Newsletter – October 2011

Robin J. Walling, EA
Walling's Accounting & Tax Service, LLC
309 Maxey Street * Walterboro, SC 29488
Phone: 843-538-8786 * Fax: 843-538-4722
Mobile phone: 843-893-8065
E-mail: robinw@wallingsaccounting.com
Website: www.wallingsaccounting.com

Home Sales and the 3.8% Medicare Surtax

Rumors that all home-sale profits will be hit by the 3.8% Medicare surtax are false. In fact, the special tax will rarely apply to home sales. Yes, the health care reform law imposes the surtax on investment income starting in 2013. But it applies only to singles with adjusted gross incomes over $200,000 and married couples with AGIs over $250,000. And most home-sale profit won't show up in AGI, since the first $250,000 of gain is tax-free ($500,000 for married couples) if the home was owned and lived in for at least two of the five years before the sale. Only profit above those levels can fall victim to the surtax, and then only for higher-income taxpayers. But note this: Profits on sales of rental properties and second homes could be hit by the 3.8% surtax after 2012.

Vehicle & Property Taxes

"Attention all Colleton County residents"

It has come to our attention that when you use the county treasurer's website to look up your taxes, that you cannot tell when the taxes were actually paid. This makes a big difference if you are claiming this on your tax return. Also when you go by their office or call them they will only tell you what was paid for the tax year in question. So if you paid some back taxes for the year 2000 & paid your current 2010 taxes you will probably only get the 2010 figure <u>unless</u> you ask for that particular tax year. Our suggestion is to KEEP ALL TAX RECEIPTS and bring them in with your tax return information each year.

REVISED Unemployment Rates

BE ON THE LOOK OUT!

SCDEW has issues the revised unemployment rates. You should have already received them by now. Make sure and changes these in your QuickBooks system. This will be for all four quarters for the year 2011. For some clients there may be a refund.

- Federal law requires that any overpayments from the first quarter must remain as credit with the agency to be applied as payment toward future taxes. Credits applied to business accounts will require no action on the part of the business.
- Any overpayments from the second quarter can be refunded upon request. Businesses can request refunds by mail (1550 Gadsden St., attn: TAX, Columbia, SC 29202) or electronic mail (rateinfo@dew.sc.gov). It has been our understanding that if your refund is $300 or less the SCDEW would like for you to apply this money towards future quarters but anything over the $300 can be requested from the above address or e-mail link.
- Beginning October 1, businesses will be able to view credits and request refunds using a new web portal that will be announced through http://www.dew.sc.gov/emp-land.asp.

Best Rewards Cards

If you pay off your balance each month, rewards cards can be very rewarding-especially if the card complements your spending habits. Among cash-back cards, try Chase Freedom, Blue Cash Everyday, Bank of America Cash Rewards Visa Signature and Capital One No Hassle Cash Rewards. For travel rewards, checkout US Bank FlexPerks Travel Rewards Visa Signature, PenFed Premium Travel Rewards American Express and Simmons First Visa Platinum Travel Rewards. For payback on gas purchases, consider BP Visa; for the most flexibility, Citi Thank You Preferred.

To Control business, *Budget!*

Ongoing comparisons of budgeted v. actual numbers let management stay in control by constantly measuring what should be against what is, revealing problems before the company suffers a big loss for the period. Budgets also help a company improve money management, plan for the future and make better decisions. This is one reason why many creditors require a budget to make a loan.

- Each company decides what period to budget for: month, quarter, or year or a combination of these.
- For an annual budget, start planning at least 3 months before the end of the current year—for a monthly budget, 1-2 weeks ahead. Timing varies by company.
- Gather current and prior-period data from income statements, balance sheets and cash-flow forecasts.

Child Care

Note this break if you use a flexible account for each child care costs:

You can still claim the dependent care credit to the extent your expenses are more than the amount you fund through your FSA. The maximum amount of dependent care costs that can be run through a flex plan is $5,000. But the credit applies to as much as $6,000 of eligible expenses for filers with two or more children under the age of 13. In that case, $1,000 of expenses would be eligible for the credit on Form 2441. For most filers, that would provide an additional $200 in tax savings. Of course, no credit is allowed for any childcare costs that are paid via the flex plan.

Reminder to working parents with kids in summer day camp programs: The cost of the overnight camp is not eligible for the dependent care credit, the Revenue Service says. Only the cost of sending a child to day camp can qualify.

Business Taxes

IRS is axing the simplified per diem rates for lodging, meals and incidentals. It's eliminating the high-low method for substantiating business travel costs, in which one rate is used for high-cost regions and another rate for low-cost locales. Once this method ends, firms will have to resort to using the federal per diem rates calculated separately for hundreds of cities and published annually by the service.

