

2009/10 Tax Guide

Financial Fitness Special Edition

ROUTE TO:

■ A KFMR publication designed to help businesses and individuals improve their financial position

■ Special Edition

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The Expiring Federal Estate Tax (Not Likely)

By Joel Katz

The Federal Estate Tax is scheduled to expire at the end of 2009, only to be resurrected in 2011. Or so the existing law provides. Most estate planners and estate professionals believe that this is rather unlikely. Experts and aides say a more realistic scenario involves Congress passing a one-year extension of the 2009 estate tax laws that are in effect and then tackling the issue as part of broader tax reform next year.

Senator Max Baucus (D-MT) introduced a bill last March in the Senate that would freeze the estate tax exemption at \$3.5 million per person (\$7 million per couple), with the top estate tax rate set at 45%. The exemption would be increased for inflation in \$10,000 increments starting in 2011. Included in Senator Baucus' bill was a proposal to make any unused portion of the exemption in the estate of the first spouse to die available to the survivor, thus giving a married couple an entire \$7 million exemption. The bill also unifies the gift and estate tax exemption at \$3.5 million as well as increasing the generation-skipping transfer tax exemption to \$3.5 million.

While these provisions are good for most people, bills have been introduced in the House, with the backing of the Administration, which would eliminate valuation discounts in family partnerships or LLCs for non-business assets, such as cash, securities, bonds, commodities, collectibles and real estate (unless the decedent meets certain material participation requirements). This includes minority interest discounts on the transfer of an interest in an entity where the transferee and members of the transferee's family have control of the entity. There are also proposed changes to the rules for Grantor Retained Annuity Trusts (GRATs), a common wealth transfer vehicle, which will increase the likelihood of estate inclusion as well as a proposed 5% surtax to the 45% rate for estates in the \$10 million to \$41.5 million range.

Whatever the final outcome of future estate tax legislation, there will be both good and bad outcomes for most people and will require a careful analysis, and likely a revision, of most people's estate planning and documents. Stay tuned. ■

Average Itemized Deductions*

The chart below shows preliminary averages released by the IRS. Please remember that these numbers are only averages and do not represent a suggested itemized deduction and that in the event of an audit, itemized deductions may be investigated.

Adjusted Gross Income	Medical Expenses	Taxes	Interest	Charitable Contributions
\$15,000 to \$30,000	\$6,720	\$2,837	\$8,362	\$1,897
\$30,000 to \$50,000	\$5,791	\$3,665	\$8,451	\$2,132
\$50,000 to \$100,000	\$6,354	\$5,815	\$9,813	\$2,673
\$100,000 to \$200,000	\$9,302	\$10,445	\$12,892	\$3,860
\$200,000 or more	\$29,509	\$39,234	\$23,274	\$18,539

*Data based on Preliminary 2006 IRS Statistics



KFMR Katz Ferraro McMurtry P.C.
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Delinquent Participant Contributions: How to avoid penalties, interest, and excise taxes.

By Vincent Son

A good way of retaining key employees is to offer some type of retirement plan; e.g., 401(k), profit sharing, etc. A 401(k) plan is also an excellent way to help employees save for the future and, in the case of an Employee Stock Ownership Plan (ESOP), having a stake in their employer. However, 401(k) plans require employers to take on additional fiduciary and administrative responsibilities. One responsibility is the timely remittance of amounts withheld from the plan's participants. Failure to remit the withholdings in a timely manner can result in penalties and excise tax imposed on the employer. The best way to avoid penalties and excise taxes is to remit the withholdings when payroll is paid.

The timely remittance of 401 (k) contributions is governed by the Code of Federal Regulations, 29 CFR 2510.3-102, also known as DOL Regulation 2510.3-102. The Regulation states that amounts withheld from wages become assets of the plan as of the date on which these amounts can reasonably be separated from the employer's general assets, but in no event later than the 15th business day of the month following the month in which these amounts would otherwise have been payable in cash.

