Cirimelli, Pyle & Associates LLP
Certified Public Accountants

Online Advisor - February 2012

Major Tax Deadlines For February 2012

* February 15 - Deadline for brokers to provide 2011 Forms 1099-B and 1099-S to customers.

* February 28 - Payors must file 2011 information returns (such as 1099s) with the IRS. (Electronic filers have until April 2 to file.)

* February 29 - Employers must send 2011 W-2 copies to the Social Security Administration. (Electronic filers have until April 2 to file.)

For March 2012

* March 1 - Farmers and fishermen who did not make 2011 estimated tax payments must file 2011 tax returns and pay taxes in full.

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.

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What's New in Taxes

Update on the payroll tax cut extension

Last December, the 4.2% social security tax rate that workers pay on wages was extended through February 29, 2012.

Now a Congressional conference is being held to find a way to extend the lower tax rate through the end of 2012. The sticking point is lack of agreement between Republicans and Democrats on how to pay for the extension, estimated to cost $100 billion.

House Democrats have expressed the hope that the conference will be completed by the Presidents' Day recess scheduled for the week of February 20. The legislation would extend the current 4.2% payroll tax rate through December 31, extend unemployment insurance benefits, and prevent cuts in reimbursements to Medicare providers.

Several legislators want to include tax extenders in the payroll tax cut legislation. These "extenders" include such provisions as the research and development credit for businesses, the optional deduction for state and local sales taxes, and the $250 deduction for school supplies purchased by teachers.

Though these tax breaks appear to be universally popular, finding a way to pay for them remains the big issue.

As you do your 2012 tax planning, keep the uncertain legislative picture in mind.

IRS adjusts 2012 tax numbers

Each year the IRS adjusts certain tax numbers for inflation and tax law changes. Here are some of the adjusted numbers you'll need for your 2012 tax planning.

* **STANDARD MILEAGE RATE** for business driving remains at 55.5¢ a mile. Rate for medical and moving mileage decreases to 23¢ a mile. Rate for charitable driving remains at 14¢ a mile.

* **SECTION 179** maximum deduction decreases to $139,000, with a phase-out threshold of $560,000.

* **TRANSPORTATION FRINGE BENEFIT** limit decreases to $125 for vehicle/transit passes and increases to $240 for qualified parking.

* **SOCIAL SECURITY** taxable wage limit increases to $110,100. Retirees under full retirement age can earn up to $14,640 without losing benefits.

* **KIDDIE TAX** threshold remains at $1,900 and applies up to age 19 (up to age 24 for full-time students).

* **NANNY TAX** threshold increases to $1,800.

* **HSA CONTRIBUTION** limit increases to $3,100 for individuals and to $6,250 for families. An additional $1,000 may be contributed by those 55 or older.

* **401(k)** maximum salary deferral increases to $17,000 ($22,500 for 50 and older).

* **SIMPLE** maximum salary deferral remains at $11,500 ($14,000 for 50 and older).

* **IRA** contribution limit remains at $5,000 ($6,000 for 50 and older).

* **ESTATE TAX** top rate remains at 35%, and the exemption amount increases to $5,120,000.

* **ANNUAL GIFT TAX EXCLUSION** remains at $13,000.

* **ADOPTION TAX CREDIT** decreases to $12,650 for adoption of an eligible child.

New Business

Many small businesses fail to take this tax credit

Health care legislation passed in 2010 included a tax credit for small businesses that provided health care coverage for their employees. Recent surveys have shown that the majority of small companies that could qualify for the credit have failed to take it. The reasons given for ignoring the credit ranged from being unaware of it to finding the credit too complicated to compute.

*** Take another look**
If your business or nonprofit organization might be eligible, perhaps you should take another look at the requirements and be sure you're taking advantage of this tax break. If you qualify, you can use this tax credit to offset your federal income tax liability by up to 35% of the cost of health insurance premiums you pay for employees. Since this is a tax credit, not a deduction, it will reduce your tax bill dollar-for-dollar.

*** The basic requirements**
In general, the credit is available to employers that have fewer than 25 full-time equivalent (FTE) employees paying average annual wages of less than $50,000 per employee. Eligibility is based partially on FTEs, not the number of employees; therefore, an employer with fewer than 50 half-time workers could qualify for the credit. The maximum credit goes to those employers with ten or fewer employees who pay annual average wages of $25,000 or less.

When you're self-employed, either as a partner or a sole proprietor, or if you own more than 2% of an S corporation, you're not considered an employee for purposes of the credit.

Tax-exempt organizations can use the credit to offset payroll tax liability (up to 25% of qualified premiums paid).

For assistance in determining eligibility for this tax credit and in doing the calculations to obtain the credit, contact our office.

Are you prepared for these common business problems?

When the economy is uncertain, you must be extra careful to avoid the types of disasters that could ultimately lead to your company's demise. Fortunately, some advance planning may prevent or alleviate severe problems. Here are seven common scenarios facing owners and managers of small to mid-sized businesses.