Long Term Care

Deduct more premiums. You can deduct more of your long-term-care premiums as a medical expense as a medical expense in 2011. Taxpayers 71 and older can now claim up to $4,240, seniors 61 to 70 can claim up to $3,390, while people 51 to 60 can deduct up to $1,270.

Tax changes in health care reform are in effect-or will be soon.

Insurance Market Reforms - require employer-provided health care plans to include certain provisions for plan years beginning after Sept. 23, 2010 (for most plans this means as of Jan. 1, 2011). Unless a plan was grandfathered in or has an exemption, it must cover adult children until age 27, cannot exclude children under 19 with pre-existing conditions, cannot impose lifetime limits on essential health benefits, and must comply with certain other provisions. Violations trigger an excise tax of up to $100/day per affected individual, with some exceptions and limits. Violations initially are self-reported on Form 8928 (Return of Certain Excise Taxes under Chapter 43 of the Internal Revenue Code). The IRS has up to 3 years to audit and assess back taxes penalties, and interest.

Nondiscrimination rules - Under most executive health care plans, and similar plans, highly paid individuals can no longer be given extra benefits. The penalties are the same as for not complying with the insurance market reforms-and the employer may have to provide similar benefits to all employees. This rule is not in effect until the IRS issues regs for it.

Excise tax on all plans - Every group plan will owe a tax for each employed and dependent that it covers. For the first plan year ending after Sept. 30, 2012, the tax is $1 per participant, the following year $2, after that indexed for inflation. Thus, if an employee has a spouse and three minor children, the excise tax on the employer is $5 the first year. If the plan is fully insured, the insurer will pay the tax. The tax ends for the plan year ending on or after Sept. 30, 2019.

Added Employer Medicare For wages paid after Dec. 31, 2012, the employee portion of Medicare rises to 0.9% on wages paid to singles over $200,000 and married filing jointly over $250,000-i.e., the current employee HI rate of 1.45% applies up to $200,000/$250,000, but is 2.35% over those amounts. Employer HI is unchanged. Bottom line: Employer and employee Medicare tax amounts will differ.

If an employee and spouse combined earn more than $250,000, they must pay the additional Medicare tax when filing their 1040.

Top 10 Mistakes with Independent Contractors (ICs)

A top audit target of the IRS workers who are really employees but are paid as ICs. Below are the 10 most important mistakes businesses make when they classify workers as ICs, from San Francisco tax attorney Robert W. Wood as reported in Tax Notes Today.

1. **Not having a written contract**. For a regular long-term worker, you need a written contract spelling out the responsibilities of each party. Otherwise, you are unlikely to win a dispute over the worker's status.
2. **Treating similar workers differently**. The IRS sees employees and ICs with similar responsibilities as having the same status - and the status that the IRS prefers is employee.
3. **Providing supplies/ tools/ equipment.** ICs usually pay for these things, and this area is a factor in the IRS's evaluation. Yet, some firms provide workers with office space, desk, PC and related supplies and still classify them as ICs.
4. **Reimbursing expenses.** Similar to providing tools and supplies, but with the distinction between ICs and employees less clear. As a rule, the more expenses that you reimburse, the less likely the worker is to be an IC.
5. **Paying by the hour.** Hourly wages are common for some professionals, such as attorneys, accountants and plumbers. But wood believes paying by the hour or other increment of time period is a sign that a worker is an employee rather than an IC for most kinds of work. Better: Paying by the project or piece.
6. **Inconsistent forms and documents.** No one of these will trip you up, but a series of them is fatal. ICs should submit invoices, not time cards. They should not be issued employee manuals. Consider all forms and procedures when dealing with ICs.
7. **Over supervision.** ICs are supposed to be responsible for how and when they do the work, but you can set quality standards and deadlines. Demanding too many inspections or reports or closely supervising the work makes the worker an employee.
8. **Setting hours.** If you give workers their schedule or certain office hours, they are unlikely to be classified as ICs.
9. **Prohibiting other work.** Requiring a worker to commit to full time to your business or prohibiting work for others signifies that a worker is an employee. Try to get the same results with different terms, such as requiring a certain level of output or sales per month.
10. **Attempting the impossible.** When an employer can maintain control and influence over workers, they are unlikely to be ICs. Ceding some responsibility and decision-making is the pride of having ICs.

News

Social Security News!! Make the most of a Survivor Benefit.

Your Higher-Earning spouse dies, and you're eligible for a Social Security survivor benefit. But should you instead claim a benefit based on your earnings? One study finds that some individuals, even lower- earning spouses, could do better if they claim a survivor benefit first and then switch to their own benefit at age 70.