"What does this all mean?" a business owner might ask. First, the DOL has held that the 15th business day of the following month rule is not a safe harbor. The enforcement of the rule tends to be ambiguous depending on the employer's specific situation. The key to the rule is when the "contributions can reasonably be segregated." A good rule of thumb is to remit the contributions when paychecks are paid since the amount of the 401(k) withholding can be determined and the payment can be made to the plan. Some third party payroll administrators offer to remit the contributions to the plan's custodian.

On February 29, 2008, the DOL proposed a rule that amends the definition of plan assets to clarify the application of when contributions are to be remitted. The proposed rule establishes a safe harbor of 7 business days after the payroll date for plans with fewer than 100 participants; however, the proposed rule does not address plans with over 100 participants. Currently, a final determination has not been reached.

Delinquent remittances result in a reportable transaction which can generate penalties and excise taxes as well as payments to the plan for "restoration of profits," i.e. making the participants whole. The IRS imposes an excise tax of 15 percent on the earnings on the late employee contributions reportable on Form 5330 (Return of Excise Taxes Related to Employee Benefit Plans). If the delinquent remittances are not corrected the DOL can further assess a 20 percent civil penalty under a breach of fiduciary duty for not correcting the prohibited transactions and for not making the participants whole. There are various options available to correct plan errors depending on the facts and circumstances of the error. When errors are discovered, consult with your accountant on the best way to correct and prevent the error in the future.

One of the most important fiduciary responsibilities of a 401(k) plan administrator is to remit participant contributions to the plan in a timely manner. Avoid this problem by determining how long it takes for the business to reasonably segregate the contributions from general assets. Furthermore, when delinquent remittances are discovered take the necessary steps to immediately correct them. ■

The House Always Wins

By Laura Rossi

Ever dream of winning big with a lottery ticket, a trifecta at the race track, or a jackpot at one of Pennsylvania's new casinos? What if your dream would come true? How would this event change your life? How big of a share will the IRS want?

Without discussing all the life changing possibilities, you should always remember that all gambling winnings are fully taxable and must be reported on your tax return. Some examples of gambling income include lotteries, raffles, horse races, poker tournaments and casinos. Gambling winnings also includes the fair market value of prizes such as cars or trips. In certain circumstances, a form W2-G will be issued for these gambling winnings because they have been reported to the IRS. However, all winnings must be reported on line 21 on form 1040 whether or not a form is received.

Gambling losses are deductible only if you itemize your deductions. However, this does not provide you the opportunity to claim all the money you lost while gambling. Gambling losses are only deductible up to the amount of gambling income. Therefore, if you consistently lose, you cannot deduct your gambling losses. However, if you are lucky enough to win, these losses are reported on Schedule A as a miscellaneous deduction.

For your protection in the event of an audit, always keep an accurate record of your gambling winnings and losses. To deduct your losses, you must be able to provide receipts, tickets, statements and/or other records that show the amount of both your winnings and losses. Good luck! ■

Hardship Distributions

By Ken Frederick

To one extent or another, we have all felt the looming affects of our recently contracting economy. Unemployment, now in double digits, is the highest it has been since the early 1980's when it peaked at 10.8%, according to the Bureau of Labor Statistics. With large banks and fortune 500 companies closing or threatening to close, Americans are finding it harder and harder to make ends meet as the storm of the soft economy rages on.

As many scramble to pay their mortgages, tuition, and medical bills, an option may be available through their 401(k) plan to help alleviate financial stress during these difficult times. The option is known as a hardship distribution, provided the plan permits hardship distributions.

As defined by the Internal Revenue Code, a hardship distribution is a withdrawal made as a result of an immediate and heavy financial need of an employee and the amount withdrawn must be necessary to satisfy that need. The Internal Revenue Service has further determined that the following expenses meet the criteria of "an immediate and heavy financial need"—certain medical expenses, costs associated with burials and funerals, tuition, costs of purchasing a principal residence, payments preventing foreclosure or eviction, as well as certain repair expenses in conjunction with a principal residence.

