VOTE



NOVEMBER 2, 2010



Your small businesses might benefit from this new tax credit

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 credit as soon as possible. For help in running the numbers, just give us a call.

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