

BottomLine

Just a quick chat from your accounting firm

FREDRICKZINK & Associates
A professional corporation. | CPAS

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Here's to Holly Jolly Holidays and a New Year Full of Lifted Bootstraps

We know what you're thinking...."Why are these accounting-types talking bootstraps?"

Here's the scoop. When we were thinking about what message to send to our clients and friends this holiday season, we didn't want to simply regurgitate what's in the media. Yes, we do think the economic situation is getting better. Slowly getting better. But we bet that the person who lost his or her job and is having trouble finding a new one might not think that the economy is getting better (and certainly not at a rate of speed that's making a difference to that individual.) And that's when it hit us....what this country has always done fairly well is *rally*....not the Wall Street kind of rally...but the rally that happens within the individual. We thought: **"This isn't the first time we've had to pull ourselves up by the bootstraps."**

But what does that really mean? So we looked it up - gotta love Google. Here is what we found.

To pull yourself up by your bootstraps means to **Improve your situation by your own efforts.**

The origin of this descriptive phrase isn't fully known. It refers of course to boots and their straps and to the imagined feat of lifting oneself off the ground by pulling on one's bootstraps. This seemingly impossible task is supposed to exemplify the achievement in getting out of a difficult situation by one's own efforts.

Some early computers used a process called bootstrapping. This involved loading a small amount of code which was then used to progressively load more complex code until the machine was ready for use. This has led to use of the term 'booting' to mean starting up a computer.

So let's make 2010 about bootstraps - pulling them up as we pick ourselves up, or in computer talk: let's re-boot. Because no matter what the economic situation, we can find things that make us happy. Just take a minute and watch little kids on Santa's lap. If they aren't crying, there is hope in those eyes, there is belief that all is good.

From all of us at FZA, have a strapping good holiday and a fantastic New Year to boot.

Chuck Fredrick, CPA

Sidny Zink, CPA

THE END OF A DECADE!

Year End Tax Strategies

Get Organized

Look for the 2009 Tax Organizer in the mail this month. A completed tax organizer will speed up our processing time, and will minimize the cost of preparing your return.

Estimate your taxes

You should consider preparing a draft of your tax return now to see your current situation. You may wish to defer income into 2010 and accelerate expenses into 2009, or defer expenses to 2010 and accelerate income to 2009.

Increase your tax deductions

- Make an extra mortgage payment — pay more mortgage interest this year.
- Make an estimated state income tax payment.
- Pay your property taxes — if you can.
- Donate to charity — Save your receipts!
- Pay medical bills — only if your medical bills exceed 7.5% of Adjusted Gross Income.

Business expenses

- Invest in new equipment — Section 179 depreciation limit is 250,000 for 2009. In 2010, the limit will be reduced to 125,000.
- Buy office supplies.
- Pay bonuses.
- Establish a retirement plan or pay a profit-sharing percentage.

Investments

- Sell investments at a loss to off-set capital gains. Capital losses off-set capital gains dollar-for-dollar, and you can deduct up to \$3,000 in capital losses (in excess of capital gains). You can buy back the securities after 31 days.
- Be aware of the ex-dividend date — avoid buying funds until after their ex-dividend date to avoid paying capital gains on the dividend.
- Max out retirement contributions — invest as much as you can afford in your deductible retirement account(s) as these contributions are not included in taxable income. Plan for next year by increasing your contribution percentage for 2010.

Flex Spending Accounts

Use the funds in your FSA account or lose them forever. If you don't have an FSA account, sign up for one in 2010. Contributions to FSA accounts are tax deferred and can be used to pay for routine medical expenses not covered by your medical insurance (such as eyeglasses and prescriptions) or child-care expenses.

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ESTIMATED TAXES... should be as right on the money as possible!

A taxpayer may be subject to penalties if they do not pay estimated taxes throughout the year. Estimated tax due dates are April 15th, June 15th, September 15th, and January 15th. Penalties may also be imposed if a taxpayer does not pay enough estimated taxes by the applicable due date.

Taxpayers who are employed by others usually have federal income taxes withheld from their paychecks, and are thus not required to make an estimated tax payment.

If you don't pay any federal income taxes through withholding (or don't pay enough), you may have to make estimated tax payments. Examples of taxpayers required to pay estimated taxes are self-employed individuals and individuals with large dividend or interest incomes, capital gains, pensions, rents, royalties, or gambling winnings.

To avoid penalties, a taxpayer must pay estimated taxes if the expected total tax due with the taxpayer's return is at least \$1,000 and the total withholdings (and credits) are expected to be less than the smaller of:

- 90% of the current expected tax liability; or
- 100% of the prior year tax liability (110% if the prior year tax liability was more than \$150,000).