The term "necessary" as used in the definition of a hardship distribution is considered met when an employee has exhausted all other distributions and loans allowed under the plan and other outside sources. The amount available for a hardship distribution is generally restricted to the employee's elective deferrals (no employer monies and no earnings). Other restrictions associated with a hardship distribution are: the employee is barred from deferring for six months from the date of the distribution, the gross distribution is a taxable event and may be subject to the 10% early withdrawal penalty and the distribution is limited to the amount needed to cover the immediate and heavy financial need. Documentation of the amount may also be required.

It should also be noted that an employer is not required to offer hardship distributions as a part of the 401(k) plan. Any person considering a hardship distribution should consult with their employer, plan administrator and/or accountant to see if taking such a distribution is right for them. It is still unclear if the recession is nearing its end, but a hardship distribution may provide the means necessary to weather the storm a little while longer. ■

Unclaimed Property

By Michele Goldammer

Businesses, organizations and government entities in Pennsylvania are required to file an unclaimed property report with PA Treasury Department by April 15th of each year, as noted on the PA Treasury's website. The unclaimed property report should be filed in many cases even if an entity has no unclaimed property to report. However, when there is no unclaimed property to report, some entities are exempt from filing the annual negative reports. The entities that are exempt from filing annual negative reports are estates, trusts, sole proprietorships and 501(c)(3) tax-exempt organizations. These reporting requirements are supported by law under the Pennsylvania Abandoned and Unclaimed Property Act.

Specific definitions of unclaimed property in the state of Pennsylvania is outlined in the Pennsylvania Abandoned and Unclaimed Property Act and can be found on-line at <http://www.patreaury.org/assets/pdf/UnclaimedPropertyPStatute11-07.pdf>. Forms and information regarding unclaimed property can be requested from the Treasury Department's Bureau of Unclaimed Property, Reporting Division at 1-800-379-3999 or UnclaimedPropertyReporting@patreaury.org. ■

2009 Waiver of Required Minimum Distribution

By Nicole Frye

Generally, beginning in the calendar year after the year you turn 70 ½, you are required to withdraw a minimum amount of money from any retirement account in which you contributed tax-deferred assets or had tax-deferred earnings. This minimum withdrawal amount is referred to as a "required minimum distribution" or "RMD."

The Worker, Retiree and Employer Recovery Act of 2008, signed into law by the President in December 2008, waives the minimum withdrawal requirement for 2009. This waiver is only applicable to RMDs from defined contribution plans including, most 401(k) and 403(b) plans, profit-sharing plans, money purchase pension plans, Simple IRAs, SEP-IRAs and certain 457(b) retirement plans.

An individual who attained age 70 ½ during 2008 and elected to defer the first RMD to 2009 is required to have taken the distribution by April 1, 2009. The 2009 RMD distribution however can be waived.

If you took a 2009 withdrawal without knowing about the waiver, the IRS has allowed the distribution monies to be rolled back into a retirement account, with exceptions. Currently this waiver does not extend through 2010.

If you are not in need of the money for living expenses or holiday gifts, you can cross the RMD off your list for 2009! ■

What IRA is Best for You?

By Bryan Maguire

In these uncertain financial times, it is more important than ever to be able to effectively and efficiently manage each source of income, not least of all, investment income.

Investment income supplementary to wages may make up the majority of the funds that some of us will live on after retirement.

Individual Retirement Accounts (IRAs) are a common vehicle through which people save for retirement. What is less evident is what type of IRA account is most appropriate for you and will best serve your interests when the time comes to retire.

A Traditional IRA is a tax-deferred retirement account to which individuals make pre-tax contributions and the earnings accumulate tax-free. Withdrawals from a Traditional IRA are taxable events and withdrawal may begin after you attain age 59 ½ to avoid the 10% early withdrawal penalty.

