

TAXES!

What every entrepreneur and consultant needs to know.

presented to

CPCUG Entrepreneurs &
Consultants SIG

by

Jina Etienne, CPA

Saturday, January 17, 2009

What am I going to talk about?

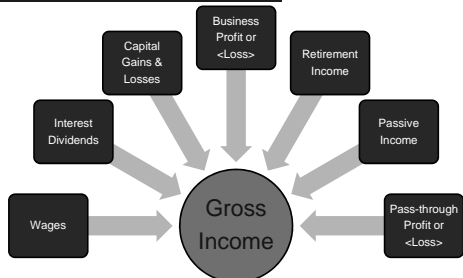
- 1 Tax Return Roadmap
- 2 Several new tax laws
- 3 Deadlines & Due Dates
- 4 Avoiding "Red Flags"

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

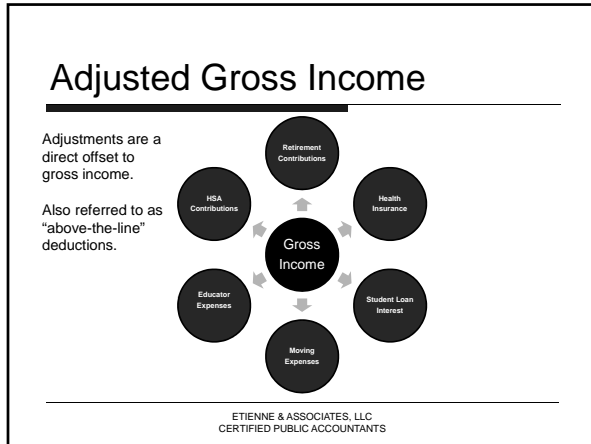
Tax Return Roadmap UNDERSTANDING HOW THE NUMBERS FLOW

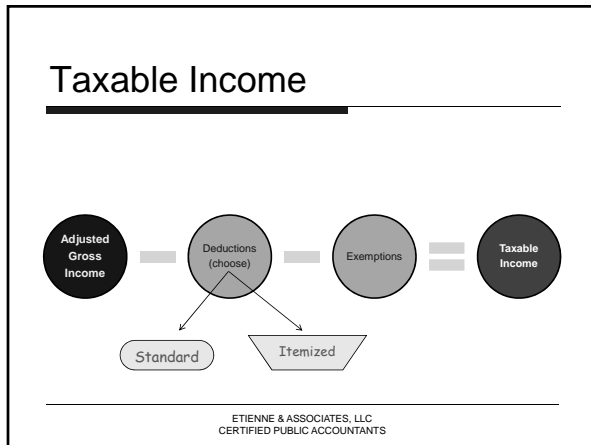
ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

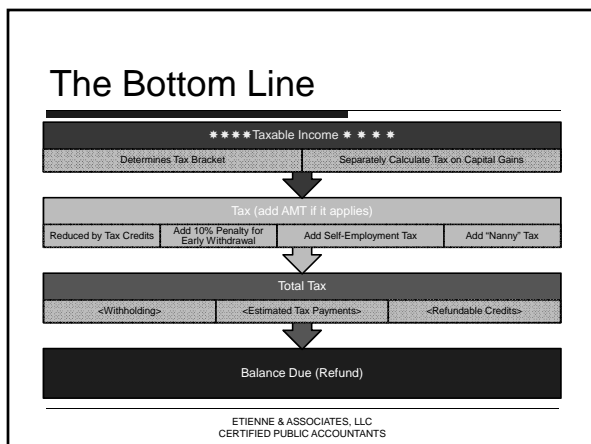
Gross Income



ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS







Tax Law Changes
A SUMMARY OF WHAT CHANGED
IN 2008

ETIENNE & ASSOCIATES, LLC
 CERTIFIED PUBLIC ACCOUNTANTS

New Tax Laws

TAX ACT	DATE
Stimulus Act	2/15/2008
Heroes Earnings Assistance and Relief	6/17/2008
Heartland, Habitat, Harvest, and Horticulture Act	5/22/2008
Housing Assistance Tax Act	6/30/2008
Emergency Economic Stabilization, Energy Improvement and Extension, and Tax Extenders and AMT Relief Acts	10/03/2008

ETIENNE & ASSOCIATES, LLC
 CERTIFIED PUBLIC ACCOUNTANTS

The Stimulus Act

- Passed February 15, 2008
- Advance Payment of a 2008 Tax Credit
- "Rebate" checks base on 2007 returns
- Based on anticipated 2008 "recovery" credit

ETIENNE & ASSOCIATES, LLC
 CERTIFIED PUBLIC ACCOUNTANTS

2nd Chance for the Rebate

- If actual rebate received differs from amount allowed based on 2008 return:
 - request the difference (or entire rebate) on 2008 return
 - do not need to give it back
- Payments subject to federal offsets

