BottomLine

Just a quick chat from your accounting firm

FredrickZink & Associates
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Summer 2010

New and Improved? Not so fast.

The Colorado Department of Revenue last year installed what it described as a "new, updated system" designed to automate its tax-return review process.

Today, that system is under fire by a number of accounting firms that complain about delayed refunds for their clients and, in some cases, notices from the state demanding payment of penalties and interest along with the repayment of refunds that had been larger than expected. (This is happening, we've had clients we've assisted in correcting the errors). It's a big mess.

DOR officials stand by their upgrade and say any issues that have arisen are limited in scope and the fault of staff, not computer glitches. Hmmmmm....

"The problem is that no one physically looks at the returns, and the system just sends out the notices."

The DOR, in a note sent to accountants and tax preparers to introduce the new system, said "the change to a more modern accounting system will help us improve service to you and your clients. In preparation for this conversion, some returns, and more specifically, some refunds may be affected."

Yes...that's true. "Affected" apparently translates to ERROR.

DOR spokesman Mark Couch initially said he was unaware of any systemic malfunctions and suggested the accounting firms had made a mistake. Not true, in the case of our clients, after several phone-tree hours on the phone, we discovered that the DOR was in ERROR and our clients were "affected" unnecessarily.

In a subsequent email, Couch said DOR had already fixed the problems. "(These problems) were due to data errors made by staff involved in processing some amended tax returns," he said. He also said DOR's new computer system has been a resounding success.

So...what does this mean? If you get notices from the Colorado Department of Revenue that aren't making sense to you....you may have been "affected." Call us. We'll figure it out for you.

Chuck Fredrick, CPA

Sidny Zink, CPA

PROS AT THE CON GAME

The Official Scoop on Mail Scams

Don't be fooled by official looking government mail. Con artists are constantly bombarding us with bills that look like official government mail. It is one of the most effective scams, and there is a good chance you are already a victim.

It is estimated that 1 in 3 businesses pay for goods or services they never asked for or received. Fraudulent invoices disguised as government mail is especially convincing. Using official language and citations to actual law, they often come with delinquency warnings and threats to suspend business licenses.

Before you approve any more invoices, be sure to look for these tell-tale signs of a government mail con:

1. **Everything looks official** – the mailing will include seals, citations of actual regulations, and official looking forms. Look for the phrase "Office Use Only". This is a sneaky attempt to mimic the phrase "Official Use Only".
2. **Legitimate service** – often the scammer will offer a legitimate service, but will do so in an obscure manner.
3. **Disclaimers** – Look for certain disclaimers required by law such as "This is not an invoice." These disclaimers are typically in the small print.
4. **Use of fear** – look for vague language and a stressed deadline. Don't let them prey on your fear of government and obedience to authority.
5. **Official sounding names** – Common names include "Corporate Compliance Filings,"

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SCAM SPAM *Continued on page 1*

"Board of Business Center," "Annual Filing Division," "Business Filing Division," "Federal Clearing House," "Department of Business Compliance", etc.

There are a number of ways to protect your business from this type of scam:

1. **Google** – use the internet to verify the legitimacy of an invoice. Google the phone number or address – you may be surprised by what you find.
2. **Consumer alerts** – monitor consumer alerts for known scams.
3. **Professional help** – ask your accountant or lawyer if you suspect a scam.
4. **Reminders** – set annual reminders for required government payments so you can easily see if you missed a deadline.
5. **Create an accounts payable list** – anything not on the accounts payable list should be questioned. Previous payments to government agencies should already be set up with the correct address.
6. **Join a community** – join a business community such as Rotary Club or the Chamber of Commerce and use the collective shared experiences as a resource.

Finally, never disclose personal or financial information through an email. No governmental agency, including the IRS, will ask for this type of information via email.

HIRE GROUND: Employee Related Tax News

If you have hired, or intend to hire any new employees in 2010, you may be eligible for new tax credits under the HIRE Act. There are two new tax benefits: the Payroll Tax Exemption and the New Hire Retention Credit.

PAYROLL TAX EXEMPTION

The employer is exempt from paying their 6.2% share of social security taxes on the wages paid to a qualified employee between March 19, 2010 and December 31, 2010. Note that the credit only applies to wages paid (not earned).

Employers claim the payroll tax exemption on their quarterly 941 payroll tax returns. You must claim the exemption on the return for the quarter in which the wages were paid.

You must also report the amount of wages and tips covered by the payroll tax exemption on the employee's W-2 (use code CC in box 12) and on form W-3 (box 12b).

NEW HIRE RETENTION CREDIT

This credit is available for each qualified employee that works for you for at least 52 consecutive weeks. The amount of the credit is the lesser of 6.2% of qualified wages or $1,000 and is claimed on your 2011 income tax return.

The credit can not be carried back, but it can be carried forward and is in addition to the payroll tax exemption.

QUALIFIED EMPLOYERS

Taxable businesses and tax-exempt organizations qualify for the credits. Basically, any business or organization that is liable for social security taxes qualifies for the credit. The glaring exception to this rule is household employers.

QUALIFIED EMPLOYEES

- Hired after February 3, 2010 and before January 1, 2011.
- Worked fewer then 40 hours in the 60 days prior to employment.
- Not hired to replace existing employee unless that employee separated voluntarily or was terminated with cause.
  You can't terminate an employee and replace him/her just to receive the credit.
- Not a family member.