An alternative to a Traditional IRA is the Roth IRA. Established with the enactment of the Taxpayer Relief Act of 1997, Roth IRAs are slightly different than Traditional IRAs as to when taxes are assessed on income. Contributions to Roth IRAs are made with after-tax dollars and allowed to grow tax-free. In addition, withdrawals are not required at a certain age and they are not subject to the Required Minimum Distribution rules. As a result, Roth IRAs might appear to be a better alternative for certain individuals planning for retirement. An individual may elect to convert the assets of a Traditional IRA to a Roth IRA in a taxable transfer. By making this conversion, the individual changes the tax properties of the retirement income from taxable to non-taxable upon distribution at retirement.

Under current law, a Roth IRA conversion, or conversion rollover, is only permitted if the owner of the Traditional IRA does NOT file a “married filing separate” tax return and the taxpayer’s Modified Adjusted Gross Income (MAGI) does not exceed \$100,000 for the year. Beginning January 1, 2010, taxpayers will be able to convert to a Roth IRA without regard to their filing status or MAGI. Additionally, any conversion occurring in the year 2010 only will be entitled to elect the “special allocation rule” regarding the payment of the tax on the conversion. You may elect to pay all of the tax on the conversion in 2010 or 50% of the income resulting from the conversion “ratably” in years 2011 and 2012.

The ability to spread the taxable conversion amount from 2010 across the two following years is one of many attractive features of the Roth IRA conversion. It is important to keep in mind that the election to convert from a Traditional IRA to a Roth IRA is not favorable for everyone and much depends on the individual circumstances of each taxpayer. The tax on the conversion will be paid at whatever Federal income tax rate is applicable for those years. For more information or guidance on the advantages and disadvantages of Traditional IRAs and Roth IRAs, please feel free to contact us at KFMR. ■

Key Benefit Plan Limits for 2010

Maximum Annual Benefit for Defined Benefit Plan

2010: \$195,000 2009: \$195,000

Maximum Annual Contribution for Defined Contribution Plan

2010: \$49,000 2008: \$49,000

Highly Compensated Employee Definition (in general)

2010: \$110,000 2009: \$110,000

SEP Compensation Minimum Amount

2010: \$550 2009: \$550

SEP Nondiscrimination Compensation Amount

2010: \$245,000 2009: \$245,000

401(k) Maximum Compensation Amount

2010: \$245,000 2009: \$245,000

401(k) Maximum Exclusion (Deferrals/in general)

2010: \$16,500 2009: \$16,500

IRA Deduction Limit (In general)

2010: \$5,000 2009: \$5,000

SIMPLE Contribution Limit

2010: \$11,500 2009: \$11,500

Catch-up Contributions (50 years of age and older)

Traditional and Roth IRAs

2010: \$1,000 2009: \$1,000

SIMPLEs

2010: \$2,500 2009: \$2,500

401(k), 403(b) and 457 Plans

2010: \$5,500 2009: \$5,500

Qualified Transportation Fringe Benefits

Commuter highway vehicle and transit pass

2010: \$230 2009: \$120/230

Qualified parking

2010: \$230 2009: \$230

Adoption Assistance Programs

Excludible amount

2010: \$12,170 2009: \$12,150

Phase out income thresholds:

Phase out begins

2010: \$182,520 2009: \$182,180

Phase out complete

2010: \$222,520 2009: \$222,180

Individual Income Tax Rates 2009

Married filing jointly or Qualified Widow(er)	Single	Head of household	Married filing separately	Tax rate
\$0–16,700	\$0–8,350	\$0–\$11,950	\$0–8,350	10%
\$16,701–67,900	\$8,351–33,950	\$11,951–45,500	\$8,351–33,950	15%
\$67,901–137,050	\$33,951–82,250	\$45,501–117,450	\$32,951–68,525	25%
\$137,051–208,850	\$82,251–171,550	\$117,451–190,200	\$68,526–104,425	28%
\$208,351–372,950	\$171,551–372,950	\$190,201–372,950	\$104,426–186,475	33%
over \$372,951	over \$372,951	over \$372,951	over \$186,476	35%

Tis the Season for Identity Theft

By Ken Landis

A scam involving tax information is one of the most successful cons around today. When people see an email claiming that they have under-reported or over-reported their taxes, a wave of paranoia overcomes them and they are likely to disclose information they otherwise would not. This can lead to stolen assets and, in severe cases, identity theft. However, these scams are generally easy to spot.

