

L&G News Briefs

December 6, 2010

News and Reminders

Greetings, Clients and Friends!

We have some important year-end reminders for you as we begin December. Whether you are a business owner or individual, we have several items, below, that we would like you to keep in mind as December 31 approaches.



Individuals

Income tax rates. We are not any closer to a determination on the individual income tax rates that will take effect after the current rates, which were temporary rates enacted by The Economic Growth and Tax Relief Reconciliation Act of 2001, expire on December 31, 2010. Expectations are that these lower rates will be extended for taxpayers in lower income tax brackets. However, Congress cannot reach an agreement on rates that apply to taxpayers earning more than \$250,000 per year.

Of particular concern to investors are the sunseting rates for capital gains and dividends. There is a statutory requirement that the IRS publish inflation-adjusted income tax rate tables no later than December 15 of every calendar year; it remains to be seen whether or not Congress can arrive at a timely decision.

FSA and HRA Changes. Flexible Spending Arrangements (FSAs) and Health Reimbursement Accounts (HRAs) can no longer reimburse for over-the-counter medicines and drugs purchased after December 31, 2010.

Residential energy property credits. Taxpayers have until December 31 to make qualified energy efficiency improvements to their existing homes that will qualify for a nonrefundable residential energy property credit. The credit rate is 30 percent of the sum of qualified expenditures for 2009 and 2010 property. The credit is limited to a lifetime maximum credit of \$1,500 for 2009 and 2010 property.

Please do not forget to check the tax credit certification before purchasing energy-

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Individuals:
“...not all Energy
Star-labeled
products qualify
for these
[Residential
Energy] tax
credits.”



Businesses:
“A 1099 must be
issued for
amounts paid to
non-corporate
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or attorney fees
exceeding
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saving improvements. ***Not all energy-efficient improvements qualify for these tax credits.*** Homeowners should check the manufacturer’s tax credit certification statement before initiating these improvements. The certification statement can usually be found on the manufacturer’s website or with the product packaging. Generally, a homeowner can rely on this certification. Be aware that the manufacturer’s tax credit certification is different from the Department of Energy’s Energy Star label and ***not all Energy Star-labeled products qualify for these tax credits.***

Businesses

Form 8109 eliminated. All deposits of federal employment taxes and certain other taxes made after December 31, 2010, must be made electronically through the Electronic Federal Tax Payment System (EFTPS). The IRS is eliminating Form 8109 and the paper-coupon system. However, employers with a deposit liability of less than \$2,500 for a return period may remit their employment taxes with their quarterly or annual return.

The IRS is expected to issue final regulations before the end of 2010. Be aware that many banks will no longer accept Form 8109 well in advance of year-end. If you are still using Form 8109 to deposit taxes, please check with your financial institution to find out when you must switch to the EFTPS.

The following are some of the more common tax deposits affected by the change:

1. Corporate income and corporate estimated taxes;
2. Unrelated business income taxes of tax-exempt organizations;
3. Estimated taxes on certain trusts;
4. FICA taxes and withheld income taxes;
5. Nonpayroll taxes, including backup withholding;
6. Federal Unemployment Tax Act (FUTA) taxes; and
7. Excise taxes reported on Form 720, *Quarterly Federal Excise Tax Return*.

Please see our website for additional information on the change from Form 8109 to the Electronic Federal Tax Payment System (EFTPS).

Businesses issuing 2010 1099s. By January 31, 2011, you will need to mail 1099s to your vendors (you have until February 15 to mail 1099s to attorneys).

For payments made in 2010, the usual rules apply. A 1099 must be issued for amounts paid to non-corporate vendors for services, rents, or attorney fees exceeding \$600 and/or direct sales of \$5,000 or more of consumer goods for resale.

As soon as possible, verify that you have received completed Forms W-9 from all of you vendors. Although W-9s are not remitted to the IRS, they should be maintained on all vendors and made available upon request for examination by the IRS.

2011 1099s, to be issued in 2012. Currently, a recently enacted law requires ALL business to business transactions over \$600 to be reported on Form 1099 beginning with payments made in 2011 (which would be reported in 2012). There has been a tremendous outcry from the business community, the accounting profession, and even the IRS (!) to repeal this law. It places a massive record-keeping burden on business owners. This applies to both services and goods. Whether for services, goods for resale, or even office supplies, amounts paid to any vendor, corporate or non-corporate, exceeding \$600 must be reported on Form 1099.

At this time, there are only two exceptions to this rule: payments to tax-exempt vendors and payments made by credit card. There is a third exception for property owners, a hardship exception, but this is murky at best as the IRS has yet to issue any guidance on what constitutes a hardship.

Attempts to repeal this law have been, so far, unsuccessful. The bottom line is that business owners and landlords need to have systems in place by the first of 2011 to obtain W-9s from ALL vendors and that can track and report these payments.

NC employers reporting W-2s and 1099s for 10 or more individuals. Beginning with the 2010 calendar year reporting, employers in North Carolina who provide W-2 or 1099 information for 10 or more individuals must now report the information on CD-ROM. The minimum of 10 is a change from 250 that goes into effect for the 2010 calendar year, which is reported in early 2011.