The American Recovery and Reinvestment Act of 2009 (ARRA) provides special rules for 2009. A qualified individual may use 90% (rather than 100%) of the prior year tax liability to calculate estimated tax payments. To qualify for the special rule, an individual's gross income must not exceed \$500,000, and they must certify that over 50% of the income is from a small business.

Know the MAX on TAX changes!

A lot has been happening to the tax laws this year including the passage of the American Recovery and Reinvestment Act of 2009 (ARRA). Additionally, many tax advantages are set to expire (or sunset) at the end of 2009. Here are some of the tax changes that affect individuals, S corporations, and estates.

INDIVIDUALS

Child Tax Credit — the amount of the credit remains the same at \$1,000 but the refundable portion has increased.

Hope Credit — now known as the American Opportunity Credit - is increased to \$2,500 and 40% of the credit is refundable. The credit is also extended to the first four years of college and the definition of qualifying expenses has been expanded.

Residential Energy Credits — the ARRA significantly changed the amount of the credit available for installing energy efficient property for individuals, businesses, and contractors.

Earned Income Credit — credit has increased from 40% to 45% for families with three or more qualifying children.

First Time Homebuyer Credit — taxpayers who purchase a home between January 1, 2009 and April 30, 2010 (or have a signed contract by April 30, 2010 to close on a home before June 30, 2010) and haven't owned a home within the preceding 3 year period are eligible for a \$8,000 credit.

Taxpayers who purchase a home between November 6, 2009 and April 30, 2010 (or have signed a contract by April 30, 2010 to close on a home before June 30, 2010) that previously owned a home for 5 consecutive years in the preceding 8 year period, are eligible for a \$6,500 credit.

Making Work Pay Credit — the amount of the credit is 6.2% of earned income or \$400 (whichever is less). The intent of the credit is to off-set FICA taxes on the first \$6,452 in earnings. In April the IRS issued revised withholding tables for employers that reflected this credit. Thus, the credit may have been claimed through wage withholding on your paycheck. If too much was withheld you may owe the IRS.

Alternative Minimum Tax — increased tax exemptions are expected to provide AMT relief to 26 million taxpayers. The rules to

allow nonrefundable tax credits to offset AMT have also been extended.

Adjustments in Computing AMT — a five year carry-back of AMT net operating losses is allowed for eligible small businesses.

Qualified Motor Vehicle Taxes — a taxpayer may deduct state and local sales taxes for the purchase of a qualified new vehicle if bought between February 19, 2009 and December 31, 2009.

Unemployment Compensation — \$2,400 of unemployment compensation is excludable from taxable income for 2009.

S CORPORATIONS

Depreciation — ARRA extends the increased Section 179 deduction and the 50% bonus depreciation rules to 2009.

Net Operating Losses — small businesses with net operating losses (NOL) in 2008 or 2009 can carry back the loss for up to 5 years. The amount of a 2009 NOL is limited in the 5th year.

Built-in Gain (BIG) — exempts the built-in gain tax for 2009 and 2010 if the S corporation is in its 8th, 9th, or 10th year of the recognition period.

Cancellation of Debt (COD) Income — ARRA allows eligible taxpayers to defer COD income from 2009 and 2010 to 2014 where it will be taxed over 5 years.

Private Activity Bond Interest — is exempt from AMT for bonds issued in 2009 and 2010.

Research and Development — credits extended through 2009 by the 2008 Tax Extenders and AMT Relief Act (TEARA).

Penalties — the Mortgage Forgiveness Debt Relief Act of 2007 imposes stiff penalties for S corporations if the corporate return is not filed on time or if information is omitted from the return. The penalty in 2009 is \$195 per month per shareholder!

ESTATE PLANNING

We are waiting with bated breath to see if congress will enact estate planning legislation this year. Current rules under EGTRRA are set to expire 12/31/09, but will be reinstated 1/1/2011 under pre-EGTRRA law. Confused? — that's why we are looking for congress to act.

For 2009, the estate tax exclusion amount is increased to \$3,500,000.

Business Insurance

Where will you be if a customer falls down on an icy patch of snow as they walk through your front door? Are you liable? Where will you be if a fire starts in the building next door and spreads to your location? Where will you be if a trusted employee is robbing you blind?

Nobody likes to think about business insurance, but as small business owners we need to make a point of reviewing our insurance policies at least yearly. Has your business been growing this year? You may need to increase your coverage. On the other side of that equation, if your business has been retracting this year, you may be able to save money by lowering your coverage. There are five types of business insurance that you need to consider: general liability, property, business interruption, product liability, and workers compensation. The State of Colorado requires that all businesses have workers compensation insurance.