Most of these scams are variations of the same concept: someone posing as an IRS agent claiming your tax return was filed incorrectly, tax was underpaid, tax was overpaid, etc. In each case, the scammer will ask for personal information such as your Social Security Number and bank account information, claiming he needs such information to direct deposit your refund. Waves of recent scams have emerged claiming to be related to the economic stimulus act which was signed into law this year. Due to the complexities of the stimulus act, scammers have been successful in taking advantage of people's misunderstanding of it.

There are a few dead giveaways to alert you to the fact that you are dealing with someone other than the IRS. The first red flag is that the IRS will never contact you by email to discuss tax matters, unless you initiate the email communication. Also, consider the following, "Did I give my email address to anyone with the IRS? How would they have my email address?" Any requests for an unusual amount of personal information are also red flags that you are dealing with a con artist. The IRS will never ask for this information through email. If your bank account information is not included on your tax return for direct deposit of a refund, you will be issued a paper check in the mail. Finally, the majority of these scams originate overseas where English is not a first language, so many of these scam emails are riddled with spelling and grammatical errors. ■

5 Year Net Operating Loss Carryback Election... Turning Lemons into Lemonade

By Rachael Mostoller

As we all know, this hasn't been the best year for many businesses. Fortunately, President Obama recently signed the Worker, Homeownership and Business Assistance Act of 2009, which includes a five year net operating loss carryback. This five year carryback was previously available in 2008, but only for qualified small businesses. This qualification applied only to businesses with average gross receipts of less than \$15 million, which disqualified many potential applicants.

The recently signed Act now allows all businesses with a 2008 or 2009 loss (taxable years ending after December 31, 2007 and beginning before January 1, 2010) to carry this loss back up to 5 years to recoup some of the tax that had been paid in previous profitable years. This election may only be made for one taxable year within the given period, with the exception of qualified small businesses that claimed this credit in 2008. These companies have the option of electing this carryback for 2009 as well.

Taxpayers have an option of electing a three (3), four (4) or a five (5) year carryback. If a taxpayer chooses the five (5) year carryback, there is a limitation on the year 5 loss. This loss is limited to 50% of the taxpayer's taxable income for that year, but this limitation only applies to year 5.

This carryback election must be made by the federal income tax return due date, including extensions. If your company has experienced a taxable loss in 2008, or is anticipating a taxable loss in 2009, please contact KFMR to review possible carryback strategies. ■

The American Recovery and Reinvestment Act of 2009 Individual Provisions

By Felicia Angle

"Making Work Pay" Credit

Workers can receive an income tax credit equal to 6.2% of earned income up to a maximum credit of \$400 for single taxpayers (\$800 for couples).

American Opportunity Education Credit

Raises the maximum credit from \$1,800 to \$2,500 and extends the benefit for four years. Please see the article "Education Tax Credits Now Available to Higher Income Filers."

First Time Home Buyer Credit

A refundable tax credit of 10% of the purchase price of a home to a maximum of \$8,000 for first time home owners has been extended to April 30, 2010. Also, a tax credit of \$6,500 is being offered to repeat home buyers that purchase a primary residence between November 6, 2009 until April 30, 2010.

Residential Property Energy Credit

Increases the energy tax credit for homeowners who make energy efficient improvements to existing homes. The credit equals 30% of the cost of qualifying improvements and raises the maximum credit to \$1,500 for improvements placed in service in 2009 and 2010.

Unemployment Benefits

Temporary suspension of taxation on the first \$2400 in unemployment benefits in 2009.

