TaxTips

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Compliments of

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New Health Care Law Brings Changes

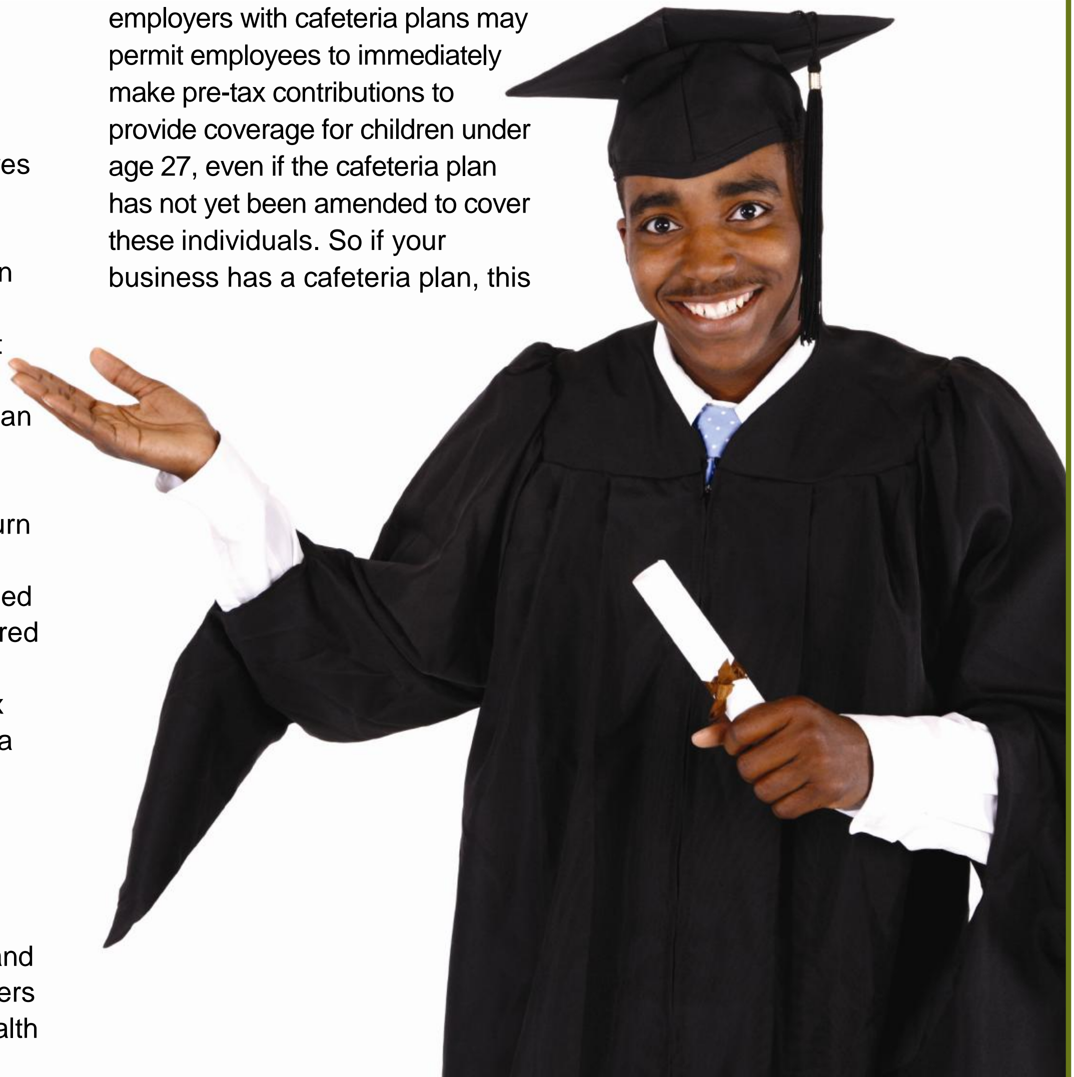
Expanded coverage for older children now available

In today's economy, many parents have adult children who still rely on them for some financial support. As a result of the recently passed landmark health legislation that overhauls the current health care system, many adult children may now be able to rely on their parents for assistance with health care coverage as well.

