

Year-End Newsletter

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Take Advantage of the American Recovery & Reinvestment Act of 2009 before 12/31/2009!

Business Stimulus— Law extends the first year **50% bonus depreciation** through 12/31/2009 and also extends the bonus depreciation through 2010 for an additional year for property having a recovery period of 10 years or more or for transportation property, used to transport people or property. The ability to recover a portion of amounts spent on machinery, equipment, buildings, and other assets through depreciation deductions is a significant tax benefit, especially for capital intensive businesses. Don't overlook the possibility of deducting up to \$134,000 of your 2010 business asset purchases instead of depreciating them. **Section 179 expense** increases for 2009 to \$250,000. **New NOL carry back** law allows businesses to carry back an NOL for 2, 3, 4 or 5 years. This only applies to new NOLs. Certain businesses will be allowed to recognize Certain **Cancellation of Debt** income over 5 years beginning in 2014, for specified types of business debt repurchased by the business after 12/31/2008, and before January 1, 2011. The bill reduces the 2009 required estimated tax payments for certain small businesses. **Working Opportunity Tax Credit** - This credit is available for hiring employees who are members of certain targeted groups. In general, the credit is 40% of a qualifying employee's first-year wages, up to a maximum of \$6,000 for a maximum credit of \$2,400 per employee. The credit reduces the employer's wage deduction dollar for dollar.



Sponsoring a Retirement Plan

Retirement plan startup— The credit is 50% of administrative and retirement-related education and expenses for the first three plan years (maximum annual credit of \$500). Retirement plans are not only a sought-after employee benefit, they also offer business owners a valuable opportunity to reduce their tax burden. Subject to tax law limits, contributions to a qualified retirement plan for yourself and any eligible employees are tax deductible. Plan investment earnings are tax deferred, and benefits are not taxed until distributed.

Special points of interest:

- Make sure to take advantage of great deductions before 12/31/09.
- Thinking about sponsoring a retirement plan? It's good for them and you!
- Get ready for 2010 with our numbers at a glance section.
- Bank stopped taking your 8109b coupons? We can help getting you set up with EFTPS
- Tips to audit proof your records!
- S Corp Medical Insurance Deduction

2010 NUMBERS AT A GLANCE



Mileage Rates	2009	2010
Charitable purposes	\$.14	\$.14
Business purposes	\$.55	\$.50
Medical purposes	\$.24	\$.165



Try to contribute at least enough to qualify for your company's maximum matching contribution.

Retirement Planning	2009	2010
<u>Elective deferral limit</u>		
<ul style="list-style-type: none"> 401(k) plans, 403(b) plans, 457(b) plans, and SAR-SEPs 	Lesser of \$16,500 or 100% of participant's compensation	Lesser of \$16,500 or 100% of participant's compensation
<ul style="list-style-type: none"> SIMPLE 401(k) plans and SIMPLE IRA plans 	Lesser of \$11,500 or 100% of participant's compensation	Lesser of \$11,500 or 100% of participant's compensation
<u>IRA Contribution limits</u>		
<ul style="list-style-type: none"> Traditional IRAs 	Lesser of \$5,000 or 100% of earned income	Lesser of \$5,000 or 100% of earned income
<ul style="list-style-type: none"> Roth IRAs 	Lesser of \$5,000 or 100% of earned income	Lesser of \$5,000 or 100% of earned income
<u>Additional "catch-up" limits (individuals age 50 or older)</u>		
<ul style="list-style-type: none"> 401(k) plans, 403(b) plans, 457(b) plans, and SAR-SEPs 	\$5,500	\$5,500
<ul style="list-style-type: none"> SIMPLE 401(k) plans and 	\$2,500	\$2,500
<ul style="list-style-type: none"> IRAs (Traditional & Roth) 	\$1,000	\$1,000



Defined contribution plan limits	2009	2010
<ul style="list-style-type: none"> Annual addition limit per participant 	Lesser of \$49,000 or 100% (25% for SEP) of participant's compensation	Lesser of \$49,000 or 100% (25% for SEP) of participant's compensation