Auto Sales Tax Deduction

Permits taxpayers to take a deduction for state and local sales tax paid on the purchase of new cars, light trucks, motor homes, and motorcycles for purchases made between February 17, 2009 and December 31, 2009. It is available, whether or not a taxpayer itemizes, on qualified purchases up to \$49,500 of the purchase price.

Child Tax Credit

More families will be eligible for the additional child tax credit because of a change to the way the credit is calculated. Taxpayers who cannot take full advantage of the child tax credit because the credit is more than the taxes they owe may receive a payment for some or all of the credit not used to offset their taxes. This is a refundable credit which provides benefit even if no tax is owed. ■

Education Tax Credits Now Available to Higher Income Filers

By Maureen Barry

Education credits help to offset the costs of higher education for oneself or a dependent. Any individual paying qualified tuition and related expenses at a postsecondary educational institution may claim the credits, provided the institution is a qualified educational institution. An individual may claim either of the following credits for his/her own qualified tuition and related expenses and the qualified tuition and related expenses of his/her spouse and other eligible dependents (including children) for whom the dependency exemption is allowed. The scope of "qualified tuition and related expenses" has been expanded to include expenditures for "course materials." For this purpose, the term "course materials" means books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.

There are two education-related credits: the American Opportunity (modified Hope) Credit and Lifetime Learning Credit. These are tax credits rather than deductions and are deducted dollar for dollar from your federal income tax.

Modified Hope Credit a.k.a American Opportunity Credit

For tax years 2009 and 2010, the following changes have been made to the Hope credit. The modified hope credit is also referred to as the American Opportunity Tax Credit.

The maximum amount of the Hope credit has increased to \$2,500 per student. The credit is phased out (gradually reduced) if your adjusted gross income (AGI) is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if you file a joint return).

The Hope credit can now be claimed for the first four years of post-secondary education. Previously the credit could be claimed only for the first two years of post-secondary education.

Generally, 40% of the Hope credit is now a refundable credit, which means that you can receive up to \$1,000 even if you owe no taxes. However, none of the credit is refundable if the taxpayer claiming the credit is a child subject to the "kiddie" tax.

Lifetime Learning Credit

Unlike the Modified Hope Credit, the Lifetime Learning Credit is calculated on a per family, rather than a per student, basis. Therefore, the maximum available credit does not vary with the number of students in the family. The credit is equal to 20 percent of the taxpayer's out-of-pocket expenses up to a maximum of \$10,000 in expenses. Thus, the maximum Lifetime Learning Credit a taxpayer may claim is \$2,000. The maximum credit does not change even if the taxpayer is claiming a credit for the expenses of more than one student in the family.

For 2009, the amount of your lifetime learning credit is phased out (gradually reduced) if your modified adjusted gross income (AGI) is between \$50,000 and \$60,000 (\$100,000 and \$120,000 if you file a joint return). You cannot claim a lifetime learning credit if your modified AGI is \$60,000 or more (\$120,000 or more if you file a joint return).

For more information, please contact KFMR. ■

PUTTING TOGETHER YOUR TAX INFORMATION

The "short list" for businesses and individuals

For smooth and thorough preparation of your tax returns, collect the following information for your accountant—and please be careful not to throw away any tax documents you get in the mail!

Corporations

- Year end bank reconciliations
- Year end bank statements
- Physical inventory records with costing, if applicable
- W-3, W-2s and 940
- Year end commercial loan statements
- Invoices for new equipment purchases made during the year
- Loan documents for new loans
- List of bad debt write offs
- Broker statements if the business has investments

Individuals

- W-2s
- 1099s as follows:
 1. 1099-B, Proceeds from sale of stock
 2. 1099-INT, Interest income
 3. 1099-R, Pension distributions
 4. 1099-G, Unemployment compensation
 5. 1099-DIV, Dividend income
 6. 1098, Mortgage interest expense
- K-1s from other businesses
- Contributions—cash and noncash
- Tax estimates—federal, state and local
- Child/day care information
- Medical expenses as follows:
 1. Health insurance premiums
 2. Payments to doctors, dentists & hospitals
 3. Prescription drug expenses
- Miscellaneous deductions as follows:
 1. Safety deposit box fees
 2. Investment expenses
 3. Unreimbursed business expenses
- Changes that occurred during the year, i.e., new baby, change in marital status, or purchase of new home
- Settlement sheets from purchases and/or sales of property
- Vehicle purchases

