



THE LIGHT

Vol. 11, No. 3 December, 2011

2011 YEAR-END TAX COMPLIANCE FOR BUSINESSES

CHANGES FOR 2011

Small Business Health Insurance: There was a new credit in 2010 for small employers providing employee health insurance. To qualify, an employer must have 25 or fewer Full Time Equivalent Employees, average wages must be under \$50,000 and the employer must pay at least 50% of coverage. The credit is for premiums paid in 2011 and does not apply to shareholders, partners and their family members.

Qualified Real Property: A business that leases property may deduct up to \$250,000 of "qualified" real property to be expensed for tax years 2010 and 2011. This means leasehold improvement, restaurant and retail property. Related parties do not qualify as a lease. This deduction expires December 31.

Depreciation: "Section 179 Election" allows you to expense otherwise depreciable business property in the year purchased. You may elect to expense up to \$250,000 (Federal) of equipment costs in 2011, and \$125,000 for 2012. Bonus depreciation is 50% of the cost of certain newly acquired assets for 2008-2012.

INSIDE THIS ISSUE:

[CHANGES FOR 2011](#)

[STATE & LOCAL ISSUES](#)

[TAX SAVING
STRATEGIES](#)

[COMMON
COMPLIANCE ISSUES](#)

[AUTOMOBILE USE](#)

[TRAVEL &
ENTERTAINMENT](#)

[HEALTH INSURANCE &
W-2 FORMS](#)

STATE & LOCAL ISSUES

Rhode Island

Most companies have been required to **remit taxes on line**, as of January 1, 2010.

Pass-Through Entities such as "S" corporations, general partnerships, limited partnerships, limited liability partnerships, trust or limited liability companies that are not taxed as corporations for federal tax purposes may be required to withhold state taxes from nonresident shareholders/partners.

Secretary of State Annual Reports are due by March

**TALK TO US
ABOUT YOUR
BUSINESS PAYROLL
NEEDS**

Streamline your payroll with our web-based, hassle-free payroll system. Direct deposit and electronic filing included. Call Neil or Cynthia for more information.

OUR CLIENT PORTAL SAVES YOU TIME

Our online Client Portal is a fast and secure way to share tax returns and other documents electronically. To register, go to www.fradincpa.com and start using the Portal now.

AUTOMOBILE USE

Personal use of company automobiles is subject to employment taxes (FICA, Medicare, etc.) and must be included in the employee's W-2. If you provide vehicles for employee use, you will need to determine how much of the value of each vehicle should be included on the employees' Form W-2 as gross wages. The 2011 Personal Auto Use Calculation Form is available on our web site at www.fradincpa.com.

Standard Business

Mileage Rates:

- 2010 - 50¢ per mile
- 2011, Jan 1-June 30 -
51¢ per mile
- 2011, Jul 1 - Dec 31 -
55.5¢ per mile

1st for Corporations. LLC's are due November 1st. These may be prepared on line at [Secretary of State Business Filings](#).

Massachusetts

The Commonwealth requires most companies to **register on-line**. It also requires all corporations to use electronic means to request extensions and make the accompanying extension payments and even file most required State tax returns electronically.

Register now at [Mass DOR Webfile](#)

Tax Assessor's Annual Return

2012 Tax Assessor returns must be filed with your city or town by January 31, 2012. An extension may be granted to March 15, 2012. **If you would like us to prepare your Assessor return, please notify us before January 15, 2012.**

YEAR-END TAX SAVING IDEAS

For businesses with a December 31 year-end, these suggested tax moves may reduce business income tax, if they are taken no later than Dec. 31, 2011:

Income Delay or Acceleration. Depending on whether it's better for you, tax-wise, to delay or accelerate income, you can decide to bill clients or customers sooner (before year-end) or later (after the year-end) to accomplish your tax planning goals.

Partnership or S Corporation Basis. Partners or S corporation shareholders in entities that have a loss for 2009 can deduct that loss only up to their basis in the entity. However, they can take steps to increase their basis to allow a larger deduction. Basis in the entity can be increased by lending the entity money or making a capital contribution before the end of the entity's tax year.

