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Last Week:

- Non-Compete Agreements
- Overcoming Complexity in Financial Presentation
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Important Links:

Internal Revenue Service
Indiana Department of Revenue

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HEALTH BILL HIDES CHANGE IN 1099 REPORTING

A few lines buried in the 2,409-page Patient Protection and Affordable Care Act of 2010 (the new health reform law) will require U.S. companies to issue 1099s to every business where they spend $600 or more, not just individual contract workers. Starting in tax year 2012, the law expands 1099 coverage to tangible goods and services, thereby expanding the reporting and data collection for every payee and vendor a company does business throughout the year.

The IRS estimates that the federal government fails to collect $290 billion a year in tax revenue for unreported income. This new reporting requirement is an endeavor to close the tax gap. Officials believe required third party reporting increases compliance.

Transactions previously considered a routine part of doing business will need reported to the payee as well as the IRS. Under the new rules, a freelancer who buys a new computer from the local Apple Store must send the Apple Store a 1099. A company that buys raw materials used in its manufacturing process must track those purchases and send suppliers a Form 1099 by Jan. 31 for the amount spent.

Some details need working out, such as, will a $599 purchase cross the threshold because of state sales taxes, excise taxes or surcharges? The IRS has been silent on this matter so far because of higher priorities with the health care mandates and tax changes that will affect tax year 2010.

The year 2012 seems a long way off, but because the new 1099 rules pose such a procedural burden, it's a good idea to start thinking through the issues involved.

Corporations will need to figure out how they are going to track all this and compile it at the end of the year to timely file forms. And companies will need to track Form 1099s as they arrive to make certain these match information in the accounting records.

WHAT WOULD A SALES TAX AUDIT COST YOUR COMPANY?

With states suffering double-digit revenue shortfalls, sales tax audits are on the rise, and it's a safe bet auditors will be tougher than ever if you don't have a "paper trail" supporting sales tax exemptions. The best way to avoid the problem is to automate management of sales tax exemption certificate data.

1. A single missing sales tax exemption certificate could cost thousands of dollars in assessed tax,

address.

FOR SALE

BUSINESSES AVAILABLE

1. BRAND NAME garage door installation and repair company - Marion County and surrounding counties.
2. “C” store
3. Office Industrial complex- occupied with long-term tenants, 3 acres of land.
4. Operating Day Care Franchise
5. Beauty shop – Fishers

penalties and interest. Auditors may give you time to contact the buyer and get a certificate, but what if you can’t? In that case you need to produce certificates on demand.

2. Exemption certificates have a useful life. Certificates can expire annually, cover a three- to five-year period, or last until revoked. Auditors presume taxability if the certificate you have on hand has expired at the time of the sale.

3. State rules and guidelines are not uniform, so mistakes are easy to make. No one is going to wade through thousands of certificates to check them for errors. Therefore, an automated system will stay on top of the problem.

4. Certificates you receive may be invalid, incorrect, or have a limited use. Customers may provide homegrown certificates, acceptable in some states but not in others. Customers may also specify that only certain items on a transaction are exempt and others not. Also, customers often attempt to use a popular multi-state form beyond its acceptable use.

5. Automation reduces or eliminates the administrative burden on your staff. This is possible with an automated solution that streamlines the process of utilizing and maintaining exemption or resale certificate data.

6. Shortens the amount of time spent on sales tax audits. The certificate data you need is readily available with a few keystrokes.

7. Reduces cash reserves needed. You might otherwise need to set aside a higher cash reserve to cover anticipated sales tax audit assessments.

If a company has a significant number of exemption certificates to manage, consider a fully customizable system to handle these documents to prove a transaction is tax exempt.

DYNASTY TRUSTS

In today's tax system, estate and gift taxes are imposed each time assets change hands from one generation to the next. A dynasty trust can avoided those taxes by creating a second estate that could outlive most of the family members, and continue providing for future generations.

Dynasty trusts are long-term trusts created specifically for descendants of all generations, and can survive 21 years beyond the death of the last beneficiary alive when the trust was initiated. If setting a trust today and you have a 2 year-old grandchild, a dynasty trust could last well over 100 years. Long after you're gone, a dynasty trust can distribute income and principal exactly the way you would have wanted.

There are no tax savings when a dynasty trust is created, and often funded through the use of the Estate Tax Credit (currently $2 million per individual, $4 million per couple). Tax savings normally occur later at the deaths of your descendants. Even after the trust's assets have been accumulating for years, they remain free from federal gift and estate taxes for the life of the dynasty trust. The estate tax savings can be enormous. Considering estate tax rates climb as high as 46%, and the tax is applied to each generation, a person could end up saving as much as 73% of an estate through three generations.

In 1986, Congress (recognizing Uncle Sam was losing billions in estate taxes) attempted to thwart these transfers by creating the "generation-skipping transfer tax" (GSTT). The GSTT is applied to a dynasty trust by assuming that the trust's beneficiaries own the assets in the dynasty trust outright. However, Congress did include a significant exemption in the law. Every person has a GSTT exemption of $1 million ($2 million if married), meaning each person can transfer up to $1 million inside a dynasty trust, without any GSTT. Dynasty trusts of $1 million or less offer the same gift and estate tax advantages of similar trusts created before 1986.

With significant wealth this could be a useful tool.

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