Payroll Tax Withholding, Depositing and Reporting

By *Dustin Wehman*

One of the biggest issues small businesses face each year involves the proper handling of employment related taxes. As an employer, fulfilling your payroll tax responsibilities involves maintaining and filing the appropriate IRS forms, withholding the correct amounts, and depositing monies accurately and timely. Compliance with employment tax law will not only avoid unnecessary penalties and interest, but also ensures employee information is complete and accurate.

Payroll taxes include amounts withheld to cover employees' portions of the federal withholding tax, the Old-Age, Survivor and Disability Insurance (OASDI) and hospital insurance (Medicare), employers' portion of the OASDI and Medicare, and both federal (FUTA) and state unemployment taxes.

There are some prerequisites to proper payroll tax compliance. Every employer must obtain a valid employer identification number (EIN) if they are required to withhold payroll taxes. Employers must have a valid form W-4 on file for every employee, as the IRS may request this information during an examination. The Form W-4 is valid until a new form is filed with the employer by the employee; however, if an employee wishes to claim exemption from federal income tax withholding, a new form must be filed each year (Form W-4 with exemption expires February 15 of the following year).

It is important to educate your workforce regarding proper withholding due to changes to the withholding tables pursuant to the Making Work Pay Credit established by the American Recovery and Reinvestment Act of 2009. The Withholding Calculator on the IRS website (www.irs.gov/individuals) can be used by your employees to determine the appropriate number of allowances and ensure that taxes are not significantly under withheld.

Employers are responsible and liable for proper depositing of both the employee and employer portions of the federal withholding tax, the OASDI and Medicare payroll taxes, and also the filing of applicable quarterly/annual tax returns, even if a third party provides payroll tax services.

The IRS imposes penalties related to both the accuracy and timeliness of payroll tax deposits. Deposits must represent 100% of your tax liability; however, any shortfall of less than the greater of \$100 or 2% of the liability can be remitted, by the IRS imposed makeup dates, to avoid penalties. IRS penalties range from 2% for deposits made 1 to 5 days late, up to 15% for amounts still unpaid more than 10 days after the first IRS notice demanding the tax due. For delinquency purposes, late days are based on calendar days, not business days.

Aside from the federal withholdings, OASDI and Medicare taxes, which involved withholding employee monies, employers are responsible for paying unemployment taxes, under the Federal Unemployment Tax Act (FUTA). FUTA taxes are due on the last day of the month following each calendar quarter if liability exceeds \$500 and are paid solely by the employer, not withheld from the employees. These taxes are submitted on form 8109 and deposited with your bank each quarter or electronically. Employer's Quarterly Federal Tax Return, Form 940, Employer's Annual Federal Unemployment Tax Return, for 2009, is due by January 31, 2010.

The IRS imposes penalties for late filings at a rate of 5% per month up to 25% of the tax due. There is also a failure-to-pay penalty of 0.5% per month up to 25% of the tax due. Interest accrues from the due date of the tax on any unpaid balance.

When dealing with employment related taxes please keep the following items in mind:

- There are electronic filing (e-file) and payment (Electronic Federal Tax Payment System – EFTPS) options available to employers, which can be accessed via the IRS website.
- No matter how you file, you should keep employment tax records for at least four years after filing the 4th quarter for the year.
- If you need any assistance, please to contact a member of the KFMR team for help.