Let's start with some social security basis. Those born between 1943 and 1954 can claim a full benefit at age 66. You can collect your own benefit as early as 62, but it will be permanently reduced by a certain percentage for each month you claim early. If you collect at 62, for example, you'll get 75% of your full benefit. For each month you delay beyond 66, your benefit will increase by a small percentage-up to 8% a year-until 70.

A widow or widower is entitled to a survivor benefit that is equal to 100% of the deceased spouse's benefit, as long as the survivor waits until full retirement age to collect. If a survivor claims a survivor benefit earlier, that benefit will be reduced somewhat. You can collect a survivor benefit as early as age 60.

If a spouse dies, the survivor has several options to maximize social security benefits.

Many individuals who are eligible for benefits based on their earnings and for survivor benefits could end up better off by claiming a survivor benefit first and then switching to their own benefit at 70.

Earned Income Required To Open A Roth IRA

I receive a pension and would like to open a Roth IRA.
Am I allowed to do that?

Not if that's your only income. You must have compensation from a job or self-employment to contribute to a Roth IRA. If you have a part-time job to supplement your pension, though, you can use income from that job as the basis for a Roth contribution. For 2011, eligible individuals can contribute up to $5,000- plus a $ 1,000 catch-up contribution for those 50 and older-of their compensation to an IRA.

IRS Gives Truckers Three-Month Extension; Highway Use Tax Return Due Nov. 30

Truckers and other owners of heavy highway vehicles get a filing extension: Form 2290 will be due on November 30th, three months later than the usual date. The highway use tax can apply to trucks, tractors, logging vehicles, farm vehicles and buses weighing 55,000 pounds and up.

Just for clarification

The Internal Revenue Service advised truckers and other owners of heavy highway vehicles that their next federal highway use tax return, usually due Aug. 31, will instead be due on Nov. 30, 2011.

Because the highway use tax is currently scheduled to expire on Sept. 30, 2011, this extension is designed to alleviate any confusion and possible multiple filings that could result if Congress reinstates or modifies the tax after that date. Under temporary and proposed regulations filed today in the Federal Register, the Nov. 30 filing deadline for Form 2290, Heavy Highway Vehicle Use Tax Return, for the tax period that begins on July 1, 2011, applies to vehicles used during July, as well as those first used during August or September. **Returns should not be filed and payments should not be made prior to Nov. 1.**

To aid truckers applying for state vehicle registration on or before Nov. 30, the new regulations require states to accept as proof of payment the stamped Schedule 1 of the Form 2290 issued by the IRS for the prior tax year, ending on June 30, 2011. Under federal law, state governments are required to receive proof of payment of the federal highway use tax as a condition of vehicle registration. Normally, after a taxpayer files the return and pays the tax, the Schedule 1 is stamped by the IRS and returned to filers for this purpose. A state normally may accept a prior year's stamped Schedule 1 as a substitute proof of payment only through Sept. 30.

For those acquiring and registering a new or used vehicle during the July-to-November period, the new regulations require a state to register the vehicle, without proof that the highway use tax was paid, if the person registering the vehicle presents a copy of the bill of sale or similar document showing that the owner purchased the vehicle within the previous 150 days.

In general, the highway use tax applies to trucks, truck tractors and buses with a gross taxable weight of 55,000 pounds or more. Ordinarily, vans, pick-ups and panel trucks are not taxable because they fall below the 55,000-pound threshold.

For trucks and other taxable vehicles in use during July, the Form 2290 and payment are, **under normal circumstances**, due on Aug. 31. The tax of up to $550 per vehicle is based on weight, and a variety of special rules apply to vehicles with minimal road use, logging or agricultural vehicles, vehicles transferred during the year and those first used on the road after July.

If you have any questions, please don't hesitate to call us!

DUE DATES

October

1st SIMPLE IRA's must be established by Oct 1st
17th Payroll Tax Deposits
17th Individual Income Tax Returns
20th Sales/Hospitality Tax
31st Quarterly Reports
31st IFTA Reports
31st Happy Halloween

November

2nd SIMPLE IRA already established – Annual reporting required to employees by Nov 2nd
15th Payroll Tax Deposits
21st Sales/Hospitality Tax
24th Happy Thanksgiving
25th & 26th Firearms Tax Holiday – *This holiday is still pending!*
(Includes handguns, rifles & shotguns)

Do not forget to change your cash register if this holiday applies to your business.

30th Form 2290 Heavy Highway Vehicle Use Tax Return

December

15th Payroll Tax Deposits
20th Sales/Hospitality Tax
25th Merry Christmas

January

By the 1st Unified Carrier Registration

Tax Planning

Please call Robin at the office if you are in need of tax planning (especially if your situation has changed since your last office visit). The right moves between now & December 31st may pay off handsomely!