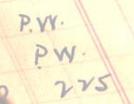# Newsletter – July 2010

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Health Reform and Medicare Part D

The Patient Protection and Affordable Care Act signed into law on March 23, 2010 makes several changes to Medicare Part D to reduce your out-of-pocket costs when you reach the donut hole (coverage gap – total prescription costs of over $2,830…then you are required to pay 100% costs until $4,550), including:

- In 2010, if you have expenses in the coverage gap, you will receive a $250 rebate from Medicare.
- Beginning in 2011, if you reach the donut hole, you will be given a 50% discount on the total cost of brand name drugs while in the gap.
- Medicare will phase in additional discounts on the cost of both brand name and generic drugs.

By 2020, these changes will effectively close the coverage gap and rather than paying 100% of the costs, your responsibility will be 25% of the costs.

S Corporations – Payroll and Dividends

Owners of S corporation firms cannot avoid payroll taxes by taking a nominal salary and getting the rest of the profits as dividends, a court says. In this case, a CPA took a $24,000 annual salary from his S firm, which paid payroll taxes on it. He also received $220,000 in dividends from the corporation free of payroll tax. IRS said that his salary was unreasonably low and that $175,000 of the dividends should be treated as wages and hit with payroll tax. The court upheld IRS' power to recharacterize the dividends as wages subject to payroll tax (Watson, D.C., Iowa).

Congress will end such shenanigans. The Senate will approve a House bill that taxes profits of small personal service S corporation firms, starting in 2011.

Real Estate – Home Buyer Credit

Some relief may be coming on the home buyer credit: Under current law, if you signed a binding contract by April 30 to purchase an existing home, you only have until June 30 to close the deal and earn the $8,000 first timer credit or the $6,500 credit for long-time owners. Now, Congress is eyeing an extension of the June 30 cutoff date to Sept. 30 because of reports that a number of buyers are experiencing paperwork delays that will cause them to miss the deadline. Note that lawmakers won't expand the credit to apply to purchases after April 30.

Health Reform

More on reporting the value of employer provided coverage (ex. Health insurance paid) on W-2 forms: That amount will NOT be taxed as income in 2011, although employers will have to list the value separately on W-2s, beginning with those for tax year 2011.

Words of Wisdom

"They say time changes things, but actually you have to change them yourself."   ---- Andy Warhol

Boost your productivity

"If you effectively utilized just 10 more minutes each workday, it would be like having an extra week a year on the job to get things done," says time management consultant Rebecca Morgan. In just a few minutes you can:

- Make a quick phone call.
- Plan your day, week, or month.
- Write a to-do list or put important deadlines and upcoming meetings in your day planner.
- Answer an e-mail or write a note to a customer.
- Clean off your desk or straighten your work area.
- Do some filing.
- Read a short article.

Postal Rates

Come Jan. 2011, mailers will have to pony up more. A 2 cents hike in the price of first-class stamps and up to a 5% boost in postage for magazines, catalogs and bulk mail are likely as the U.S. Postal Service keeps racking up operating deficits.

Tax-free medical coverage for employees' children under 27

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 provide that medical coverage of an employee's children under age 27 can be tax-free, as follows [IRS Notice 2010-53, 2010-38]:

Children need not be claimable as dependents. Starting with the first plan year that begins after Sept. 23, 2010, plans may not bar these children from coverage. As of March 30, 2010, employers can voluntarily cover children under age 27.

Upgrade Your Homeowners Insurance

Without adequate home insurance, you may not be able to cover rebuilding your home and replacing its contents in the event of total loss. The policy should include an inflation guard as well as extended-replacement coverage, which insures the difference if the price to rebuild exceeds your dwelling limit. Check for building-code coverage, which helps with any discrepancy between the limits of coverage and the actual cost to rebuild. Look for loss-of-use coverage that includes 24 months of housing and related expenses while rebuilding takes place. Overlay your homeowners policy with an umbrella policy providing at least $1 million of liability protection beyond standard coverage. And be sure to make a list of everything in your home.

SALES TAX HOLIDAY
Friday, August 6, 2010 to Sunday, August 8, 2010

Certain purchases will be exempt from the sales and use tax during this time period only. Some of these items will include clothing, footwear, school supplies, computers, printers, etc. For more details, go to www.sctax.org and look under the "What's New" section. If you do not have access to the internet, please call our office and we will provide you a copy of the details!

Businesses: Please remember to make these adjustments on your cash registers/and or computer systems.

HIRE (Hiring Incentives to Restore Employment) ACT

There are two new tax benefits available to employers who hire certain previously unemployed workers ("qualified employees").

Qualified Employees

- Must start after February 3, 2010 but before January 1, 2011. Credit is only for wages paid after March 19, 2010.
- Must have been unemployed or employed less than 40 hours total during the 60-day period ending on the date employment begins. The new law requires that employers get a statement from each eligible new hire. Employers can use Form W-11 to meet this requirement.
- Does not apply to wages paid to an employee who is hired to replace an existing worker unless they quit or were terminated for cause. It also does not apply to family members.

1. **Payroll Tax Exemption**: For each qualified employee hired between March 19, 2010 and December 31, 2010, employers are exempt from their 6.2% share of Social Security. This credit will be claimed on Form 941 starting 2nd Quarter 2010.

2. **New Hire Retention Credit**: For each qualified employee retained for 52 consecutive weeks, there is an additional credit of 6.2% of wages paid over the course of the 52 week period up to $1,000. This will be claimed on the 2011 business income tax return.

AFFORDABLE CARE ACT

- Max Credit
  - 25% for tax exempt organizations
  - 35% for businesses
  - 2014 increases to 35% and 50%

- Small employer defined
  - Employees with less than an average of 25 Full Time employees and with average wages less than $50,000

- The max credit goes to employers with an average of 10 Full Time employees with average wages less than $25,000. The credit is reduced for anything over this. To determine the reduced credit, call our office for assistance.

- Employer must cover at least 50% of health insurance premiums for some workers at a minimum of the single rate.

- Owners or family members are not considered employees for purposes of calculating this credit. Do not use their wages, hours, or premiums in calculating the credit.

- The amount of an employer's premium payments that counts for purposes of the credit is capped at the small group market in their State
  - SC
    - Employee only: $4,899
    - Family: $11,780

DUE DATES

July
    15th Payroll Tax Deposits
    20th Sales/Hospitality Tax
    20th Quarterly Sales Tax
    31st Quarterly Reports
    31st IFTA

August
    6th, 7th & 8th – SC Sales Tax Holiday Weekend
    16th Payroll Tax Deposits
    20th Sales/Hospitality Tax
    31st Form 2290 Heavy Highway Vehicle Use Tax Return

September
    15th Payroll Tax Deposits
    15th Estimated Tax Payments
    15th Corporate Returns on Extension
    20th Sales/Hospitality Tax