In our complex tax environment, constant attention and planning is a must for minimizing your tax liability. At KFMR, we continually keep abreast of tax law changes that impact our clients, and have prepared this publication to highlight some of the most relevant issues affecting your tax situation. Please be advised that the information presented in this publication serves as a guideline only and does not necessarily reflect the many variables and exceptions contained in the tax law. For further information or assistance in determining what strategies are right for you or your business, please contact any one of our tax professionals.

To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code, or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

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We hope you enjoyed reading this special edition of Financial Fitness. Your feedback is appreciated. Please e-mail comments and suggestions to Joe Slezak, Marketing Coordinator at jslezak@kfmr.com.



KFMR Katz Ferraro McMurtry P.C.
Accountants ■ Consultants ■ Advisors

300 Benedum-Trees Building
223 Fourth Avenue ■ Pittsburgh, PA 15222
(412) 471-0200 ■ FAX (412) 471-0672
www.kfmr.com

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2010 Wage and Tax Facts Quick Reference Guide

FEDERAL

Minimum Wage:	
Effective 7/24/09	\$7.25
Minimum Cash Wage:	
Tipped employee	\$2.13
Maximum Tip Credit:	
Effective 7/24/09	\$5.12
Youth Sub-Minimum Wage:	\$4.25
(First 90 days of employment)	

FICA (Social Security)

Maximum Taxable Earnings	\$106,800*
Employee/Employer Deduction	6.20%
Self-Employment Tax	12.40%

*Since there is no Cost of Living Adjustment, by statute, these amounts remain unchanged in 2010

FICA (Medicare)

Maximum Taxable Earnings:	No Limit
Employee/Employer Deduction:	1.45%
Self-Employment Tax:	2.90%

Supplemental Wage Bonus

Rate (Flat Rate Method)	
Under \$1 million:	25%
Over \$1 million:	35%

FUTA (employer-paid)

Maximum 2010 Taxable Earnings	\$7,000
Percent of Taxable Wages:	6.20%
Maximum Credit:	5.40%
Normal Net Tax:	0.80%

Mileage Reimbursement Rate

2009:	\$0.55
2010:	\$0.50

PENNSYLVANIA

ALL EMPLOYERS	
Minimum Wage:	
Effective 7/24/09	\$7.25

Training wages for PA employees may no longer be reduced beneath minimum wage.

Minimum Cash Wage:	
Tipped employee	\$2.83

Note: Employee must receive more than \$30/month in tips

State Income Tax

Wage Withholding:	3.07%
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Unemployment Insurance

Maximum 2010 Taxable Earnings:	\$8,000
Employee 2010 Deduction:	0.08%
(Maximum taxable earnings are unlimited)	

Retirement Earnings

Early Retirement Age	\$14,160/yr.*
	(\$1,180/mo)*

(One dollar in benefits will be withheld for every \$2 in earnings above the limit)

Full Retirement Age	\$37,680/yr.*
	(\$3,140/mo)*

(Applies only to earnings for months prior to attaining full retirement. One dollar in benefits will be withheld for every \$3 in earnings above the limit.)

There is no limit on earnings beginning the month an individual attains full retirement age.

*Since there is no Cost of Living Adjustment, by statute, these amounts remain unchanged in 2010

Financial Fitness

Editorial Staff

Content for the 2009/2010 Tax Guide was compiled by:

Tina Cardinal, Manager
Small Business Unit
tcardinal@kfmr.com

Raymon Cumberledge, Manager
Tax Advisory Services
rcumberledge@kfmr.com

Beverly Elovitz, Director
Employee Benefits Plan Administration
belovitz@kfmr.com

Nicole Frye, Senior Accountant
Accounting, Assurance and Advisory Services
nfrye@kfmr.com

Amy Mattie, Manager
Business Valuation and Litigation Support Services
amattie@kfmr.com

Rachael Mostoller, Senior Accountant
Tax Advisory Services
rmostoller@kfmr.com

Vincent Son, Senior Accountant
Accounting, Assurance and Advisory Services
vson@kfmr.com

Dustin Wehman, Staff Accountant
Accounting, Assurance and Advisory Services
dwehman@kfmr.com

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