

MONTHLY NEWSLETTER - OCTOBER 2010

For Clients and Friends of the Firm

Tax filing reminders

- * October 15 - Filing deadline for 2009 individual tax returns on automatic six-month extension of the April 15 deadline.
- * October 15 - If you converted a regular IRA to a Roth in 2009 and now want to switch back to a regular IRA, you have until October 15, 2010, to do so without penalty.
- * October 15 - Extended deadline for returns required of nonprofit organizations.

Important deadline approaching for nonprofit organizations

If you serve a nonprofit organization in some capacity, you need to be aware of this important tax filing requirement: All nonprofit organizations, except for churches and church-related groups, must file an annual return with the IRS. Failure to do so for three consecutive years will result in the loss of the organization's tax-exempt status.

This annual filing requirement went into effect for small nonprofit groups (those with less than \$25,000 in annual revenue) for the filing of their 2007 return, generally due on May 15, 2008. The filing deadline for the 2009 return was May 17, 2010. Thousands of small charities who hadn't filed for 2007, 2008, and 2009 hit the three-year failure to file point on that date.

The IRS has conducted an extensive notification program to remind charities of their filing obligation, but more than 300,000 still have not filed. Now the IRS is offering a one-time chance for these nonprofits to bring their filings up to date and avoid losing their tax-exempt status. Their three years of returns must be filed by October 15, 2010.

Organizations that do not meet the October 15, 2010, deadline will automatically have their exempt status revoked. Once the exempt status is revoked, the organization must apply for reinstatement. If you are responsible for a nonprofit organization and need details or filing assistance, please contact our office.

Your small businesses might benefit from this new tax credit

When small business owners think about the recent health care reform, they may be thinking only of its long-term implications. But the legislation actually provides an immediate tax break for qualified small businesses and nonprofit organizations. Beginning this year, the Patient Protection and Affordable Care Act offers a tax credit of up to 35% of employer-paid health care costs. Does your business qualify? The answer lies in a little math.

* First, you must have fewer than 25 full-time employees. Keep in mind that owners and their family members who draw a salary are not counted in the total. Neither are seasonal employees working 120 days or less per year. The term “full-time employee” is actually a bit of a misnomer; the IRS is really counting full-time equivalents, or FTEs. To figure your FTEs, add up the annual hours you paid to non-owner, nonseasonal employees (full-time or part-time) and divide by 2,080. If the result is less than 25, you’re ready to move to the next step.

* Next calculate your employees’ average wages. Just as in the calculation of full-time workers, you don’t count wages paid to owners, family members, or seasonal workers. After subtracting out the above pay, divide the net figure by the number of FTEs above, and if the result is less than \$50,000, you are still in the running for the credit.

* To meet requirement number three, your business must cover at least 50% of the cost of employees’ health insurance. For 2010, you need only pay 50% or more of the single coverage premium even if the employee is enrolled in a family plan. Next year this special rule goes away.

From now through the year 2013, the maximum tax credit is 35% of the employer’s share of the premiums. But only businesses with 10 or fewer full-time employees and average wages of \$25,000 or less actually get this rate. The percentage drops as the number of employees or the average pay increases. Another little wrinkle: Beginning in 2014, the maximum credit rises to 50%, but the tax break becomes available only to those businesses that purchase their health insurance through a state exchange. And even then, you can only claim the credit for two years.

Nonprofit organizations that meet the same qualifications mentioned above can receive a maximum credit this year of 25%.

If you’re a small business owner, look into this tax credit as soon as possible. For help in running the numbers, just give us a call.

Five tax moves to consider now

1. Remember that required minimum distributions from retirement plans are back this year. If you're over 70½, your 2010 distribution must be taken by December 31 or a 50% penalty may apply. If you turn 70½ this year, you could wait until April 1, 2011, to take your first distribution. In deciding, consider the likelihood of higher tax rates next year and the fact that a delay means you'll have two taxable distributions for 2011.
2. With the \$100,000 income limit dropped for converting a traditional IRA to a Roth, consider doing a conversion before year-end. You can elect to pay the tax over two years' tax returns, 2011 and 2012, or pay in full on your 2010 return.
3. If your business is planning to add employees soon, do so before January 1, 2011. If you hire someone who has been unemployed for a while, you could qualify for an exemption from social security payroll taxes on the new hire's wages. Keep the new worker for at least a year and you could also qualify for a tax credit of up to \$1,000.
4. Start a pension plan for your small business. You may be entitled to a credit of up to \$500 in each of the plan's first three years.
5. Review your portfolio and start thinking about offsetting gains and losses for the year. You can deduct an excess of \$3,000 of losses against ordinary income.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

Respectfully,

John L. Abitante CPA, MST.