MORE 2010 NUMBERS AT A GLANCE



Social Security	2009	2010
Tax Rate		
• FICA Tax–Employee	7.65%	7.65%
• Social Security	6.20%	6.20%
• Medicare	1.45%	1.45%
• Self-Employed	15.30%	15.30%
• Social Security	12.40%	12.40%
• Medicare	2.90%	2.90%
• Maximum Taxable Earnings		
• Social Security	\$106,800	\$106,800

Retirement plan compensation limits	2009	2010
• Maximum compensation per participant that can be used to calculate tax-deductible employer contribution (qualified plans & SEPs)	\$245,000	\$245,000

Retirement earnings	2009	2010
• Earned income limit when receiving Social Security benefits at less than full retirement age	\$14,160	\$14,160

Business Planning	2009	2010
• Section 179 expensing		
• Maximum amount that may be deducted	\$250,000	\$134,000
• Deduction reduced by the amount by which the cost of section 179 property placed in service during the year exceeds this amount	\$800,000	\$530,000
• Bonus Depreciation	50%	Limited, See pg 1

Unemployment	2009	2010
• Federal Rate	.8%	.8%
• Federal Limit	\$7,000	\$7,000
KS taxable wage base	\$8,000	\$8,000
MO taxable wage base	\$12,500	\$13,000





Importance of a Mileage Log

The law is clear: Keep a mileage log or lose your vehicle deductions. The mileage log is an absolute necessity when it comes to deducting your vehicles. You need a mileage log if you: use actual expense, use IRS mileage rates, or operate as a corporation.

George Gist learned this lesson the hard way. On December 13, 2003, Mr. Gist purchased a Ford F-250 for \$53,625. He asked his CPA to expense the truck, using Section 179, which the CPA did. The IRS audited Mr.

Gist's tax return for 2003 and asked him for the business mileage log on this truck. Mr. Gist had no such log. Next stop: Court.

Ask us for a mileage log when you come in.

The law requires you to prove your business expenses. This requires proof of what you purchased for your business use and proof of payment.

Tracking Personal & Business Checking Accounts

Does the law require that I pay only business expense from the business checking account? No, this is not a requirement of the law. However, that would be a great rule of thumb to follow, and it's a practice recommended by the IRS.

Use Personal Checking for Business to Avoid Fees– You do not need a commercial checking account to have a business checking account. Depending on your business, we suspect that you can save money by using a personal checking account.

Planning note– If this business were operated as an LLC or a corporation, your bank would require a commercial checking account in the LLC or corporate name. These are legal entities separate from you.

Pay Business Vehicle Expense from a Business Checking Account– For vehicles that you use for business, we recommend that you pay vehicle expenses from your business checking and that you track expenses by vehicle. You may also use a separate credit card. You need a log of business miles. That log should tie to a third-party odometer readings, such as the odometer reading when you get your oil changed. By paying the bills from the business account, you are better focused on this need for matching.



It's Ski Season-Let's Make Your Skiing Deductible

For you, the businessperson, skiing is deductible only as "associated entertainment." This means that you need to have a business discussion in a business setting before or after the skiing, generally within 24 hours. Conventions, meetings, and seminars are automatic business discussions. Thus, skiing with other conventioners on the day before, day of, or day after the convention qualifies as associated entertainment.

Employment Tax Audits

Beginning in February, 2010, the IRS plans to audit 6,000 US companies over the next three years at the rate of 2,000 per year as part of a research program to ensure employment tax compliance. Different types of business organizations, including partnerships, LLCs, and S corporations, will be randomly selected and examined. Forms 941, Employer's Quarterly Federal Tax Return, will be targeted and most likely be from the 2007 and 2008 tax years. Data from the audits will be gathered on common areas of noncompliance, such as worker classification, fringe benefits, non-filers, employee expense reimbursement plans, and officer compensation.



Tips to Audit-Proof Your Records

Checking Accounts– Do not commingle activities in your checking accounts. Most taxpayers should maintain separate checking accounts for husband, wife, each separately reported Schedule C business, each corporation, and rental property.

Record Deductible Expenses Weekly– Recording your business expenses within one week makes good business sense. After all, if you wait too long, you won't remember the nature or reason for the expenses.

