Tax & Financial Briefs

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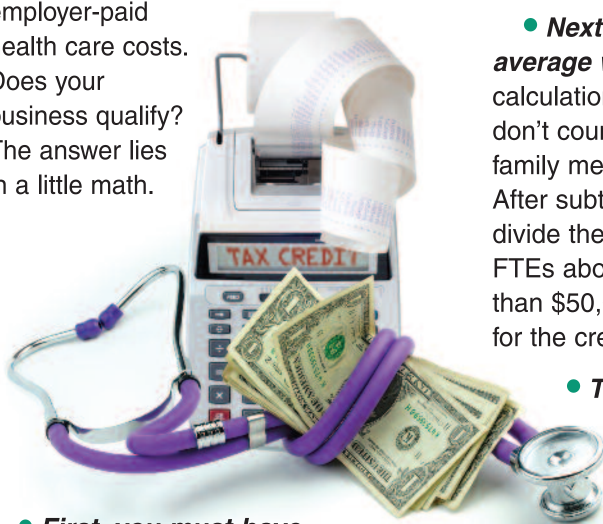
New 2010 tax credit available to small businesses

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

This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

JOE'S TAX TALK

By Joe Laciak

Homebuyer credit extended

If you signed a contract before May 1 to buy a home, but have been unable to close the deal, you still have time to apply for the homebuyer tax credit. The deadline for finalizing the paperwork on your new home has been extended through September 30, 2010.

The extension applies only if you already had a contract in place by April 30, 2010. The new deadline is available for first-time homebuyers and long-time residents. The maximum credit remains unchanged, as do other rules for qualifying.

W-2 rule causes confusion

Starting with W-2s issued for the year 2011, employers will be required to report the value of health insurance premiums paid for each employee. Reports indicating that these amounts will be taxable to employees are incorrect. Though the value of health coverage provided by employers must be listed separately on the W-2, it will not be added to taxable wages.

IRS adjusts HSA limits

Some months ago, the IRS published the 2010 contribution limits for health savings accounts (HSAs). For individual coverage, the limit is $3,050; for family coverage, the limit is $6,150. Individuals who are 55 or older may contribute an additional $1,000. Recently, the IRS announced that contribution limits for 2011 will remain the same as the 2010 limits. ♦

If you drive for business, choose your deduction method wisely

You're entitled to deduct your automobile expenses attributable to business driving. However, the tax law has several twists and turns that affect what you can deduct. For starters, you can't deduct the cost of commuting back and forth from work. This is a purely personal expense. But trips between your regular workplace and a client's business location count as business travel. In addition, you may deduct expenses for traveling between different branches of your business.

There are two basic ways to deduct business auto expenses: the actual expense method or the standard mileage method.

▶ Actual expense method

With this method, you deduct the actual costs of using your automobile for business travel. This includes expenses such as oil and gas, insurance, repairs, license and registration fees, etc. You're also entitled to an annual depreciation deduction, although this amount may be limited by the "luxury car" rules.

For instance, if you place a car in service in 2010, the maximum first-year depreciation you can claim is $3,060, no matter what the car costs. If you lease the car, you can deduct the lease payments instead, subject to limits under IRS tables.

If you also use your vehicle for personal driving, you must divide your expenses between business and personal use, based on the mileage.

Example: You drive your car 15,000 business miles and 5,000 personal miles in 2010. Thus, 75% of your mileage (15,000 business miles divided by 20,000 total miles) is business-related. So you can deduct 75% of your actual expenses.

A drawback to the actual expense method is that you must account for all of your expenses in addition to keeping records of each business trip.

▶ Standard mileage method

With this method, you multiply the annual flat rate prescribed by the IRS by the number of business miles you drive, and add on any business-related parking fees, taxes, tolls, and interest expense on your car loan. (Interest expense is not deductible by employees.) All other costs, including depreciation, are built into the flat rate. The rate for 2010 is 50¢ per mile.

Example: Suppose again you travel 15,000 business miles this year. Under the standard mileage rate, you may deduct $7,500 (50¢ x 15,000), regardless of your personal use of the car.

Although the standard mileage rate is generally more convenient than the actual expense method, you still must record the date, mileage, business location, names and relationships of clients, and the business purpose for each trip. It is recommended that you keep a diary for both methods.

The rules governing business car deductions are full of exceptions and limitations. For guidance in choosing the method that's right for you, give us a call. ♦

7 ways to cut your 2010 taxes

1. Tax rates are likely to go higher in 2011, so you might benefit from shifting income into 2010 and delaying deductions until 2011.
It's always a matter of personal circumstances, so analyze the two-year results of shifting income and deductions before you do anything.

2. 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.

3. 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.

