CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – March 2011

Major Tax Deadlines
For March 2011

* March 1 - Farmers and fishermen who did not make 2010 estimated tax payments must file 2010 tax returns and pay taxes in full.

* March 13 - Daylight Saving Time begins.

* March 15 - 2010 calendar-year corporation income tax returns are due.

* March 15 - Deadline for calendar-year corporations to elect S corporation status for 2011.

* March 31 - Deadline for payors who file electronically to file 2010 information returns (such as 1099s) with the IRS.

* March 31 - Deadline for employers who file electronically to send copies of 2010 W-2s to the Social Security Administration.

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 changes filing deadline

This year the deadline for filing various tax returns normally due on April 15 is being changed to April 18, 2011. The reason? Washington, D.C. is observing its Emancipation Day holiday on April 15, and though that's not a national holiday, the Treasury Department has extended Tax Day 2011 to Monday, April 18. The new deadline applies to individual and partnership tax returns, extension requests, and other tax deadlines such as making 2010 IRA and education savings account contributions, and making the first 2011 estimated tax payment.

A new baby can bring a lower tax bill

If you had a baby in 2010, or you're planning on having one in 2011, you are not only getting a little bundle of joy, but you're also getting a significant tax deduction. The amount of the deductions and credits certainly won't cover the cost of raising your child, but every little bit of tax savings helps. A few of the tax issues that you should be aware of include the following items.

* **Additional exemption.** Your new baby generates an additional exemption to claim on your return, and with the 2010 exemption level at $3,650 ($3,700 for 2011), that could equate to some significant tax savings.

* **Child tax credit.** You are also allowed a $1,000 credit against your taxes for your new family addition. And if your tax liability is less than the maximum credit, Uncle Sam will give you a refund for the difference.

* **Dependent care credit.** If you pay for child care to allow you to work or look for work, you may qualify for the dependent care credit.

Don't overlook savings for college. The sooner you can start saving, the more you can accumulate to be used for future education expenses. Here are three tax-advantaged ways to save for your new baby's future college expenses.

* **Coverdell education savings account.** You can deposit up to $2,000 annually into this account with withdrawals treated as tax-free if used for education.

* **529 college savings plan.** This is another savings vehicle that allows you to put away even larger amounts for college expenses, with the earnings on the account treated as tax-free if used for education.

* **Roth IRA.** When your little one gets a bit older and begins to work, consider depositing some of that income into a Roth IRA account. This account can be used for education, or just for general investment, with no taxes due on qualified withdrawals.

So don't overlook the benefits in the tax code if you have a new addition to the family!

New Business

Make your S corporation election by March 15

If you own a small business corporation that operates on the calendar-year, you have until March 15, 2011, to choose S corporation status for this year. In order to become an S corporation, you'll need the unanimous approval of all shareholders.

The principal advantage of an S corporation is that you avoid paying double taxes. In a traditional C corporation, profits are taxed at the corporate level and then they're taxed again when paid to individual shareholders as dividends. In an S corporation, there are generally no taxes on earnings at the corporate level. Instead, profits or losses flow directly through to the shareholders. They pay taxes only once, when they report their share of earnings on their individual tax returns.

Another advantage: Doing business as an S corporation can be attractive in the early, unprofitable years of a start-up business. That's because operating losses flow through your personal tax return, perhaps offsetting other taxable income.

There are some trade-offs for these tax benefits, though. If you're an owner-employee and own more than two percent of the company, you'll receive less favorable tax treatment of some fringe benefits. There are also ownership limitations. The company can have only one class of stock, there can't be more than 100 shareholders, and all of the shareholders must be U.S. citizens or residents.

Despite these drawbacks, doing business as an S corporation can still offer some tax planning advantages. If you can meet the ownership requirements, it might be well worth considering an S corporation election. Contact our office for an in-depth analysis of the pros and cons for your company.

Cash in on the new business rules

Get an early start to maximize the new tax breaks for your business. The 50% bonus depreciation was increased to 100% - but only for assets purchased from September 9, 2010, through December 31, 2011. While this increase makes it seem there's little difference between bonus depreciation and Section 179 expensing, each election has distinct rules that can impact decision making. One example: Bonus depreciation is available only for new assets; expensing applies to both new and used assets.

