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Last Week:

Coping with the Economic Downturn

2010 Standard Mileage Rates

Sweeping Overhaul Coming for Tax Professionals

Important Links:

Internal Revenue Service

HIRING?

Is your business hiring?

Through 2011, the American Recovery and Reinvestment Act of 2009 includes a provision for tax credits for 2 target groups.

Unemployed Veterans, defined as someone who has served on active duty in the Armed Forces for more than 180 days; been discharged or released from active duty for a service related disability; been discharged or released from active duty during the last five years; and has received unemployment benefits for more than 4 weeks in the previous year.

A second group is Disconnected Youth. These are defined as someone between 16 and 25; not regularly attending a secondary, technical, or post-secondary school in the previous 6 months; unemployed for 6 months; and, lacks sufficient skills to be readily employed.

Anyone falling within either group must be certified as within either group. IRS Form 8850 pre-screens the employee and makes a written request for eligibility. Once completed, the form should be submitted to the Indiana Department of Workforce Development (previously called the Unemployment Office) for the person to be certified as a member of the eligible group.

For the employer, the Work Opportunity Credit is claimed on IRS Form 5884, and may amount to as much as 50% of wages paid. On the employees that qualify, first year hours worked between 120 and 400 hours are eligible for a 25% credit; 400 hours worked or more are eligible for a 40% credit. Employees certified as long-term family assistance recipients on second year wages are eligible for a 50% credit.

As with all government programs there are a number of stipulations and hoops to jump through to receive the credit. But with careful guidance the tax savings can be significant.

ARE YOU A STATUTORY EMPLOYEE?

Do you have business expenses as an employee that are unreimbursed by your employer? Typically (meaning for most W-2 employees), these expenses are deducted on Form 2106 which is carried over to Form 1040, Sch A and combined with other Itemized Deductions. These are then reduced by 2% of you income. To benefit from these deductions, someone must first Itemize, and second the deductions must be more than 2% of AGI. Unless significant, these expenses for most employees are typically not deductable on the Federal Tax Return.

There are exceptions to this rule. A little known exception exists regarding Statutory

Employees. When someone is hired, the employer first must decide if they are an Employee (receive a W-2) or whether they are an Independent Contractor (receive a form 1099) at year end. If a person is an employee, they are either a Common Law Employee or a Statutory Employees, both of which are identified in the Internal Revenue Code. There are 4 separate categories for a Statutory Employees.

As a Statutory Employee, an employee receives a W-2, but wages are reported on Schedule C. Out of pocket expenses are deducted of this form for unreimbursed expenses. This does not mean the employee is self-employed, but this is how the IRS requires reporting for this type employee.

An employee benefits because he/she would be able to fully deduct expenses normally reduced by 2% of income, and the benefit will be on both Federal and state tax returns. A paycheck for a Statutory Employee is not reported differently than in the past, withhold of income tax, social security tax, Medicare tax, and other withholding are deducted as normal. The difference lies in the employee deducting expenses fully from wages and cause the employee's tax bill to be lower.

2009 TAXES

The American Recovery and Reinvestment Act of 2009 has a variety of tax deductions and credits available for small businesses and other taxpayers. Some changes are effective for a short time, and businesses have only a few months to save on taxes.

- Bonus depreciation allowance and limits on Code Sec 179 expense deduction increased for businesses that want to write-off most or all 2009 purchases.
- Expanded net operating loss carryback provisions can mean a tax refund for small businesses historically profitable, but lost money in 2008.
- Investors in small business stock can exclude most of the gain on the sale, if the stock is acquired between February 17, 2009 and January 1, 2011, and held for 5 years or more.
- Individuals receiving more than half of gross income from a small business in 2008 (and meet other requirements), can qualify to defer a large portion of their 2009 tax obligations until the end of the year.

Previously the First-Time Homebuyer Credit could only be received by amending the 2008 tax return for a refund, or claimed on the 2009 return filed. HUD has now issued guidelines that the credit may be used as part of the down payment on a home purchase. Some FHA lenders may offer an advance of the credit, or purchase the tax credit expected by the homebuyer.

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