4. Consider buying needed equipment for your business to benefit from the first-year expensing option.

5. If you're planning to add employees soon, do so before January 1, 2011. If you hire someone who has been unemployed for some time, 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.

6. 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.

7. 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. ♦

New "basis" reporting rules for investments are coming soon

Beginning next year, new reporting rules could make it easier for investors to report the tax consequences of securities sales. Responsibility for establishing your "basis" is being shifted to brokers and other financial institutions. But don't discard your records just yet: the new rules are being phased in gradually and don't apply to any securities acquired before 2011.

Be aware that the new rules are complex. The IRS recently issued proposed regulations providing some clarity, and further guidance is expected.

Here's the basic premise. When you sell securities, you may realize a capital gain or loss equal to the difference between the sale price and the basis. Your basis is generally the acquisition cost plus certain adjustments like broker's commissions. If you've kept adequate records, it's relatively easy to figure out a gain or loss when you've acquired all the shares of a security at the same time and you sell all the shares at the same time.

But complications often arise if you buy or sell shares at different times and in different lots. The IRS presumes that basis is determined by using a "first-in, first-out" method for shares that are sold. You may use an average cost method for establishing the basis of mutual fund shares. Alternatively, you might identify shares of a security you're selling as coming from a specific lot, thereby increasing your loss or decreasing your gain for tax purposes.

Under the *Emergency Economic Stabilization Act of 2008*, financial institutions must begin providing basis information to both investors and the IRS on Form 1099-B, as follows:

- Corporate stock acquired after 2010.
- Stock for which the average cost method is permissible – such as mutual funds or stock in a dividend reinvestment plan – acquired after 2011.
- Other financial products – including notes, bonds, commodity contracts, and options – acquired after 2012.

Financial institutions are also required to report whether a gain or loss is short-term or long-term (i.e., held longer than one year). Currently, net long-term gain qualifies for favorable tax treatment. Under the proposed regulations, brokers may adjust your basis if the "wash sale" rule applies. This rule prevents a loss deduction if you acquire "substantially identical" securities within 30 days of the sale.

For details or assistance with the new reporting rules, call us. ♦

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Because Your Money Matters

By Geoff Laciak

The recent economic downturn hit Americans' net worth hard. "Net worth" is the value of assets (such as homes, bank accounts, and investments) minus debts (such as mortgages, loans, and credit cards). According to the Federal Reserve, Americans' net worth hit a low of $48.3 trillion during the recent recession, but has since risen 13% to about $55 trillion.

Do you know your current net worth? Do you know how much your net worth is changing from year to year?

We all want to enter retirement with a comfortable nest egg, owning more than we owe. A good way to chart your progress toward that goal is to prepare a personal balance sheet at least every year. That will give you a score card to measure how you're doing. A balance sheet shows your assets and your liabilities. Think of them as what you own and what you owe. The difference between them is your net worth.

Do a personal balance sheet.

- Pick a date such as the end of the year or the end of a quarter when you'll have statements available for your financial accounts.
- Start by listing all your financial assets. Include bank accounts, balances in IRAs and retirement plans, stock and bond investments, etc.
- Next, you must assign a value to your non-financial assets, such as house, car, and personal belongings. For most purposes, it's not essential that you find an exact value. Using the same approach from year to year is more important.
- To value your house, look at classified ads for comparable properties, or talk to a friendly realtor. Another approach is to use the assessed value shown on your property tax statement. This is generally less than market value, but yearly changes should reflect changes in the local property market.
- For personal property, just make a reasonable estimate. Hold that constant each year unless you make any major purchases.
- Liabilities are next. List your mortgage balance and all loans. Include credit card debt, car and boat loans, student loans, and any other debt.
- Total up your assets and liabilities. The difference between the two totals is an estimate of your net worth. Hopefully it shows an increase from the previous year.

If your net worth is not increasing, use your balance sheet to see where you're falling short. Look for ways to boost the growth of your assets, or set a budget to reduce your liabilities. Your personal balance sheet is more than just a good financial score card. It can be a valuable planning tool, too. ♦

OCTOBER

1 – Deadline for businesses to adopt a SIMPLE retirement plan for 2010.

15 – Filing deadline for extended 2009 individual tax returns.

15 – If you converted a regular IRA to a Roth IRA in 2009 and now want to switch back to a regular IRA, you have until this date to do so without penalty.

28 – Porter County, IN Chamber Coalition Network Night, 4PM-7PM, Porter County Expo Center.

NOVEMBER

During November – Estimate your 2010 income tax liability and review your options for minimizing your 2010 taxes. Call us to schedule a tax planning review.

1 – Third quarter 941 payroll tax return due.

DECEMBER

15 – Fourth installment due on 2010 corporate estimated tax.