Another depreciation break is the reinstatement of the 15-year expensing period for qualified leasehold improvements, restaurant property, and retail improvement property.

Qualified businesses with fewer than 25 full-time employees can receive a tax credit of up to 35% of employer-paid health care costs.

Another fringe benefit to consider is the tax-free reimbursement of employees' mass-transit commuting expenses. Workers can be reimbursed up to $230 per month for qualified highway vehicle transportation and transit pass expenses, and up to $20 per month for bicycle commuting costs.

While it doesn't reduce your tax bill, you might raise your workers' morale by informing them that they no longer have to account for the personal use of their company-provided mobile phone. Such recordkeeping requirements were eliminated last year.

What's New in Finances

Early investment planning can save taxes

Capital gain rates will remain at a maximum of 15% (and a minimum of 0%) through December 31, 2012. The rates apply to qualified dividends and long-term gains from investments you sell. That makes 2011 a good time to implement strategies for potential tax savings.

One example: You may be able to manage your income to stay within the 10% or 15% income tax brackets, which would allow you to take advantage of the 0% capital gain rate.

Alternatively, you could gift appreciated stock to family members in those brackets. For 2011, the cutoff for the 15% bracket is $69,000 of taxable income when you're married filing jointly ($34,500 for singles).

It might be time to "harvest" some of your unrealized gains in case tax rates rise again in the future. Also a tax-savvy way to completely eliminate your capital gains tax might be to donate appreciated stock to charity and receive a deduction equal to the security's current market value. Special rules apply to noncash donations, so check with us before you move forward on this strategy.

Are you saving enough? Here's how to get your savings program on track

With the economic downturn still fresh in the minds of most Americans, you'd think rates of saving would be climbing through the roof. Surely people recognize - at long last - the need to sock away more money. After all, the job market is unstable, the stock market uncertain, and housing values notoriously unreliable. But one recent study showed that American savings rates have increased only slightly in the past decade, from 2.9% to 3.6%. That's substantially less than Americans were saving in the 1980s, and much lower than savings rates in some other developed countries.

*** So what's to be done?** How can we ramp up our savings? Clearly, cutting back on cable television channels, packing a lunch once a week, or dropping a magazine subscription won't generate substantial savings. If you're really committed to building wealth, it's essential to focus on the big stuff. For many Americans, that means attacking household debt with a vengeance.

If your credit card payment is big, your car payment bigger, and your mortgage payment even bigger, your savings accounts may be starved. And without enough cash to cover emergencies, many folks resort to credit cards and lines of credit to cover unforeseen expenses. So the cycle continues.

*** How can you get ahead of the curve?** First, build up an emergency fund before life's inevitable crises happen. How much should you set aside? The general rule is enough to cover three to six months of living expenses. As a first step, track your expenses for a month. Discover how much you really spend on groceries, utilities, and dinners out. Then project those expenses out three to six months.

Next, look at your income. How stable is your job? Do you have one or two salaries? How long might it take to find another job in your field? Use those factors to determine the target for your emergency account. Finally, think about where to stash your savings. You want the funds to be available - without withdrawal penalties or tax consequences - when you need them. With that in mind, a money-market or interest-paying savings account is often the best place to park an emergency fund.

* **How can you stay on track?** Once you have an emergency fund, follow these steps to keep your savings plan on track.

Treat your savings as your most important monthly bill. Write a check to savings first, or have your savings automatically deducted from your checking account or paycheck.

Tax-deferred retirement accounts offer a smart way for you to save money for retirement. If your employer offers a 401(k) or SIMPLE retirement plan, contribute the maximum amount allowed. If your employer offers no plan, contribute to an individual retirement account (IRA). The money you contribute to a retirement account can reduce your taxable income and grow tax-free until withdrawn.

When it comes to saving, think "control." For example, control the use of your credit cards. The amount you pay each month in finance charges could go to savings instead. Also, control the use of your ATM card. Get in the habit of giving yourself a regular cash allowance, and try to live with it.

Take a Break

An unusual year...

This year we will experience four unusual dates: 1/1/11, 1/11/11, 11/1/11, 11/11/11.

Now go figure this out: Take the last two digits of the year you were born plus the age you will be this year, and it will be equal to 111!