

TAXES!

What every entrepreneur and consultant needs to know.

presented to

CPCUG Entrepreneurs & Consultants SIG

by

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Taxes! What Every Entrepreneur & Consultant Needs to Know

January 6, 2010

What am I going to talk about?

- 1 New Tax Laws
- 2 Tax Planning 101
- 3 Understanding Extensions
- 4 Payment Options

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QUIZ QUESTION

How many tax laws have been passed since 1/1/2008?

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QUIZ QUESTION

I'll give you a hint...



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New Tax Laws since 2008

TAX ACT	DATE
Stimulus Act	2/15/2008
Heroes Earnings Assistance and Relief	6/17/2008
Heartland, Habitat, Harvest, and Horticulture Act	5/22/08
Housing Assistance Tax Act	6/30/2008
Emergency Economic Stabilization, Energy Improvement and Extension, and Tax Extenders and AMT Relief Acts	10/03/2008
American Recovery and Reinvestment Act of 2009	2/17/2009
Worker, Homeownership and Business Assistance Act of 2009	11/06/2009

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Tax Law Changes

A SUMMARY OF WHAT CHANGED SINCE LAST YEAR

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American Recovery & Reinvestment Act of 2009

- Added two new credits
 - Making Work Pay Credit
 - Economic Recovery Payment (for retirees)
- Modified Hope Credit
 - Increases maximum credit to \$2,500/student
 - Qualified expenses includes course materials
 - Credit allowed for first 4 years of post-secondary education
 - Up to 40% of credit refundable for AMT

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Making Work Pay Credit

- Refundable credit
- Lesser of:
 - \$400 (\$800 if joint), or
 - 6.2% of earned income
- Subject to Phase-Out

Status	Rebate	Phase-out Starts	Phase-out Ends	Phase-out %
S/HOH/MFS	\$400	\$ 75,000	\$ 95,000	2%
MFJ	\$800	\$150,000	\$190,000	2%

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Potential Withholding Problems

- New withholding tables published in February 2009 to lower withholding
- May result in over or under withholding
- Consider filing a new W-4 to adjust for changes in withholding tables

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Examples

EXAMPLE: Employee with Multiple Jobs. A single employee, who claims one allowance, has two jobs, making \$45,000 and \$15,000 respectively. The employee's withholding will be reduced by \$408 on the first job and \$348 on the second job. The withholding was reduced by \$756, but the employee is only allowed a \$400 credit.

EXAMPLE: High-paid Spouse with One Job. A married employee, who claims four allowances on his job, makes \$100,000. The wife is a homemaker. The employee's withholding will be reduced by \$614 on the job but the credit is \$800. The difference will be captured on the tax return reconciliation unless a new W-4 is filed.

EXAMPLE: Joint Filers Both Working. A married couple, who both claim two allowances, makes \$75,000 each. Each employee's withholding will be reduced by \$614, totaling \$1,228. Only the maximum (\$800) is allowed for the credit.

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NEW FORM: Schedule M

SCHEDULE M
(Form 1042A or 1042)
Making Work Pay and Government Retiree Credits

Department of the Treasury
Internal Revenue Service

OMB No. 1545-0045
09
OMB No. 1545-0045
Form 1042A or 1042

1a **Important!** Use the instructions if you can be claimed as someone else's dependent or are filing Form 1042NR. Check the "No" box below and use the instructions if you have a net loss from a business. Do you received a benefit, advantage, or subsidy that is reported on a Form 1042, 1042NR, or your wages include pay for work performed while on leave in a partial substitute, OR you received a pension or annuity from a nonqualified defined contribution plan or a governmental section 457 plan, enter on the Form 1042 or 1042NR.

Do you (and your spouse if filing jointly) have 2009 wages of more than \$1,411 (\$1,000 if married filing jointly)?
 Yes. Skip lines 1a through 5. Enter \$400 (\$800 if married filing jointly) on line 4 and go to line 5.
 No. Enter your earned income (see instructions) on line 1a.

1a	Nonrefundable credit: pay included on line 1a (see instructions)	1a
2	Multiply line 1a by 6.2% (0.062)	2
3	Enter \$400 (\$800 if married filing jointly)	3
4	Enter the smaller of line 2 or line 3 (unless you checked "Yes" on line 1a)	4
5	Enter the amount from Form 1042, line 30*, or Form 1042A, line 22	5
6	Enter \$75,000 (\$150,000 if married filing jointly)	6
7	Enter the amount on line 5, minus what the employer paid on line 97	7

* If you are a nonresident alien, you must also file Form 1042NR.

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Economic Recovery Payment

One-time \$250 Economic Recovery Payment for Eligible Federal Program Recipients.

NOTE: Economic Recovery Payment will reduce the Making Work Pay Credit

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Economic Recovery Payment

Must have received at least one of the following benefits in Nov'08, Dec' 08 or Jan'09:

- Social Security benefits,
- Railroad retirement benefits,
- Veterans compensation or pension benefits,
- Certain SSI recipients, and
- Government pension retirees not covered by social security.

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WHBA: Business Provisions

- Extended NOL Carryback provisions
- Increase in late filing penalties for Partnerships & S Corporations for tax years beginning after 12/31/2009:
 - Penalty increase to \$195
 - Expected to raise \$1.2 billion over 10 years
- Mandatory Efiling for returns filed after 12/31/2010

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Old First Time Homebuyer 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

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First-Time Homebuyer Credit: Summary of Provisions

Purchase Date	4/1/08 to 12/31/08	1/1/09 to 11/06/09	11/07/09 to 4/30/10	
			FTHB	Long-Term
Max Amount	\$7,500	\$8,000	\$8,000	\$6,500
Recapture	Yes	No	No	No
Prior Ownership	0 of 3 years	0 of 3 years	0 of 3 years	5 of 8 years
Subsequent Occupancy	16 Years	3 Years	3 Years	3 Years
AGI Limit: S	\$75k-\$85k	\$75k-\$85k	\$125k-\$145k	\$125k-\$145k
M	\$150k-\$170k	\$150k-\$170k	\$225k-\$445k	\$225k-\$445k
Max Price	N/A	N/A	\$800,000	\$800,000
Dependent	Ok	Ok	No	No
Age Limit	?	?	18	18

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Thinking About 2011...

TAX PLANNING 101

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Tax Planning Basics

Your Taxes should never come as a surprise!

Use Form 1040 as a tax planning guide:

<u>Tax Return Item</u>	<u>Planning Objective</u>
Gross Income	Minimize
Adjustments	Maximize
Deductions	Maximize
Tax Credits	Utilize

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Anticipate Next Year NOW

After you finish preparing this year's return, it is time to starting thinking about next year.

Now that you know what you know...

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Anticipate Next Year NOW

- Should you change your withholding?
- If you missed something this year, take note – don't make the same mistake twice!
- Will there be any changes on next year's return?
 - Dependents (i.e., new baby? Child moving out?)
 - Income (i.e., retirement? Layoff?)
 - Deductions (i.e., paid off mortgage? Major purchase with deductible sales tax?)

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Review your Paystub

- Know your net pay and **live off of 90%**.
- Contribute *something* to retirement (especially if company provides matching)
- Use Direct Deposit (send a little to the "Don't Touch" account)
- Life & disability insurance (participate in a company plan, if possible – even though not deductible)
- Health insurance (review choices at each renewal coverage & benefits change)

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Understanding your Refund

A tax refund is nothing more than an interest-free loan to the government!

- Taxes **must** be prepaid in the form of withholding or estimated tax payments
- "Total Tax" is what you actually OWE
- A refund is when you get back *your own money* - you prepaid too much!

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Tax Return Due Dates:

UNDERSTANDING EXTENSIONS

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Extensions

§6081 authorizes IRS to grant an extension of time to file a return.

- Automatic Extensions in most cases
- Provides more time to file forms
- NOT an extension of time to pay
 - Balance due must be paid on time to avoid penalties & interest

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Filing Extensions

- Allows additional time to file
- Not an extension of time to pay – any 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

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Statutory Due Dates

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

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Tax Return Due Date Summary

Return Type	1 st Due Date	Extended Due Date	Extension Period
Individual	4/15	10/15	6 months
Corporation	3/15	9/15	6 months
S Corp	3/15	9/15	6 months
Partnership	4/15	9/15	5 months

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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)

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Automatic 6-month Extension

- File Form 4868 by 4/15
 - Can be filed electronically
 - Can file by phone
- Extension must show full amount of tax estimated to be due
 - Payment of balance of tax due is NOT required
 - No signature required

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Limited Exceptions

- Taxpayers living abroad are automatically extended to June 15th, including payment
- Relief for taxpayers in certain disaster areas
- Taxpayers serving in a Combat Zone or Contingency Operation

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Estimating Your Liability

- The extension is required to show the full amount of tax you expect to owe for the year
- Must make a bona fide and reasonable attempt
 - Use all available information
 - Estimated amount must be reasonable
- IRS can deny extension for frequent requests that are consistently under estimated

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Extensions Without Payment

- If timely filed on or before due date, taxpayer will avoid the failure to file penalty
- Late payment penalty still applies
- Interest always runs until paid

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Penalty & Interest Rates

- Failure to File: 5% per month up to maximum of 25%
- Failure to Pay
 - 0.5% per month (up to a of maximum 25%)
 - If due to fraud, 15% per month (max. 75%)
- Interest (federal short-term rate plus 3%)
 - Compounds daily through date of tax payment
 - Rate changes ever 3 months, currently 4%

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What if you Can't Pay?

PAYMENT OPTIONS

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Extensions of Time to Pay

- IRS employees are instructed to allow 60-day extension of time to pay when requested
- During the extension period the IRS is not to:
 - Issue a notice of intent to levy
 - Issue a notice of hearing
 - Issue a levy
- No financial disclosure will be required or should be requested of the taxpayer to obtain a short-term extension of time to pay.

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Payment by Credit Card

The ATM/Debit card must be a Visa Consumer Debit Card or a NYCE, Pulse, or Star Debit Card.

- TIP: Include credit card payment options on filing instructions for balance due returns
- Consider EFTPS as a “free” alternative if paying via debit card
 - Downside: must register first, so not a good alternative for a “last minute” payment

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Credit Card Fees

- IRS now says fees to pay taxes by credit or debit card are deductible
- Miscellaneous Itemized Deduction, subject to the 2% limitation

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Installment Agreements

When a taxpayer can't full-pay with the tax return, an installment agreement should be one of the first options considered. Four types:

- Statutory Installment Agreement
- Streamlined Installment Agreement
- Full Pay Installment Agreement
- Partial Pay Installment Agreement

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Statutory Installment Agrmt

- Owes less than \$10,000 before interest & penalties
- During 5 preceding tax years, has NOT:
 - Failed to file a tax return,
 - Failed to pay tax due on return, or
 - Entered into an installment agreement
- Tax is paid in full within 3 years

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Streamlined Installment Agrmt

- Owes less than \$25,000
- Tax must be paid within 5 years, including interest & penalties
- No financial disclosures required!!

TIP: Make a partial payment to reduce balance to qualify for streamlined I/A

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On-Line Payment Agreement (OPA)

- Extended hours including weekends

Monday - Friday	6:00 a.m. - 12:30 a.m. Eastern Time
Saturday	6:00 a.m. - 10:00 p.m. Eastern Time
Sunday	4:00 p.m. - 12:00 a.m. (midnight) Eastern Time

- No time on hold
- Interactive help tools
- Written confirmation of installment agreement
- Some states offer similar online options

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Immediate Confirmation with OPA

Installment Agreement Confirmation

Congratulations!
You have been approved for an Installment Agreement.

Thank you for using the Online Payment Agreement (OPA). Please print this page for your records using your browser's print feature.

You have agreed to pay the amount you owe in installments of \$350.00, to be paid on the 25th day of each month. Your first payment must be received by the IRS no later than 06/25/2008. A notice will be sent for the first payment or the Installment Agreement user fee of \$105.00, whichever is greater. Our records indicate that your income is not at or below the established levels to qualify for the reduced user fee. However, if you believe that our records are incorrect, you can apply via [Form 13844](#) for us to re-evaluate whether or not you qualify to pay a reduced fee of \$43.

Your monthly payments must be received by the IRS no later than the payment date you selected. We will send you a monthly statement with a payment stub and return envelope shortly before each payment is due. The statement will show the total amount remaining on your account, as well as your monthly payment amount.

If you do not receive the statement at least ten days before your payment due date, you should make your payment and return the last page of our confirmation letter with your payment. You are expected to make your installment payment each month. If you have new or additional taxes that become due during the term of this agreement, you must pay them in full and on time. Send your payment to us at the address [shown on your notice](#) (cannot find your [service center address](#)?)

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“Currently Not Collectable”

- The taxpayer may request a “temporary” delay in the collection/payment process.
- To be eligible, any payment by the taxpayer would be a significant economic hardship.
- Consideration of CNC will require the submission of a collection information statement, Form 433-A.
- Status reviewed annually.

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Offer in Compromise

- Taxpayer expectations may be unrealistic
- Before pursuing, you should:
 - Explore all other options
 - Complete processability checklist
 - Complete forms and maintain timeline

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Offer in Compromise - HYPE

Actual Web Advertisement

- Reduce your IRS debt today! Qualifying for an Offer in Compromise settlement can save you thousands of dollars in taxes, penalties and interest.
- With a 90% tax relief success rate, XXXX has the highest success rate of any tax resolution firm in the country - and an Offer in Compromise Settlement Rate of **\$0.13 on the dollar.**

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Best Candidates for OIC?

- Taxpayers with little or no assets and minimal cash flow
- Business taxpayers who:
 - have suffered a recent downturn
 - have unpaid payroll taxes
 - are currently compliant
- Taxpayers with friends or relatives who want to provide \$\$ to fund the OIC

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Compare OIC to PPIA

Offer in Compromise	Partial Pay Installment Agreement
Balance due removed from taxpayer account	Balance due remains until collection statute expires
Tax lien release since account considered paid in full	Tax Lien remains until collection statute expires
Payment equal to equity in assets required	Equity in assets must be considered but PPIA can be granted without tapping equity
IRS cannot seek collection from future increase in ability to pay	Change in ability to pay can result in revision or termination of PPIA

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Payment Offsets

- IRS can “offset” tax refunds to settle other debts, including:
 - Federal income taxes
 - Past-due Child Support
 - Federal Agency Non-tax Debts
 - State income tax obligations
- IRS Required to issue CP-49 to indicate refunds applied to other taxes

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“Where’s my Refund”

IRS website resources can be very useful

The screenshot shows the IRS Refund Status page. On the left, there is a form titled "Refund Status" with fields for "Your Personal Tax Data", "Social Security Number or IRG Individual Taxpayer Identification Number", "Filing Status", "Tax Period Ending", and "Your Expected Refund Amount". The "Refund Status Results" section on the right contains a message: "There is a delay in processing your tax return. For more information, please continue." Below this message, there is a "Print Now" button and a list of items to have on hand when calling: "A copy of this page", "A copy of your tax return", "The Social Security Number, Filing Status, and refund amount claimed on your return", and "Any notice that you have received concerning your refund". At the bottom of the results section, it says "Please mention reference number 1201 to the IRS Customer Service Representative." and "IRS Hours of Service: Monday through Friday, from 7 a.m. to 10 p.m."

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Thank you!

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