



Online Advisor – October 2011

Major Tax Deadlines For October 2011

- * October 3 - Generally, the deadline for self-employeds and small businesses to establish a SIMPLE retirement plan for 2011.
- * October 17 - Deadline for filing 2010 individual tax returns on automatic extension of the April 18 filing deadline.
- * October 17 - If you converted a regular IRA to a Roth IRA in 2010 and now want to switch back to a regular IRA, you have until October 17, 2011, to do so without penalty.

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

Take advantage of expiring tax breaks

A number of tax breaks are due to expire at the end of this year. Though Congress may renew some or all of them, there is no way of knowing if or when they will. As part of your year-end 2011 tax review, consider whether any of these opportunities to cut your tax bill fit your situation.

- * The option for deducting state and local sales taxes in lieu of deducting state and local income taxes.



- * The above-the-line deduction for up to \$4,000 of higher education expenses.
- * The above-the-line deduction of up to \$250 for classroom supplies purchased by teachers.
- * The tax-free charitable contribution from an IRA of up to \$100,000 allowed for taxpayers 70½ or older.
- * 100% bonus depreciation on new equipment purchased by business.
- * \$500 energy credit for energy-saving expenditures for your personal residence.
- * Section 179 expensing election on up to \$500,000 of new or used business equipment purchases.

Consider making gifts before year-end

A lifetime gifting program might trim both your estate and income taxes. First, there's the annual exclusion for gifts. Currently, you can give \$13,000 annually to any number of recipients without paying federal gift tax. Married couples can double this amount by gift-splitting; a gift of \$26,000 from one spouse is treated as if it came half from each.

Gifts do more than help out children who need the money. They also reduce your estate so your estate will pay less estate tax upon your death. Apart from annual gift giving, you can transfer (during your lifetime or through your estate) a total of \$5,000,000 with no estate or gift tax liability. On amounts above this threshold, you or your estate will be faced with taxes at the current top rate of 35%. So a consistent program of annual gift giving might create substantial tax savings.

Note that gifts to individuals do not entitle you to an income tax deduction. A gift isn't a charitable contribution. Conversely, a gift doesn't constitute taxable income to the recipient. Gifts of income-producing property may, however, reduce your taxable income. Once you've given the property away, the recipient, not you, receives the income it produces and pays any income tax due on it.

One advantage to annual gift giving is that it is relatively simple to do, especially if you're giving away cash. Another advantage is flexibility. You're not locked into anything; you can see how much you can afford to give away each year. You can give away anything — cash, stock, art, real estate. Valuation is the fair market value on the date of the gift. Subsequent appreciation, if any, belongs to the donee's estate, not yours.

Before you give away assets, be sure you will not need them yourself to provide income in later years. Consider the impact inflation will have on your resources.

Proper planning is essential in this area; get professional assistance before you do any gift giving. Contact our office if we can help.



New Business

Two surveys reveal workplace information

Two recent surveys reveal some interesting things about what's important to employees and employers.

In the first survey, employees were asked what was most important about their job. Job security came in first, with health benefits a close second. Other things mentioned as being important to employees were a balance between work and life, salary, and retirement benefits.

The second survey asked employers what mistakes job candidates made most frequently in job interviews. The biggest mistake candidates made was having little or no knowledge of the company at which they were applying. Other big mistakes applicants make included being unprepared to discuss their skills or their goals and failing to make eye contact with the interviewer.

Stay alert to spot employee theft

Employee theft happens more frequently than you hear or read about. It's believed that only a small percentage of cases of employee dishonesty are reported and prosecuted. Too often, the employee is just dismissed and moves on to steal from someone else. In other cases, especially where financial controls are weak, the employee may steal small amounts for years without being detected.

There are many things you can do to spot employee theft in your business. Have an inquiring mind, ask lots of questions, and never accept answers that don't make sense. Spend time each month monitoring your financial results. Look for inconsistencies, such as inventory declining in a slow sales month or excessive customer returns. Listen to customer complaints about late deliveries or missing items, and don't accept "computer problems" as an excuse. If you know your business, you don't have to be an accounting expert to sense when something is wrong.

You could also spot-check your accounting records by reviewing one category each month. For example, you might scan the check register to see just what payments are being made. Look for missing check numbers and ask to see any voided checks. Another month you might review the payroll log or look over the records of returned items. Look for multiple entries of similar items or suspicious customer names.

Finally, watch your employees for changes in behavior or spending that seems to be beyond their means. And beware of an employee who insists on doing all the detail work and never takes a vacation. It could be the sign of someone with something to hide.

For assistance with this or any business problem, contact our office.



What's New in Finances

Census Bureau statistics show income decline

The annual report from the Census Bureau shows that median household income dropped 2.3% last year to \$49,445. That reflects a 7.1% drop from 1999 income after adjusting for inflation.

The percentage of Americans living in poverty increased to 15.1%, with 22% of children living below the poverty line (set at \$22,314 for a family of four in 2010).

Fewer Americans had health insurance coverage in 2010, with the uninsured rising to 16.3% from 13.1% in 2000.

One bright spot: Per capita net worth rose to \$169,691 at the end of 2010, up from \$147,889 in 2007.

Take advantage of the tax-free IRA charitable rollover

The "Tax Relief Act of 2010" extended the provision that allows taxpayers age 70½ or older to make charitable donations of up to \$100,000 directly from their regular or Roth IRAs. But the provision is set to once again expire after this year. Should you take advantage of this option in 2011?

Charitable IRA rollovers are penalty-free withdrawals that are neither included in, nor deducted from, your taxable income. Such withdrawals qualify as required minimum distributions (RMD) from your retirement account. Thus, if you do not need the IRA distribution to live on, and you wish to make a donation, a charitable IRA rollover might be a win-win strategy.

Who are the best candidates for the tax-free IRA charitable rollover?

- * If you need to take your RMD, but do not need the money and do not want to pay the tax on the distribution, doing a charitable rollover would keep the RMD from inclusion in your taxable income.
- * If you make large donations, and your charitable contribution deduction is limited due to the 50% or 30% of AGI limitations, this may be an opportunity for you to continue to fund your charities and not exceed the limitations.
- * If you are receiving social security, it may be better to make the IRA gift directly to charity so taxable income doesn't increase and subject your social security benefits to taxation.
- * If you claim the standard deduction, a donation to charity is not deductible. But you can make the IRA gift directly to charity and avoid additional income tax on the RMD.
- * If you want to reduce your taxable estate, a charitable IRA rollover can reduce your taxable estate by \$100,000 (\$200,000 for a couple).



Keep in mind that there are unique restrictions on this type of charitable gift. The IRA rollover cannot be contributed to a donor advised fund or supporting foundation. Also, if any benefit is received in exchange for the gift, such as dinner tickets, the entire distribution becomes taxable. As with any donation, the charity needs to provide you with a tax receipt containing all the proper substantiation for your contribution. Without it, the gift is disqualified. Also be aware that the donation must be made directly from the IRA to the charity and not paid to you first.

The charitable IRA rollover is a powerful new tool for tax and gift planning. But remember, the provision is set to expire this year. Give our office a call today for assistance in analyzing whether this option is a tax-smart move for you.

Take a Break

Some tax facts

Some tax facts from National Taxpayer Advocate Nina Olson's annual report to Congress:

- * Americans spend 6.1 billion hours preparing their taxes every year.
- * There have been 4,428 changes to the tax code over the past ten years.
- * Nine out of ten Americans have someone prepare their tax return or use tax software.
- * The tax code is so long that no one is certain exactly how long it is.

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