



Online Advisor – June 2011

Major Tax Deadlines For June 2011

- * June 15 - Second quarter 2011 individual estimated tax is due.
- * June 15 - Due date for calendar-year corporations to pay second installment of 2011 estimated tax.
- * June 15 - Due date for calendar-year trusts and estates to pay second installment of 2011 estimated tax.

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

Make summertime tax-saving time

Summertime fun can be made even more enjoyable by adding tax savings. Here are some tax-saving ideas to consider.

- * If you have summer travel plans and the primary purpose of your trip is business, you can deduct all the travel costs to and from your business destination and all other business-related



costs even if you add on a few extra days for pleasure. You can't deduct costs related to the pleasure portion.

Including a spouse or friend on your trip is permissible, but you can't deduct the additional costs for that person.

* If you itemize your deductions, you can deduct the mortgage interest and property taxes paid for your vacation home. A boat or RV can qualify as a vacation home if it has sleeping quarters, cooking facilities, and a bathroom. If a retreat also serves as rental property, you can control your tax deductions by changing the number of days you use it for vacation.

* If you and your spouse work, the cost of sending your children to a summer day camp may qualify for the child care credit.

* If you own a business, consider hiring your child for the summer. Your child can earn up to \$5,800 tax-free this year, and your business is entitled to a deduction for the wages paid. You must pay your child a reasonable wage for the work performed. If your business isn't incorporated, a child under 18 is not subject to FICA taxes.

Tax breaks can help when disaster strikes

Recent events here and abroad are reminders that disasters can occur at any time - often with staggering human and financial costs. If you're an unlucky victim of a disaster, you may receive help from insurance and federal disaster aid. But the tax code also offers some relief. You may be able to take an itemized deduction for part of your loss. In tax terms, it's a "casualty loss," and it can also apply to events such as a car crash, a house fire, or theft. Here are the basics.

* The loss or damage must be due to an unexpected and sudden event. Losses due to slow deterioration over the years, such as rot, rust, or insect damage, don't qualify.

* Your tax deduction won't equal your total loss. You must subtract any insurance or other reimbursement. Then you must also deduct \$100 for each loss and 10% of your adjusted gross income.

* Your loss may also be limited by your adjusted basis in the property. That's generally what you paid for it, plus or minus any improvements or previous losses.

* In a widespread disaster, the area may be classified a "Presidentially declared disaster area." If that happens, you have a special option. You can claim your casualty loss against the current year's taxes. Or you can amend the previous year's return and claim your loss against that year's taxes. That usually generates a faster refund, but it may change the amount of your deduction.

If you suffer a casualty loss, please contact us. We'll explain the rules and help you claim the maximum possible tax benefit.



New Business

Small companies get additional time for reporting benefits

The IRS has just announced that small companies will get an additional year before being required to report the value of employee health benefits on their employees' W-2 forms.

Health reform legislation passed in 2010 included a requirement that employers report on W-2 forms the value of health coverage they provide to employees. The IRS had already provided relief for all businesses by making reporting optional for 2011 W-2 forms.

Now, small companies that file fewer than 250 W-2s need not report the value of benefits until filing 2012 W-2 forms early in 2013.

Why it's important to keep an eye on your company's cash

Do you regularly monitor your company's cash accounts? You should. Even if you leave the job to your bookkeeper or accountant, you should stay aware of where the cash is going and how the spending is approved. Along with inventory "shrinkage," theft or improper expenditures of cash are among the chief sources of loss for small companies.

Periodically, you hear about a huge loss caused by an employee who's been quietly embezzling cash for years. But many smaller cases are never noticed. And it's not always employees at fault. In fact, the vast majority of employees are scrupulously honest and loyal. Outsiders can be stealing your cash too, by submitting false or inflated invoices that are paid without proper review.

How to reduce risk of loss

What can you do to reduce the risk of losses? The textbook answer is "internal controls." This refers to things such as standard procedures for approving and paying bills. It includes segregation of duties - having more than one person involved in preparing, signing, and reconciling checks. Unfortunately, many small companies don't implement proper controls - either because there's not enough staff or because they think it's too much trouble.

Regardless of the size of your business, here are some steps you can take:

* Maintain a strict rule that all invoices must have an approval signature before being paid. Nothing focuses a person's mind like having to sign his or her name on something.



- * Have a policy that all employee expense reports must be signed off by a higher-level employee.
- * Make it a rule that the person who prepares a company check can't sign that check.
- * Ask your bookkeeper or accountant to give you a signed note each month affirming that the bank statement has been reviewed and balanced.
- * Follow up personally to make sure that these procedures are being followed.
- * Every few months, ask to see the bank statement and canceled checks for the prior month. Review them in detail. Not only will this increase your chances of spotting fraud, but it will also remind you just what the company's cash is being spent on. The owner/manager's review of the bank statement puts a bookkeeper on notice that the boss is keeping an eye on transactions.

Please contact our office for details or for assistance in improving controls over your company's cash.

What's New in Finances

Unemployment benefits: Are they taxable?

Unemployment compensation can provide a welcome buffer while you're transitioning to a new job. But with the help comes a tax effect, because the benefits provided under federal or state laws are usually includable in your income in the year you receive them.

As a result, you may want to complete Form W-4V, Voluntary Withholding Request, to have federal income tax withheld from your benefits. You can also ask the unemployment office to withhold state income tax. Alternatively, you can adjust or begin making quarterly estimated tax payments.

If you receive and repay benefits in the same year, you can subtract the repayment from the total you received. However, if you make repayments in a year following the receipt of the benefits, the tax treatment depends on how much you repay, and can be claimed either as an itemized deduction or a credit against your current-year tax.

Please contact us if your employment situation changes. We can help with tax and benefit related issues such as severance pay, retirement account rollovers, and deductions related to job hunting.



New job? What to do with your 401(k) plan

Changing jobs can be a stressful event. A new boss, new co-workers, and new benefits to sign up for. These days you might well have one more decision to make - what to do with your 401(k) plan.

You'll have several choices. Unfortunately, the easiest choice is the worst choice: that is, to take a distribution from the old plan and put it in the bank. It may be tempting, because who couldn't use some extra cash. But if you do, you'll owe taxes on the balance and usually a 10% penalty as well. You'll lose the benefits of future tax-deferred growth on your savings. And if you spend the money, you'll have to start from scratch in saving for retirement.

Instead, consider the following three options:

- * Ask your new employer whether you can roll your balance into the new company's plan. If you can, arrange a direct transfer between plans. You may have to complete a probationary period before you can join your new company's plan.
- * Explore whether you can leave your balance in the old plan, at least for a while. That removes the pressure for an immediate decision. Later you may be able to transfer to your new plan or follow the third option.
- * Roll over your balance into an individual retirement account (IRA). This avoids immediate taxes and lets your savings continue to grow tax-deferred. It also gives you maximum flexibility for future investments. You even have the flexibility to later convert into a Roth IRA. Be sure to ask for a "trustee-to-trustee" transfer to avoid any short-term tax risk.

The bottom line: Do all you can to keep your savings in a tax-favored account. You'll be glad you did when you reach retirement age.

Please call our office if you're facing this situation. We'll be happy to advise you.

Take a Break

Wedding bells are pricey...

June is the month for weddings. According to a survey of 19,000 brides who married in 2010, the average cost of the wedding was \$21,592. This didn't include the engagement ring (an extra \$5,392 on average) or the honeymoon (an additional \$4,446). The average spent on each wedding guest: \$194.



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