UPDATE: The North Carolina Department of Revenue has issued a statement that this change was made in **error**, and has reinstated the requirement that only employers in North Carolina who provide W-2 or 1099 information for **250 or more** individuals must report the information on CD-ROM.

Additional first-year depreciation. Bonus depreciation, which is an additional first-year depreciation deduction currently equal to 50% of the cost of qualified property, expires December 31, 2010.

Qualified property, which among other things, must be new, must be purchased and placed in service by year-end.

President Obama recently proposed increasing and extending the deduction, but it appears unlikely this will happen before year-end.

Upcoming Deadlines

- December 31, 2010 •
Mail state estimated tax payments for deduction in current year
- January 15, 2011 •
Estimated tax payments due
- January 31, 2011 •
Deadline to mail Forms 1099, W-2 to recipients

“...ALL business to business transactions over \$600 [are] to be reported on Form 1099 beginning with payments made in 2011...”

“...only employers in North Carolina who provide W-2 or 1099 information for 250 or more individuals must report the information on CD-ROM.”



Shareholders and Business Owners

It is very important for business owners to work with their payroll providers prior to year-end to insure that income is correctly reported on their W-2s.

Greater than 2% shareholders are required to include the cost of health insurance paid or reimbursed by the company in their W-2 income.

Furthermore, business owners who drive automobiles owned by the company are required to calculate their personal use of the vehicle (any miles driven for purposes other than business) and include the value of the personal use in their W-2 income. Note that commuting to and from your home and business is **not** considered business use.

We addressed this in depth in our newsletter from November 2009, which can be found on our website, or call us for additional guidance.

Please Remember...

We strive to provide you with information that you can use and to offer it in as clear and concise a manner as possible. With information you gather from us, just as with information you gather from other resources, be sure to discuss your circumstances with us *before* you act to be certain that your situation complies with statutory requirements or fits the necessary fact pattern(s).

Allow Us to be a Resource for You

Visit our website at www.Lindsay-GardnerCPAs.com and click on “Tax Tips” to view the latest in tax law changes as well as refreshers and reminders regarding existing tax laws. New tips are added weekly, and you can view recent tax tips by clicking on the links under “Prior Tips”. In addition to our tax tips, we also offer articles we think will be relevant to business owners and managers on our “News” page. You will find a “Calculators” page offering various financial planning tools and a “Links” page with various websites you may find useful.

From our home page at www.Lindsay-GardnerCPAs.com, click on the icons to visit us on Facebook and Twitter, and to read our blog. We try to post the latest information on business and tax, along with links we think our clients, business partners and friends might find interesting.

Check us out on the web, and let us know if there are topics or questions you would like to see us address in future posts and tips! If you are wondering about it, you can be sure many others want or need to know about it, as well. We welcome your suggestions, and, as always, we thank you for the opportunity to be of service. Have a safe and happy Holiday Season.

Sincerely,

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Founded in 2007, Lindsay & Gardner, CPAs, LLP seeks to provide more than a tax return. Expect personal attention and professional guidance through services such as these:

- Business problem solving
- Business sales and acquisitions
- Business expansion
- Projections, budgets, goals
- Retirement planning
- Equipment purchases and sales
- Office systems and controls
- Pension and profit sharing plan considerations
- Financial and estate planning
- Divorce tax planning
- Planning for education expenses
- Business succession planning
- And many others!

Visit our website at Lindsay-GardnerCPAs.com to learn more, or contact Celena Stewart at Celena@Lindsay-GardnerCPAs.com.

Who we are...

Teresa Lindsay, CPA was licensed as a North Carolina CPA in 1995 and has been practicing in public accounting since that time. Professional memberships include the American Institute of CPAs and the North Carolina Association of Certified Public Accountants. Community involvement consists of membership in the Clemmons Rotary Club, where Teresa served on the board for a number of years, board member for the North Carolina Tennis Association, and board member for the Better Business Bureau of Northwest North Carolina.

Amy S. Gardner, CPA was first licensed as a Virginia CPA in 1991 and was licensed as a North Carolina CPA in 1997. Professional memberships include the American Institute of CPAs and the North Carolina Association of Certified Public Accountants. Community involvement consists of membership in the Reynolda Rotary Club, Inc., serving as a board member with The Enrichment Center, serving as a current board member with the Forsyth County Broncos Athletic Association, Inc., and serving as a board member with the Estate Planning Council.

Circular 230—IRS regulations require us to advise you that, unless otherwise specifically noted, any federal tax advice in this communication (including any attachments, enclosures, or other accompanying materials) was not intended or written to be used, and it cannot be used, by any taxpayer for the purpose of avoiding penalties; furthermore, this communication was not intended or written to support the promotion or marketing of any of the transactions or matters it addresses. Our advice is based on facts, assumptions, and representations as stated and authorities that are subject to change. We will not update our advice for subsequent legislative or administrative changes or future judicial interpretations.