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Recovery Rebate Credit

IRS has added a refundable credit line to facilitate the Stimulus Rebate on the 2008 Form 1040 and a reconciliation schedule

Payments	62	Federal income tax withheld from Forms W-2 and 1099	62
	63	2008 estimated tax payments and amount applied from 2007 return	63
	64a	Earned income credit (EIC)	64a
<small>If you have a qualifying child, attach Schedule EIC.</small>	b	Nonrefundable combat pay election 64b	
	65	Excess social security and tier 1 RRITA tax withheld (see page 58)	65
	66	Additional child tax credit. Attach Form 8812	66
	67	Amount paid with request for extension to file (see page 58)	67
	68	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 4136 c <input type="checkbox"/> 1091 d <input type="checkbox"/> 1098	68
	69	First-time homebuyer credit. Attach Form 5405	69
	70	Recovery rebate credit (see worksheet on page 91)	70
	71	Add lines 62 through 70. These are your total payments	

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

New worksheets will be included in the instructions to help calculate the credit.

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Heroes Act

- Passed June 17, 2008
- Primarily provided tax relief for military members and their families
- Allows businesses a 20% tax credit for differential wage payments made to employees on active duty

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Housing Assistance Tax Act

- Passed June 30, 2008
- Part of the larger Housing and Economic Recovery Act of 2008
- Provisions impacting individuals, including:
 - First Time Homebuyer Tax Credit

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

First Time Homebuyer Tax Credit

- Qualifying home purchases between 4/9/2008 and 7/1/2009
- Refundable credit equal to the lesser of:
 - 10% of the purchase price, or
 - \$7,500 (\$3,750 if filing separately)
- Phases out at adjusted gross income between \$75k to \$95k (\$150 to \$170 for joint filers)
- Must have no ownership in principal residence for the 3-year period before the purchase

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

First Time Homebuyer Tax Credit

- Credit must be re-paid ratably over 15 years
(This is really just a long-term interest-free loan)
- Recapture remaining balance in year of sale
 - Repayment cannot exceed the gain
 - No recapture in year ending after taxpayer's death
- Can elect to take credit on 2008 return **if home is purchased before the 7/1/2009** deadline
 - Must make an election
 - If no election, take first credit on 2009 return

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Housing Assistance Tax Act

- Passed June 30, 2008
- Part of the larger Housing and Economic Recovery Act of 2008
- Provisions impacting individuals
 - First Time Homebuyer Tax Credit, including
 - Additional Standard Deduction for Property Taxes

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Additional Standard Deduction for Property Taxes

- Available for non-itemizers
- Allows an additional deduction for real estate taxes in *addition to* the standard deduction
- Amount is limited to the lesser of:
 - Real property taxes paid in 2008, or
 - \$500 (\$1,000 for joint filers)

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Housing Assistance Tax Act

- Passed June 30, 2008
- Part of the larger Housing and Economic Recovery Act of 2008
- Provisions impacting individuals, including
 - First Time Homebuyer Tax Credit
 - Additional Standard Deduction for Property Taxes
 - Prorated capital gains exclusion for sale of residential real estate

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Prorated capital gains exclusion for sale of residential real estate

- New term: Nonqualifying use (when property is NOT used as a principal residence)
- Any gain is prorated between qualifying and nonqualifying periods of use
- All "Nonqualifying" periods start after 2008, in other words, no "nonqualifying" time before 12/31/08 (starts 1/1/09)

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Nonqualifying Use Example

Facts:

- 2/1/2004, vacation home is purchased
- 2/1/2010, convert to principal residence
- 2/1/2012, residence sold for \$200,000 gain

Result:

- nonqualifying use = 2 years (2009 & 2010)
- 8 years total
- 25% (2 / 8 years) of gain is taxable

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Housing Assistance Tax Act

Things to come...

- Income Reporting for Credit and Debt card payments (starting in 2011)

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

The Bailout – Tax Changes

- Emergency Economic Stabilization Act of 2008, passed 10/03/2008 (in just 3 days)
- Bailout the Mortgage Fiasco
- Increase FDIC Insurance to \$250,000
- Require health Ins to cover Mental Health
- Energy incentives
- Several tax law changes

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Tax Law Changes

- AMT Patch
- Extenders
- Disaster Relief
- Energy Incentives
- Tax Preparers Penalty Relief

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

AMT Patch

AMT exemption amount

	2007	2008	2009
Individuals	\$44,350	\$46,200	\$22,500
Married Couples	\$66,250	\$69,950	\$45,000
Married Separate	\$33,125	\$34,975	\$33,750

For 2009 only (one-year patch)

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Refundable Child Credit

Increased for 2008 only

Refundable portion is 15% of earned income in excess of \$8,000 (formerly \$12,050)

Example: Married two children

■ Earned income	\$19,500
■ Refundable (19,500-8,000@15%)	1,650
■ Old law (19,500-12,050@15%)	1,118

