Online Advisor – July 2011

Major Tax Deadlines
For July and August 2011

* August 1 - Due date for filing retirement or employee benefit plan returns (5500 series) for plans on a calendar year. (The normal deadline is July 31, but since that day is a Sunday this year, the deadline moves to the next business day, August 1.)

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

IRS increases mileage rates

The IRS has increased the standard mileage rates to be used for computing the deductible costs of operating a vehicle for business or for driving for medical or moving reasons. The new rates will apply to driving from July 1, 2011, through December 31, 2011.

The revised rates are 55.5 cents per mile for business driving and 23.5 cents for medical and moving driving. The rate for charitable driving is fixed by law and remains at 14 cents per mile.

According to the IRS, mileage rates were raised for the second half of 2011 due to the recent increases in the price of fuel. The rates for the first half of 2011 (January 1 through June 30, 2011) are unchanged: 51 cents per mile for business driving and 19 cents per mile for driving for medical or moving reasons.

Be aware that you have the option of calculating the actual costs of using a vehicle for business, medical, or moving reasons instead of using standard mileage rates.

Tax tips for your vacation home

Planning to rent out your vacation getaway? When it comes to taking advantage of the tax benefits, timing is an important factor. Here are two points to remember.

* The fourteen-day-or-ten-percent test. The IRS applies this test to determine if you use your vacation home as a personal residence. If you stay in the home more than 14 days or 10% of the total days it's rented in a calendar year (whichever is greater), the general rule is that you're using it as your home.

Why does it matter? Because treating a vacation home as your personal residence affects your rental deductions. You'd include all the rent you receive as income on your tax return. But related expenses are generally limited to the amount of that income, meaning you can't offset other income with a loss. Note that time spent in your vacation home by family members and certain others can count as personal use.

* The less-than-fifteen exception. Rent out your vacation home for less than 15 days during the taxable year, and the income is yours, tax-free. You don't even have to report it on your return. Just be aware that any expenses related to the rental are nondeductible. If you itemize, you can still deduct qualified mortgage interest and real estate taxes on your vacation home.

Other tax rules, such as passive activity and capital gains reporting, can also impact the decision to rent out your vacation home. Give us a call before you put up that "For Rent" sign. We'll be happy to review your options under the tax rules.

Recent reports give job market picture

As the focus these days is on the economy and jobs, various reports and surveys show that things seem to be changing. Here are some of the statistics.

* Big productivity gains made during the recession apparently have reached a limit and companies are looking to add employees to handle increasing work loads. 52% of CEOs say they plan to increase hiring over the coming months.

* Recent college grads face a brighter job picture as the number of applicants per job opening is now 21.1 compared with 40.5 in 2010.

A Michigan State survey of employers indicates that companies plan to hire 10% more graduates in 2011 than they did in 2010.
College students plan to look for jobs using social media. Nearly 28% plan to use LinkedIn, up from 5% who used it in 2010.

Look into the benefits of a solo 401(k)

Have you heard about solo 401(k) plans? The traditional type of 401(k) retirement plan is now available for self-employed individuals. And it lets you save more than other types of plans.

In the past, 401(k) plans were typically offered by larger corporations. Employees could make pre-tax contributions by payroll deduction. The company would then usually match a percentage of those contributions. Investments grew tax-free until withdrawn at retirement. One advantage of a 401(k) plan is the relatively large amount you can contribute each year - $16,500 in 2011 with an extra $5,500 catch-up if you're 50 years old or older.

Now you can establish the same type of plan if you're self-employed or run an "owner only" business. That's a business with just you and possibly your spouse, but no employees. You can save more with a solo 401(k) than with the traditional SEP, SIMPLE, or Keogh plans. That's because you are able to make two types of tax-deductible contributions. First you make the usual employer contribution as owner of the business. Then you can make an additional salary deferral as an employee. As a result, you could potentially shelter up to $49,000 of your 2011 self-employment earnings from tax. If you're eligible for the over-50 catch-up, that rises to $54,500.

The solo 401(k) plans are flexible and relatively simple to administer. If you think this plan might be right for you, please contact our office. We can tell you more about it and help show you how much you could save.

What's New in Finances

Watch out for e-mail and phone scams

The IRS is warning taxpayers not to respond to e-mails and phone calls they may receive which claim to come from the IRS or another federal agency. Such contacts are likely to be scams whose purpose is to obtain personal and financial information from taxpayers, which are then used by the scammers to commit identity theft.

Typically, the scam e-mail or call states that the IRS needs certain information to process a tax return or refund. The e-mail contains links or attachments to what appears to be the IRS website or an IRS form. Though they appear genuine, these phonies are designed to get from taxpayers the information scammers need to steal identities. The links can even download malicious software onto the taxpayer's computer if clicked. The software is often designed to search out and send to the scammer personal and financial information contained on the taxpayer's computer -information that the scammer uses to commit identity theft.

The IRS reminds taxpayers that it does not send unsolicited e-mails asking for sensitive personal and financial information. If you receive one of these e-mails, do NOT respond to it.

Consider the time value of money in making financial decisions

Suppose you're selling a piece of property worth $400,000. You're offered $210,000 down and lump sums of $100,000 at the end of year one and year two. Should you take the offer?

Most people know that $1,000 now is worth more than $1,000 a year from now. Here's why. In a year, a dollar will buy less than it would today due to inflation. Over time, the risk increases that some of the money owed you will not be paid. And finally, funds on hand could be invested and earning more money.

Present value analysis attempts to quantify these variables. It discounts the value of future funds by estimating inflation rates, risks of loss, and rates of return from alternative investments.

Assume you could earn 2% by investing in a $100,000 CD. Disregarding compounding, in a year your investment would be worth $102,000. Conversely, if you postponed receipt of $100,000 for a year and inflation eroded the principal by 3%, you'd receive the equivalent of $97,000 in today's dollars. (Note that with 3% erosion, even the $102,000 CD proceeds would be worth only $98,940 in today's dollars.)

In the opening example, your proposed "investment" (a two-year $200,000 note receivable) would be far riskier than a CD. To compensate, you might decide not to accept anything less than an 8% return. A present value table indicates that at 8%, the discount factors for one and two years are .926 and .857, respectively. $100,000 times .926 is $92,600; $100,000 times .857 is $85,700. Thus, in today's dollars, the buyer is offering $388,300 ($210,000 down payment plus $92,600 plus $85,700). Since your property is worth $400,000, you would be selling for $11,700 less than full value.

A similar analysis can be applied to any transaction involving future payments. For help with the calculations, contact us.

Take a Break

Who pays taxes?

A recent congressional study revealed that 51% of U.S. households owed no federal income tax for 2009. About 30% of households received a "refund" check, due to refundable tax credits, such as the earned income credit, home buyer's credit, and the "making work pay" credit.

An important point: Most of those who paid no federal income tax did pay social security and Medicare payroll taxes.

The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance. For more information on anything in the Online Advisor, or for assistance with any of your tax or business concerns, contact our office.

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