- **General Liability Insurance:** General liability insurance will cover your business in the event that a customer or vendor is hurt while at your business. The insurance policy should cover all legal costs pertaining to a covered claim, as well as compensatory and general damages. Types of claims covered include bodily injury, personal injury, and advertising injury (i.e. slander).

You should review your general liability insurance coverage for the maximum amount of coverage for the period and the maximum amount of coverage per occurrence.

Minimize risks by implementing quality control standards, maintaining complete business records, training your employees, and following up on advice from your insurance carrier.

- **Property Insurance:** Property insurance covers buildings and their contents including money & securities, AR records, inventory, furniture, machinery, and supplies. Property insurance is usually defined as “all risks” or “named peril”. An “all risks” policy is more comprehensive, thus more expensive, and as the name implies will cover all claims. A “named peril” policy only covers claims which are specifically named in the policy (i.e. fire and theft). As an example, if you have a “named peril” policy which states that the policy only covers fire and theft you are not covered if your business property is flooded. You should consult with your insurance broker to determine what your risks are.

- **Business Owners Policy (BOP):** A business owners policy (BOP) bundles a general liability policy with a property insurance policy. Because these types of policies provide less liability coverage, if your business has significant risks you should purchase separate policies.

- **Business Interruption:** A business interruption policy will provide for salaries, taxes, debts, and loss of profits due to a covered loss. You should consider a business interruption policy if your business can't sustain long-term outages. For instance, if you suffer from a fire today it can take months or even years to renovate your property. A business interruption policy will pay for certain expenses while your business is not operating.

- **Extra-expense:** An extra-expense provision will cover the cost of temporarily relocating a business in the event of a covered loss.

- **Product Liability Insurance:** You should consider product liability insurance if you are in the business of selling a product. This includes items from heavy machinery down to spa services. If your product is deemed to have caused injury to a customer you may be liable for damages.

FACTORS TO CONSIDER

When deciding what type of insurance policies you need you should take into consideration the risks your business is exposed to and the state(s) in which you operate. Consult your insurance broker to help you identify your risks, and to find out if you operate in a state that is known for awarding higher damages.

You should also consider what type of policy you need. There are two types: an **occurrence policy** and a **claims-made policy**. An occurrence policy is more comprehensive, thus more expensive, and covers any claim which occurred during the policy period regardless of when the claim is made. A claims-made policy is more common and covers any claim which occurred and is reported during the policy period.

NEW HIRES? NEW PROCEDURE!

Did you know that within 20 days of hiring a new employee, employers must complete the Affirmation of Legal Work status for the State of Colorado? The purpose of the form is to state that the employer has examined the legal work status of all new employees. Employers must also retain copies of the required documents used to determine the eligibility status of each new employee.

The law has been in affect since January 1, 2007, and the penalty for non-compliance is \$5,000 per employer for the first offense and \$25,000 for each subsequent offense.

What you need to do: if you didn't complete the Affirmation of Legal Work Status form for employees hired after January 1, 2007 and they are still employed by you, complete the form ASAP. Remember to attach a copy of the documents used to verify eligibility. Also, the form should be filed with the completed I-9. **Make the form part of your new-hire procedures.**

Note that employers are not required to retain copies of eligibility documents for the I-9 but ARE REQUIRED to retain copies for the state form.

You can download the form at <http://www.coworkforce.com/lab/AffirmationForm.pdf>.





Tax “exempt” doesn’t mean “no returns”!

The “Reds Flags” Rule: Are you complying with new requirements for fighting identity theft?

To learn about the new requirements and who must comply, please visit www.ftc.gov/bcp/edu/microsites/redflagsrule/faqs.shtm. The effective date for complying has been extended to June 1, 2010.

The BottomLine Online!

Our newsletter is now available online at durangocpas.com. If you prefer to receive the newsletter via email, we’d be happy to do that for you. Simply email Ginny at grogers@durangocpas.com and ask to be put on our email list. We’ll save some paper and you’ll get the newsletter before it even hits the presses!

It seems like an oxy-moron, that tax-exempt organizations need to file a tax return when no tax is due, but...the Treasury Department’s Inspector General for Tax Administration (TIGTA) recently released a report recommending that the IRS focus on identifying and improving tax compliance by tax-exempt organizations. The report recommends a strategy to improve the evaluation of case selection criteria in order to identify the populations with the most non-filers, and to allocate sufficient resources to address the issue.



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**It’s the end of a decade!
Happy Holidays and Happy 2010!**