



Online Advisor – November 2011

Major Tax Deadlines

For November 2011

During November: It's wise to estimate your 2011 income tax liability and review your options for minimizing your 2011 taxes. Call us if you would like to schedule a tax-planning session.

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 expands innocent spouse relief

If you file a joint income tax return with your spouse, you are considered "jointly and severally" liable for the payment of all taxes owed. The IRS can come after either you or your spouse for the entire amount of tax due, plus any penalties and interest due.

The law has "innocent spouse" rules that may limit an individual's responsibility for unpaid taxes resulting from filing a joint return. If the "innocent spouse" can establish that he or she did not know, or have reason to know that there was an understatement of tax when signing the joint return, relief can be requested. This relief had to be requested within two years after collection proceedings were initiated by the IRS.



In a new 2011 ruling, the IRS has decided to eliminate the two-year time limit for requesting innocent spouse status under the "equitable relief" provision in the law.

What you should know about the sales tax deduction

The sales tax deduction is available for 2011 tax returns. Here are answers to your questions regarding this deduction.

Q. Can I deduct my sales taxes?

A. You're allowed to deduct either your sales taxes or your state income taxes. If you live in a state that imposes no personal income tax, you would choose to deduct sales taxes, but you must itemize your deductions to benefit.

Q. If I live in a state with income taxes, should I just ignore the sales tax deduction?

A. Absolutely not. While those living in no-tax states (i.e., Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) will receive the greatest benefit, many taxpayers residing in low- to middle-tax states will also benefit. And if your income (and state tax) is modest, it's quite possible that the sales tax deduction will be greater.

Q. How is the sales tax deduction computed?

A. The IRS has issued tables that provide for the amount of anticipated sales taxes paid, given your income level. Of course, if you are inclined to keep your records, you can deduct the actual sales tax that you pay rather than using the IRS tables.

Q. How about "big ticket" items?

A. The IRS allows you to supplement the deduction allowed by the table with actual sales taxes paid on larger purchases. This includes vehicles (either purchased or leased), motor homes, recreational vehicles, trucks, vans, aircraft, boats, and homes. Mobile homes, prefabricated homes, and home-building materials also qualify.

Q. Would I consider claiming the sales tax deduction rather than my state tax deduction if they are virtually the same?

A. You might. Because of the tax benefit rule, state tax refunds that you receive are generally taxable to you on your federal return the following year. But that isn't the case for the sales tax deduction.

Q. Can I also claim city or local sales taxes?

A. Yes, you can. The IRS provides a formula which will allow you to compute your city and/or local sales taxes and add them to your state tax table amount, thereby increasing your sales tax deduction by those amounts.



There is more to the sales tax deduction than meets the eye. Claiming it or not isn't necessarily a "slam dunk" proposition. If you have questions about this deduction in your specific tax situation, give us a call.

New Business

New worker classification program announced by IRS

Companies that have worker classification issues are being offered a settlement program by the IRS. The program, labeled the "Voluntary Worker Classification Settlement Program," will let employers who previously misclassified employees as independent contractors make a minimal payment to settle the tax dispute. The program will give eligible employers substantial relief from federal payroll taxes they may have owed. Employers must pay just over 1% of wages paid to reclassified workers for the past year, and they must agree to treat these workers as employees going forward.

Make the right pricing decision

In business, making pricing decisions is always tough - and even more so when the economy is slow and sales are slipping. It's tempting to cut prices hoping to generate higher sales volume. But sometimes that just produces lower margins on a low volume. What do you do if you're being squeezed by cost increases? Can you increase prices in a slow economy? How do you respond if your customers complain? Can you justify holding prices steady if your competitors cut their prices?

There are no easy answers, but running through a three-step process can help you make the right decision.

1. Know your strengths. How does your product or product range stack up against the competition? Are your products higher quality, lower quality, or indistinguishable from your competitors' products? Do you have an edge that can justify higher prices?

How about all the other elements that make up your total service package? Do you provide a bigger inventory, faster delivery, better payment terms, wider product line, better service on returned items? If not, can you change your operations to gain an edge in any of these areas?



Consider holding a brainstorming session with your salespeople to go over these questions. The answers might point the way to pricing decisions, and they'll certainly give you good replies to customer pricing objections.

2. Put yourself in your customers' shoes. Try to understand your customers' needs. Are they under profit pressure? What changes are occurring in their industry? How can you adjust your products or service to add value for them - value that they might be willing to pay for? What are their alternatives if you raise prices? If your salespeople are staying in touch with their customers, they should already have the answers to many of these questions.

3. Know your competition. Run through the same questions you asked about yourself applied to your competitors. What are their strengths and weaknesses? What can they offer your customers that you can't? How will they respond if you change prices? Here again, your sales staff should have good information on the competition they face.

When you've worked through these three steps you should have a much better idea of the likely competitive effect of a price change. Run some profit scenarios and then review your pricing decision with your salespeople. Make sure they understand the rationale, and jointly rehearse how they'll present the change to customers.

For assistance with pricing issues in your business, give us a call.

What's New in Finance

Debt and needy children cloud financial picture for retirees

Recent research reveals that Americans are finding it hard to retire in financial comfort, thanks to too much debt and adult children needing financial assistance.

The biggest debt issue for people in the 60 to 64 age group, according to a survey reported in the "Wall Street Journal," is home mortgages. In 2010, 39% of couples in this age group had primary mortgages; 20% had secondary mortgages. That's an increase from 22% and 12%, respectively, reported in 1994.

Another part of the problem for retirement-aged Americans is the expectation that their adult children will need financial assistance from them. According to one study, 70% of older Americans think they will have to help adult children financially. In fact, a poll by a nonprofit organization revealed that 59% of working parents are already providing financial support to adult children in the 18 to 39 age group. In order to help children, 7% of older Americans say they have delayed retirement and 26% have taken on new debt.



Choosing your executor: A critical estate planning decision

An executor is the person or legal entity that you appoint in your will to settle your estate after your death. It is common practice to name your spouse or one of your children (often the first born) to be the executor of your estate. Such a choice may be entirely appropriate. However, there are circumstances where you should consider other possibilities.

Your executor will be required to gather your assets and pay debts, taxes, and expenses. The executor may be called upon to liquidate assets and will need to distribute money and assets under the direction of your will, with the appropriate legal and tax considerations.

If you do not appoint your spouse or some other family member to be your executor, what other choices have you? You could use a corporate executor, such as a trust company, or you may want to choose an accountant, attorney, investment advisor, or a business associate.

Do not pass up a nonfamily executor simply because there is a fee involved. Often the conflict of interest or the contests that result by naming a family member can be far more costly to the estate than the fees charged by an outsider.

Selecting an executor for your estate is as important a decision as naming your heirs. Give some thought to the complexity of your estate and select an executor accordingly.

Take a Break

Tax the rich? Who's rich?

Warren Buffett has been the poster boy for the current "tax the rich" movement. Just how rich is Mr. Buffett? Well, to begin with, he's #2 on the Forbes' list of richest Americans, right behind #1 Bill Gates. Buffett's net worth is \$39 billion; Gates's net worth is \$59 billion.

Buffett says he earned close to \$63 million last year and paid only \$7 million in federal income tax.

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