The qualified employee must sign an affidavit stating he/she was not employed for more then 40 hours in the preceding 60 days. You can use form W-11 (available on IRS.gov). Do not send the form to the IRS. You should retain the form in the personnel file along with other required documentation for new hires.

The employee can be a re-hire. For instance, if you laid someone off on November 1, 2009, and rehired them in March, 2010 you are eligible for the credit as long as they are a "qualified employee" above.

What to do if you are eligible for the payroll tax exemption but didn't claim the credit? File a corrected 941-X. Do not claim an exemption for wages paid between March 19th and June 30th on the third quarter 941.

Date wages paid:	Claim exemption on:
March 19th – March 31st	2nd Quarter 941 due by 7/31/2010
April 1st – June 30th	2nd Quarter 941 due by 7/31/2010
July 1st – September 30th	3rd Quarter 941 due by 10/31/2010
October 1st – December 31st	4th Quarter 941 due by 1/31/2011

The Grand Daddy of Health Plans

There is a lot to talk about with the passage of the Affordable Care Act enacted earlier this year. In this article we talk about changes to "grandfathered" health plans.

A grandfathered health plan is a plan that was in existence on March 23, 2010. In order to maintain grandfathered status, the plan materials must indicate that the plan believes that it is a grandfathered health plan and must provide contact information for questions and complaints. The IRS will provide model language for these disclosures. Changes to premiums, voluntarily complying with the Affordable Care Act, compliance with Federal or State regulations, or changes to third-party administrators will not affect the grandfathered status. A plan that makes any of the following changes will cease to be considered a grandfathered plan:

- a significant decrease in the benefits provided
- a material increase in the cost-sharing requirements (such as co-insurance)
- a significant decrease in the employer's contribution rate for coverage

Provisions of the new law which affect "grandfathered" health plans include:

Name	Description	Effective Date	Action Required
LIFETIME LIMITS	There can be no lifetime dollar limits for "essential health benefits" as defined by HHS.	Plan years beginning on or after 9/23/2010.	Amend plan documents and update procedures.
RESCISSIONS	Health plans may not rescind coverage once an individual becomes a covered participant, unless the participant committed fraud.	Plan years beginning on or after 9/23/2010.	Review plan documents for the right to terminate coverage due to fraud.
DEPENDANT COVERAGE	Allows children to stay on their parents' plan until age 26 (if the current plan covers dependents) unless the dependent is eligible for coverage under their employer-sponsored plan.	Plan years beginning on or after 9/23/2010.	Review plan documents and update procedures. Notify potential enrollees about their eligibility.
ANNUAL LIMITS	There is a transitional period in which restricted annual limitations may be imposed.	Plan years beginning on or after 9/23/2010.	Amend plan documents and update procedures.
PRE-EXISTING CONDITIONS	There is a transitional period in which health plans may not exclude a child under age 19 due to a pre-existing condition. After January 1, 2014 no individual, regardless of age, may be excluded.	Plan years beginning on or after 9/23/2010.	Amend plan documents and update procedures.
UNIFORM EXPLANATIONS OF COVERAGE	Standards to be developed by the HHS before March 23, 2011. The summary must describe the coverage under the plan including cost-sharing requirements, and whether the plan meets the "minimum essential coverage" standard.	Plan years beginning on or after 9/23/2010.	Insured plans: the health insurer will provide the notice. Self-insured plans: the employer or plan administrator must provide the summary. $1000 fine for non-compliance.
WAITING PERIODS	Waiting periods for coverage may not be longer then 90 days.	January 1, 2014	Amend plan documents and update procedures.

Small Business Health Care Tax Credit

Beginning in 2010, small businesses that pay at least half of the cost of single health insurance coverage for their employees are eligible for a new tax credit. Eligibility for the credit is determined by the number of full-time employees (FTEs) and average annual wages.

Generally, employers with fewer then 25 FTEs and average annual wages less then $50,000 qualify for the credit. Tax-exempt employers are also eligible for the credit.

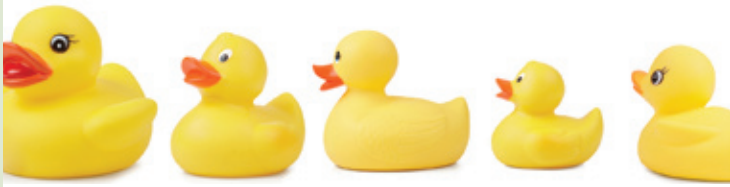
For tax years 2010 through 2013, the maximum credit is 35% of the premiums paid by the employer (25% for tax-exempt organizations). Beginning in 2014, the credit will be enhanced.

To determine if you are eligible for the credit:

Enter the number of full-time employees:	
Add: the total hours worked by part-time employees: _____ / 2080 =	
Total FTEs (MUST be less then 25):	
Total wages paid for the year (except owners)	
Divided by number FTEs (above)	
Average annual wages (MUST be less then $50,000)	

Time to Get Your Ducks in a Row

The IRS has added 155 new employees to the Tax Exempt and Governmental Entities division and plans are underway to randomly audit 500 exempt organizations — so be prepared. The good news: the IRS has provided relief to small organizations in danger of losing their tax-exempt status. For organizations with gross receipts under $25,000 the deadline to file the Form 990-N has been extended to October 15th. Organizations eligible to file Form 990-EZ may file their delinquent returns before October 15th and pay a small fine ($100-$500) in order to maintain their tax exempt status.



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It's sum, sum, summertime.
Have a nice trip. We'll see you in the fall.