* **A natural disaster damages the premises.** Of course, you can't control the weather or other unforeseen circumstances. But damage to a business building caused by a natural disaster could temporarily shut down the operation. It can even ultimately put you out of business. Make sure that you have adequate insurance and that valuable business data is stored at a secure site.

* **A key employee joins a competitor.** There is always the risk that one of your top employees will switch jobs. However, this can be especially troublesome if the employee goes to work for your main competitor. Avoid this possibility by having key employees sign noncompete agreements. Typically, such an agreement will prohibit an employee from working for a competitor for a certain period.

* **An employee embezzles company funds.** All too often, business owners are swindled by seemingly trustworthy employees. Don't think you are immune. To safeguard your assets, pay close attention to monetary transactions. Divide responsibilities so that one person doesn't have complete control over the books. Set up a system of "checks and balances."

* **You lose your biggest customer.** One of your main customers might choose to do business elsewhere or will no longer need your products or services. Don't put yourself in a position of depending on just one or two accounts. Take steps now to diversify the business to protect against a severe downturn in cash flow.

* **You become disabled.** If your services are integral to the company's success, your fortunes will likely suffer should you ever become disabled. Consider taking out "key-person" insurance that can provide funding until you're back on the job or the necessary provisions are made. Such a policy may also cover employees who are vital to the operation.

* **Your company or partnership splits up.** Even relatives and the best of friends should develop contingency plans for a business break-up. The sale of a party's interest, including a forced sale upon the death of one of the shareholders or partners, may be addressed in a buy-sell agreement.

This document could establish the terms of a buy-out and set a value for the respective business interests.

*** Your computer system crashes.** If your business is like most, it relies heavily on technology to run more efficiently. You can well imagine the repercussions if your computer system fails or it is damaged by a virus or hackers. Have a plan that provides optimal security and creates regular back-ups.

What's New in Finances

New filing requirements for foreign investments

If you own foreign investments, you may have an additional federal tax filing requirement this year.

Form 8938, "Statement of Specified Foreign Financial Assets," is due April 17, 2012, and is filed as part of your individual tax return. You'll use Form 8938 to disclose interests in certain foreign financial accounts when your ownership exceeds the reporting requirements.

What are the reporting requirements? They vary depending on where you live and your filing status. For example, say you’re married and live in the United States, and you'll file a joint tax return for 2011. You'll include Form 8938 with your tax return when the total value of your reportable assets on the last day of 2011 is more than $100,000, or if the value exceeds $150,000 at any time during the year.

Tip: In some cases, you may also need to file Form 8938 for tax year 2010.

Reportable assets include investment accounts you own that are held in foreign financial institutions, interests in foreign entities, and stocks or securities issued by foreign individuals or companies.

You've probably noticed the reporting requirements are similar to the "Report of Foreign Bank and Financial Accounts" (FBAR), a separate return you may already be filing. Be aware the new Form 8938 does not replace the FBAR, which you'll still need to complete by June 30.

Penalties for failure to file Form 8938 start at $10,000. We urge you to contact us so we can help you evaluate your filing requirements for foreign investments.

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Saving for retirement is a serious issue for women

Studies show that women often lag behind men when it comes to saving for retirement. That's especially troubling when you consider that, on average, women outlive men by three to seven years. One study, for example, found that a female retiring at age 65 can expect to live three years longer than a man retiring at the same age.

Women may accumulate less in a retirement account for a variety of reasons. For one thing, a woman's career is more likely than a man's to be interrupted to care for family members. Also, women are more often employed in part-time jobs. They may work for small businesses that don't offer retirement benefits, or in industries with low pension participation rates (such as the retail sector). When they do contribute to retirement plans, women tend to contribute less: 6% of gross income for women versus 7% for men, according to one survey. Women (again, on average) tend to invest more conservatively than men. Historically speaking, lower risk translates to lower investment returns and a smaller retirement fund.

What's a woman to do?

* **Stay informed.** Even if your spouse handles the family finances, discuss expected sources of retirement income, including pensions, life insurance policies, and social security. Make adjustments as needed to ensure that all expenses will be covered, even if your spouse precedes you in death.

* **Save more.** If still working, contribute as much as possible to your employer's retirement plan.

* **Don't quit until you're vested.** If you stick with a company for a specified time period (five years is common), you may be "vested," meaning you're entitled to benefits even if you leave that particular employer. It's important to know your company's vesting policies. Sometimes women mistakenly quit a job before being fully vested in the company retirement program.

* **Open a spousal IRA.** Even if you're not working outside the home, open an individual retirement account in your own name. Your spouse can contribute to that account, up to $5,000 a year ($6,000 if you're 50 or older).

* **Review life insurance policies.** Make sure you're named as the beneficiary on your spouse's life insurance policy. Also, review ownership of the policy to eliminate unexpected tax surprises.

For guidance in your retirement planning, give us a call.

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Take a Break

Quote of the year...

Milton Friedman gives us the "Quote of the Year":

"If you put the federal government in charge of the Sahara Desert, in five years there would be a shortage of sand."

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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