CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Major Tax Deadlines For August 2011

* August 1 - Due date for filing retirement or employee benefit plan returns (5500 series) for plans on a calendar year.

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

Animal-rescue volunteers win tax deduction case

If you provide care for stray or feral animals in your home for an IRS-approved charity, you may be able to take a tax deduction for your out-of-pocket expenses. A recent U.S. Tax Court judge ruled that a taxpayer who fostered feral and stray cats in her home could deduct amounts she spent for food, veterinarian bills, litter, and other unreimbursed expenses incurred to help the animal charity in its mission. To be deductible, the taxpayers must keep records of the expenses, and the charity must provide a written acknowledgment of the volunteer work as a charitable gift.

The Humane Society hopes to get the word out on this case, stating that thousands of members do volunteer work such as this and spend their own money to support the mission of local shelters and rescue groups.

Heed the rules for deducting charitable contributions

Sticking to the rules when making charitable contributions can save tax dollars.

Here are three tips.

* Recordkeeping is vital if you want to be able to deduct a contribution to charity.

What records do you need? For starters, to claim an itemized deduction, you're required to have support for all cash contributions, no matter what the amount. A bank statement, a copy of the cancelled check, or a credit card record will usually suffice for donations under $250. For donations of $250 or more, a statement from the charity is required, giving the charity's name, the date, the amount of your donation, and the value of goods and services received for the donation, if any. In the case of payroll donations, your pay stub or W-2 can back up your deduction.

The substantiation rules for noncash donations such as household items differ depending on the type of property and its value. For instance, you'll need a contemporaneous written acknowledgment from the charity for donations of $250 or more. As a general rule, "contemporaneous" means you receive the acknowledgment before you file your return or before the due date of your return, whichever is earlier.

* Make a gift from your IRA. The break allowing a transfer of up to $100,000 from your IRA to a qualified charity is available for 2011. To benefit, you must be over age 70½, and the contribution has to be a direct payment from your IRA to the charitable organization.

* Write down your vehicle mileage for charitable driving. Written records rule, whether you claim the standard mileage deduction of 14¢ a mile or actual expenses. Make sure your log or other paperwork includes the name of the charity, the date, and the miles you drove or the total cost you incurred.

Please call for advice on getting the most benefit from your donations, including appreciated property and out-of-pocket expenses.

New Business

Should you "ROBS" your 401(k) to start a new business?

ROBS is an acronym for a relatively new financing arrangement known as a "rollover as business startup" being touted on the Internet and arranged by some investment firms.

Typically a ROBS works like this: You pay a fee to a plan sponsor to create a corporation, which sets up a profit sharing or 401(k) plan of its own. Then you roll funds from your own 401(k) plan into the newly created corporation's plan. Your next step is to use the funds in the corporation's plan to buy the stock of your new company, thereby providing working capital for your new business.

Sound too good to be true? It probably is. For one thing, profit sharing plans, while a legitimate way to reward employees by sharing profits from your business, must follow strict rules. These include filing annual tax returns and avoiding transactions that discriminate in favor of highly paid employees, including yourself. The IRS scrutinizes ROBS very closely to be sure all the rules are carefully followed.

When you're looking for capital to set up a new venture, the idea of tax-free cash is appealing. But if the IRS determines that the deal is a prohibited transaction, you can be hit with penalties and risk losing your retirement money.

Please contact us before you enter into any complicated, questionable arrangement. We're here to help you make the right choices for your business.

A critical business question: Should you incorporate or not?

One of the first decisions you face as a new business owner is whether or not to incorporate the business. The biggest advantage of incorporating is limitation of your liability. Your responsibility for debts and other liabilities incurred by a corporation is generally limited to the assets of the business. Your personal assets are not usually at risk, although there can be exceptions to this general rule. The trade-off is that there is a cost to incorporate and, in some cases, tax consequences.

*** Should you incorporate?**

You might not need to incorporate. Depending on the size and type of your business, liability may not be an issue or can be covered by insurance. If so, you could join millions of other business owners and operate as an unincorporated sole proprietor.

If you do decide to incorporate, you'll face a choice of corporate forms. All offer limitation of your liability, but there are differences in tax and other issues.

*** C corporation**

The traditional form of corporation is the C corporation. C corporations have the most flexibility in structuring ownership and benefits, and most large companies operate in this form. The biggest drawback is double taxation. First the corporation pays tax on its profits; then the profits are taxed again as they’re paid to individual shareholders as dividends.

*** S corporation and LLCs**

Two other forms of corporation avoid this double taxation: S corporations and limited liability companies (LLCs). Both of these are called "pass-through" entities because there's no taxation at the corporate level. Instead, profits or losses are passed through to the shareholders and reported on their individual tax returns.

S corporations have some ownership limitations. There can only be one class of stock and there can't be more than 100 shareholders, none of whom can be foreigners. State registered LLCs have become a popular choice for many businesses. They offer more flexible ownership than S corporations and certain tax advantages.

Whether you're already in business or just starting out, choosing the right form of business is important. Even established businesses change from one form to another during their lifetime. Some companies use more than one type of entity - for example, an LLC to hold the business's real estate and an S corporation for other operations.

Consult our office and your attorney for guidance in selecting the form that is best for your business.

What's New in Finances

401(k)s are making a comeback

Savings in 401(k) plans are increasing, a welcome bit of news after the big hit plans took in the recent economic downturn.

According to Fidelity Investments, the largest provider of 401(k)s, balances are now at a 12-year high, with the average balance hitting $74,900. Account balances had fallen to an average $41,300 in 2002.

Retirement savings are still too low for many; 56% of workers say they have saved less than $25,000 for retirement.

Financial mistakes you should avoid

We all make mistakes in managing our finances, but some mistakes are worse than others. Here are four of the biggest mistakes to avoid.

*** Buying investments over the phone.** Make it a rule to never buy an investment over the phone. Thousands of people have lost money in investment scams promoted by fast talking telephone salesmen. And even if the product is legitimate, remember that the person who called is only interested in making a sale, not in finding the right solution for your investment needs. If you're too polite to hang up, ask for a prospectus that you can study at your leisure. That at least will sort out the crooks from the legitimate salespeople.

*** Putting tax exempt investments inside your 401(k) or IRA.** The big advantage of these retirement vehicles is that the earnings grow tax deferred. So it's a waste to invest the funds in tax exempt instruments such as municipal bonds. If you do, you're giving up a higher return for a tax advantage you can't use. Instead, invest in higher yielding taxable investments, since the earnings inside your plan are tax deferred anyway.

*** Chasing tax shelters.** An obsession with minimizing taxes can often lead to poor investment decisions. Tax exempt investments may have a place in your portfolio, but often it makes financial sense to choose a taxable investment and pay tax on the earnings. Never buy an investment just because it's tax exempt.

*** Taking premature distributions from your IRA.** Taking money from your IRA before age 59½ should be the last thing you do. If you do, you'll generally pay a 10% penalty tax plus the normal tax on the amount you withdraw. Make sure you've exhausted every other possibility before you tap into your IRA savings.

Take a Break

Live long and prosper

Life expectancy in the U.S. is higher than ever before. Children born in 2009 can expect to live 78.2 years. White males can expect to live 75.7 years; females can expect to live 80.6 years. Life expectancy for black males is 70.9 years; for black females, 77.4 years.