(Note: Maximum per child still \$1,000 and phase out rules still apply)

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Extenders for Individuals

- Sales Tax (through 09)
- Sec 222 Education expenses (through 09)
- Teachers deduction \$250 (through 09)
- Standard deduction - property tax (thru 09)
- Contributions directly from IRA (through 09)
- Mortgage debt relief (through 12)
- Non business energy credit (09 skips 08)

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Extenders for Business

- Research Credit (through 2009)
- 15 year life (through 2009)
 - Improvements retail space
 - Leasehold improvements
 - Restaurant property
- Favorable treatment contributions (thru 09)
 - S Corp stock reduced by basis only
 - Above basis - C corp books to schools
 - Above basis food inventory

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Energy Incentives

- Incentives for Solar, Wind, Fuel Cell, etc, extended and expanded
- Residential energy credit not blocked by AMT
- Appliance credit (refrigerators, etc) extended through 2010
- Builders credit \$2,000 extended through 2009

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Deadlines & Due Dates

FORMS, FILING, & EXTENSIONS

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Documents you should receive

- By January 31, 2009
 - W-2 & W-2G
 - 1099-MISC
 - 1099 INT & DIV
 - 1099-G
- By February 15, 2009 (new deadline)
 - 1099-B (Stock sales)

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Documents you should mail:

- By January 31, 2009:^o
 - W-2s to employees & 1099's to contractors
 - 4th Qtr & Annual Payroll Returns (941/940)

^otechnically, due 2/2/09 since the 31st is a Saturday
- By February 28, 2009:^o
 - File W-3 with all W-2s to SSA
 - File 1096 with all 1099's to IRS

^otechnically, due 3/2/09 since the 28th is a Saturday

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Filing Extensions

- Allows additional time to file
- Not an extension of time to pay - tax due must be paid by the original due date
 - Must make an estimate and pay "on time"
 - Payments after the due date are subject to late payment penalties
- Some states have special rules, such as:
 - an automatic extension if federal extension filed
 - no extension required unless tax is due

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Tax Return Due Dates:

- Individual Returns (1040, 1040A & 1040EZ):
 - File or extend by 4/15/09
 - 6 month extension available to 10/15/09
- C & S Corporation Returns (Forms 1120/1120S)
 - File or extend by 3/16/09 (15th is Sunday)
 - 6 month extension available to 9/15/09
- Partnership Returns (Form 1065)
 - File or extend by 4/15/09
 - 5 month extension available to 9/15/09

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Reasons to Extend

- Need additional time to contribute to retirement plans (i.e., SEP, SIMPLE, 401(k))
 - IRA contributions due by 4/15 no matter what
- Waiting for 3rd party documents (such as K-1s, corrected 1099's, financial statements)
- Pending transactions (such as new First Time Buyer Credit)
- Delayed tax transactions (i.e. Roth conversion)

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Beware of the IRS
What is a "Red Flag" anyway?

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

“Red Flags”

- The common term for IRS audit triggers
- Vary by year due to:
 - IRS Audit objectives
 - Trends
 - Economy
- The IRS Whistleblower Program
 - IRS Pays up to a 30% reward

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Personal Return Flags

- Sloppy or incomplete returns
- Under- or unreported income
- Outliers:
 - Suspiciously low income
 - Higher than normal income
- Round numbers in odd places
- Taking too many tax credits
- Small business losses
- Too many charitable contributions
- Differences between federal & state returns
- Large number of “miscellaneous” deductions
- Math mistakes

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Small Business “Flags”

- Unlikely deductions
- Filing Schedule C
- Claiming the Home Office
- Excessive Entertainment Deductions
- Excessive Mileage
- Family members on payroll

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

How to Stay Safe at Tax Time

- Keep paperwork safe (not in your briefcase or car)
- Shred documents you no longer need or that you have in duplicate if they have your SSN and/or credit card number
- Update computer firewall; install antivirus and anti spyware programs; do not leave internet connect "open" indefinitely
- "Get the mail" everyday – don't leave it sitting outside in your mailbox. When sending mail, actually take it to the post office or personally drop it in the post office mailbox. Unguarded and/or uncollected mail is a theft waiting to happen.
- Password protect documents sent by email. Never send the password in the same email!

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Don't forget the little things



- Be neat (Use a computer)
- Check your totals (even if you use a computer – if one form references another, check the other form to make sure the figures carried properly)
- Keep a signed copy (print two, sign both)
- Always send your return *Certified Mail* (proof it was sent) & *Return Receipt Requested* (proof that they actually received it)
- Retain your records for seven years

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Thank you!

Jina Etienne, CPA

direct 301.576.9686

fax 301.588.4984

email: jina@etiennecpas.com

Offices in White Oak & Downtown Silver Spring
www.etiennecpas.com
www.etiennepayroll.com

ETIENNE & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS
