



MOCERI & COMPANY, P.C.
 CERTIFIED PUBLIC ACCOUNTANTS

Tax Alerts

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New Website Feature

We are happy to share that we have added a "Frequently Asked Tax Question" feature to our website. Please visit www.moceri-cpa.com and click the link at the bottom of the page. A search can be done by category or by keyword to find plain language answers to some of the most common tax questions. Of course, as always, our office is available to assist you with any tax situation! ♦



INSIDE THIS ISSUE

| | |
|----------|--|
| 1 | Frequently Asked Questions Link |
| 1 | 2010 Year-End Tax Planning for Individuals |
| 2 | S-Corporation Pros and Cons |
| 2 | Quickbooks Corner—Issuing 1099s |

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2010 Year-End Tax Planning for Individuals

Year-end tax planning for 2010 presents new challenges for individual taxpayers to reduce or defer their federal income tax liability. Although it is generally beneficial to defer income and accelerate expenses, with tax reform on the horizon, the focus shifts to balancing overall tax rates in 2010 and beyond. There is a proposed increase in the income and capital gains tax rates for 2011. Additionally, tax cuts enacted in 2001 and 2003 are scheduled to sunset after December 31, 2010. Unless Congress acts to extend or modify these provisions, the impacted rates, deductions, and credits will revert to pre-2001 levels in 2011.

Potential increases would affect single individuals with income exceeding \$200,000, and married couples with incomes greater than \$250,000. If you fall within these parameters, the traditional year-end planning strategy of deferring income into next year may not be effective in 2010. Higher income taxpayers are more likely to benefit by accelerating 2011 income into 2010 and deferring losses to 2011 and later years to escape higher rates. If you think you will be in a higher tax bracket in 2011, you may want to:

- Accelerate income, including bonuses, into 2010
- Defer selling capital assets at a loss until 2011
- Take capital gains in 2010 while the top rate is still 15%
- Accelerate billings and/or provide incentives for clients or customers to make payments in 2010 (for self-employed cash-basis taxpayers)
- Take taxable retirement plan distributions before 2011 (for taxpayers over age 59-1/2)
- Bunch itemized or business deductions into the 2011 tax year
- Consider paying all of the tax owed on a Roth IRA conversion in the 2010 tax year

However, if you anticipate being in a lower tax bracket in 2011, you may want to take advantage of the elimination of personal exemption and itemized deduction phase-outs available for 2010 only. If you have been affected by these limitations in the past, you may be able to take advantage of this opportunity, but you should carefully review all of your options beforehand. ♦

S-Corporation Pros and Cons

Are you considering opening a small business and wondering what form would be best for your situation? Below is a checklist highlighting advantages and disadvantages of the forming as an S - corporation. This form is especially popular among small businesses, and has quadrupled in the past 15 years. Hands down, it is the most common form of doing business except for the unincorporated sole proprietorship. While its popularity indicates that consideration of operating your business as an S corporation is certainly wise, "going with the crowd" is not always the best choice. The decision should be based on what is right for your business and your unique circumstances.

Some of the advantages of operating a business as an S corporation are:

- Your personal assets will not be at risk because of the activities or liabilities of the S corporation (unless, of course, you pledge assets or personally guarantee the corporation's debt).
- Your S corporation generally will not have pay corporate level income tax. Instead, the corporation's gains, losses, deductions, and credits are passed through to you and any other shareholders, and are claimed on your individual returns. The fact that losses can be claimed on the shareholders' individual returns (subject to what are known as the passive loss limits -- S corps pay tax at the highest corporate rate on their excess passive income) can be a big advantage over regular corporations. Liquidating distributions generally also are subject to only one level.
- The S corporation has no corporate alternative minimum tax (AMT) liability (however, corporate items passed through to you may affect your individual AMT liability).
- FICA tax is not owed on the regular business earnings of the corporation, only on salaries paid to employees. This is a potential advantage over sole proprietorships, partnerships, and limited liability companies.
- The S corporation is not subject to the so-called accumulated earnings tax that applies to regular corporations that do not distribute their earnings and have no plan for their use by the corporation. Nor because of their pass-through nature do they risk being characterized as a personal holding company.

Some of the disadvantages are:

- S corporations cannot have more than 100 shareholders and no shareholder may be a nonresident alien.
- Corporations, nonresident aliens, and most estates and trusts cannot be S corporation shareholders.
- S corporations may not own subsidiaries, which can make expansion difficult.
- S-corporations can have only one class of stock (although differences in voting rights are permitted). This severely limits how income and losses of the corporation can be allocated among shareholders.

- A shareholder's basis in the corporation does not include any of the corporation's debt, even if the shareholder has personally guaranteed it. This has the effect of limiting the amount of losses that can be passed through. It is a disadvantage compared to partnerships and limited liability companies, and is one of the main reasons that those forms are usually used for real estate ventures and other highly-leveraged enterprises.
- S corporation shareholder-employees with more than a 2-percent ownership interest are not entitled to most tax-favored fringe benefits that are available to employees or regular corporations.
- S corporations generally must operate on a calendar year.
- An S corporation may be liable for a tax on its built-in gains, if, among other things, it was a C corporation prior to making its S corporation election. Under the American Recovery and Reinvestment Act of 2009, no tax will be imposed on an S corporation's net recognized built-in gain if the seventh tax year in the 10-year recognition period preceded the tax year for a tax year in 2009 or 2010. Under the Small Business Jobs Act of 2010, Congress shortened the holding period even further, to five years, in the case of any tax year beginning in 2011, if the fifth year in the recognition period precedes the tax year beginning in 2011.

Some of these factors will be more important than others, depending upon the particular circumstances. If you would like to have us fully evaluate your situation, please call our office. ♦

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Quickbooks Corner-Year End 1099 reporting

It is almost that time of the year to begin printing 1099s. Luckily, Quickbooks makes it easy to print the most common 1099 form, the 1099-misc. Start by going to Vendors > Print 1099s/1096 and open the four-step wizard. Review your vendors to ensure that you are sending a form to all required vendors. Map your accounts to the proper 1099 box. Review the summary report to make sure your 1099s tie out. Finally print your 1099 and 1096 forms on preprinted stock. You can adjust the alignment using the align button on the print screen, if necessary. ♦