Caution: Remember that by increasing basis you're putting more of your funds at risk. Consider whether the loss signals further troubles ahead.

Retirement Plans. Self-employed who have not yet done so should set up self-employed retirement plans before the end of their individual tax year 2011. Plan set-up dates vary by type.

Dividend Planning. Dividends you cause your corporation to pay qualify for the reduced 15% (or 5%)

rate in the hands of stockholders, including you as a stockholder. Such a dividend may reduce the risk of a tax on accumulated corporate earnings or an IRS claim that compensation to company executives was excessive and so partly nondeductible. This tax rate may be increased in future years to ordinary rates.

These suggestions are general in nature. Please consult us before you act on any of them, as your specific tax or financial situation may require special planning.

TRAVEL AND ENTERTAINMENT

We recommend that you **separate deductible and non-deductible allowances in your corporate Chart of Accounts.** A checklist of business meal, travel and entertainment items which are non-deductible, partially or fully deductible is now available at www.fradincpa.com.

You are required to maintain records to prove that the primary purpose of your trip was business, not pleasure, along with all receipts. Keep a log or calendar of how you spent each day of the trip, as well as registrations and event schedules for seminars and conventions. If you have any question about whether a particular expense is deductible, please call us so we can help you make the determination.

HEALTH INSURANCE AND

COMMON COMPLIANCE ISSUES

W-4's

The IRS requires all companies to have employees file new W- 4 forms for 2012. You may obtain the forms by downloading them from the IRS website at IRS.gov [W-4 PDF](#).

1099's

If you are required to provide 2011 Forms 1099 to subcontractors and others, such as attorneys and accountants, **your 1099 recipients must receive the form by January 31, 2012.** If you need help preparing these forms, please give us a call.

EFTPS (Electronic Federal Tax Payment System)

As of January 1, 2011, **banks no longer accept 8109 federal deposit coupons.** You must register to make your federal tax deposits electronically. You can obtain enrollment forms by calling EFTPS Customer Service at 1-800-945-8400, on line at www.eftps.gov.

EMPLOYEE OR INDEPENDENT CONTRACTOR

State and federal tax authorities have tightened rules for distinguishing between employees and independent contractors. The IRS has a list of 20 determining factors that it uses to help determine employee/contractor status. The list can be found at www.fradincpa.com.

S CORP SHAREHOLDER BASIS

At the end of the year, an S corporation shareholder must have income tax basis to offset any tax losses. If no tax basis exists, then losses are not deductible this

W-2's

For shareholders who own in excess of 2% of the stock in "S" corporations, **amounts paid by the corporation for your health insurance premiums must be included on Form W-2 as gross wages**, and could be subject to federal and state income taxes. These amounts may also be subject to Social Security and Medicare taxes. If this information is not included in the 2010 W-2, the taxpayer will most likely lose the deduction.

year, but could be used in future years. **Calculation of income tax basis is complex, so if you expect a loss this year, please give us a call so we can help you to determine your tax basis before year end.**

INTEREST ON LOANS

Interest on shareholder loan accounts (either due to or due from) should be computed for loan amounts over \$10,000. If you want us to compute the interest for you, please send us an analysis of the account.

REIMBURSED EMPLOYEE BUSINESS EXPENSES AND ALLOWANCES

Employee expenses can be reimbursed under two types of plans: accountable and non accountable. An accountable plan is a reimbursement or other expense allowance arrangement that satisfies three basic requirements: a business connection; substantiation; and return of excess amounts. A non accountable plan does not need to meet these requirements. Non accountable reimbursements are reported as wages on Form W-2 and are subject to withholding. The recipient has to list the reimbursements and itemize the expenditures on his Form 1040.

A publication of
Fradin & Company, Ltd. 1000
Greenwich Ave Warwick, RI
02886 401.738.2900
www.fradincpa.com
info@fradincpa.com

This publication is not intended to be financial or tax advice, but is intended only to inform the reader of recent developments. If you require financial or tax advice on a particular matter, please contact us directly at (401) 738-2900, or email info@fradincpa.com