Keep logs– To deduct your vehicle expenses, you need proof of business use. We recommend that you keep your vehicle mileage in a mileage log book. *Ask us for a mileage log!*

Record Required Elements of Travel and Entertainment– For entertainment, you need to record who, what, when, where, why, and how much. You can meet all these requirements by adding a short note to the receipt with the name of the person you entertained and the business purpose of the meeting.

Best Advice– For all expenses, from the purchase of your desk to pens for your office, keep these two points in mind: 1. You need to prove what you bought. 2. You need to prove that you paid for what you bought.

Petty Cash– Under the reimbursement method, if you or an employee spends money on behalf of the firm, you simply have the firm write a check to reimburse the expense based on documentary evidence such as a receipt for the expenditure, and an expense report for the auto mileage, if applicable.

Statute of Limitations– Three years, if you filed on time or with extensions and did not understate your income by 25% or more, and did not file a fraudulent return. Six years, if you filed on time or with extension but understated your income by more than 25%. There is no limit if you filed a fraudulent return or did not file a return. Three years after filing or two years after the tax was paid, if you filed an amended return or other charge to your original return, such as a quick claim for refund. Seven years, if you filed a claim for a loss from worthless securities or a bad-debt deduction.

How Long to Keep Records– **Assets:** For any asset that has a life of more than one year, keep the purchase records in a permanent file. The five-drawer method. To use this method, you need to keep your permanent files in another place. Next, you must report your income and file and pay your taxes on time or with extensions, to limit your audit exposure to three years from the date you filed your return. If you fit this profile, the five-drawer system can simplify your records retention. It works like this:

Drawer 1: Accumulation of current year tax return information.

Drawer 2: Last year (tax return filed this year, say on April 15th)

Drawer 3: Two years ago

Drawer 4: Three years ago

Drawer 5: Four years ago





McAuley & Crandall, PA
CERTIFIED PUBLIC ACCOUNTANTS

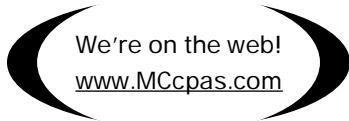
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*Contributing to
Your Success*



Payroll Alert: Feds make big push for EFTPS

IRS may require all businesses to “go electronic,” but soon using paper may be more trouble than it’s worth. Here’s why: A growing number of banks are refusing to accept IRS’ paper coupons, Form 8109, Federal Tax Deposit Coupon, in favor of electronic payments. Over the past year, almost two dozen major banks and credit unions have stopped accepting the coupons—and more are certain to follow suit as the idea gains popularity.

Instead, IRS wants to help support Treasury’s electronic payment goal by encouraging small businesses that aren’t mandated e-filers to enroll in the Electronic Tax Payment System (EFTPS).

With EFTPS, you have two payment methods that are interchangeable, the internet and phone. You can use both of these methods to pay your personal or business federal taxes, 24 hours a day, 7 days a week. You can schedule ahead of time with the payment scheduling feature of EFTPS, up to 120 days for businesses. There is no cost to use EFTPS, you should check with your financial institution to learn if it will assess a fee when the transaction is posted to your account.

You can enroll at www.eftps.gov or we would be more than happy to set you up on EFTPS.

Medical Insurance Deduction for the S Corporation Owner-Employee

Here is how you plan: The IRS gives the more than 2 percent S corporation shareholder a break on his health insurance deduction if he does everything according to IRS Notice 2008-1 and Fact Sheet 2008-25. The guideposts for doing this properly are as follows:

Step 1. Have the S corporation either pay the insurance company directly or reimburse the more than 2 percent shareholder-employee for the cost of the health insurance.

Step 2. Have the S corporation include the cost of the health insurance as additional compensation to the shareholder-employee on the employee’s W-2 in box 1, subject to income tax withholding but exempt from Social Security, Medicare, and unemployment in boxes 3 and 5 of the W-2, as appropriate.

Step 3. Treat the W-2 reported health insurance as a cost of self-employed health insurance. Enter this amount on page 1 of Form 1040, subject to the rules for deducting this insurance.

Operating your business as an S corporation requires that you pay attention if you want to take a deduction for your health insurance. The rules above give you an excellent road map to sustaining your deduction.



*Congratulations to
Ella Smith who
earned her
CPA certification!*

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