The Affordable Care Act requires group health plans and health insurance issuers who provide dependent coverage of children to continue to make such coverage available for an adult child through age 26. If your business has a group health plan that covers your employees' children, the health plan must now cover children until they turn age 27. Until this change was made, many health plans applied lower age limits and also required that the child qualify as a dependent of the parent for tax purposes. Under the new Act, a child is any son, daughter, stepchild, adopted child, or eligible foster child.

This expanded benefit also applies to retiree health plans and to self-employed business owners who take the self-employed health insurance deduction on their tax return. Unlike some of the health care measures that don't take effect right away, this provision is effective beginning March 30, 2010.

The IRS recently stated that employers with cafeteria plans may permit employees to immediately make pre-tax contributions to provide coverage for children under age 27, even if the cafeteria plan has not yet been amended to cover these individuals. So if your business has a cafeteria plan, this option is available right away. Keep in mind that the IRS also stated that businesses have until the end of 2010 to amend their cafeteria plan language to incorporate this change.



Employer-Provided Adoption Benefits

New changes in 2010

Recent revisions to the law have changed the incentives available in the tax code for taxpayers who adopt. This may be a good time for your business to offer adoption assistance benefits to your employees. Due to the law change, the tax-free amount you can provide to an employee has been increased by $1,000, for a maximum of $13,170 in 2010.

Accountable Plans

Do you qualify for this money-saving vehicle?

Payroll taxes are a big cost of doing business, and any way you can save money is always worth looking into. One way to save on payroll taxes is to use an accountable plan. Under this plan, you save money on payments you make to employees for reimbursements of expenses or advances made in anticipation of such expenses.

The great advantage of an accountable plan is that it saves the employer money because reimbursements made to the employee do not have to be counted as wages to that employee. For this reason, the employer does not have to pay any of the related payroll taxes on those amounts, nor is the employee's reimbursement reduced by FICA taxes. It's a win-win situation.

In order to have an accountable plan, you must have a written document that meets the following three requirements:

- Business Connection. The plan pays reimbursements and allowances only for deductible business expenses. This might sound obvious, but it needs to be included in the document. The business must observe this requirement at all times.
- Adequate Substantiation. The plan requires substantiation of the expenses being reimbursed. The employee accounts for the expenses by submitting a written report to the company that details and substantiates the time, place, amount, and business purpose for every expense.
- Employees Must Return Any Extra Advances. The plan must require the employee to pay back any advances that exceed the business expenses he or she incurred. If extra amounts are not paid back to the employer, they are treated as wages to the employee, subject to payroll tax withholding. This would defeat the entire purpose of having an accountable plan in the first place.

It's never too late to set up an accountable plan and begin enjoying the tax savings right away.

Starting a New Business?

Know what expenses to deduct

If you started a new business this year, chances are you have incurred certain costs that may require special treatment on your tax return. These expenses, appropriately called start-up costs, may include fees you paid for professional and consulting services. They also include money you spent on advertising or lining up suppliers and distributors.

If the total amount of these expenses does not exceed $50,000, you can deduct up to $5,000 in the year you start the business. Any amount over $5,000 is amortized (similar to depreciation) over 15 years. If the expenses are more than $50,000, you generally are not allowed this option and will have to amortize the total costs over a 15-year period. For businesses that qualify, the ability to expense $5,000 of start-up costs is a great option.

Employee Theft

Claiming the loss

With the current economic downturn, some experts suggest that employee theft will increase. So, what can business owners do if they become a victim?

Normally the loss will be in the form of embezzlement or result from the theft of a company's inventory. Both situations involve an employee's unauthorized taking of assets that belong to the company with no intent of returning them.

If your company is underinsured or not insured at all for these types of losses, there is relief available for you in the tax code. A deduction for a theft loss can be taken in the year of discovery. In other words, if an employee embezzled funds from you several years ago and you did not discover the scheme until now, you are still able to deduct the loss in the current year.

Before taking the deduction, you'll need to prove that the loss happened and when it happened. However, if you take the time to meet these requirements, you can at least make the most out of a bad situation. Keep in mind that the loss deduction you receive is reduced by any insurance reimbursement you are entitled to receive.

Flexible Spending Arrangements

A low-cost benefit for your employees

Are you looking for a way to help employees pay for unreimbursed out-of-pocket medical or dependent care expenses? A flexible spending arrangement (FSA) could help employees pay for these expenses with pre-tax dollars.

An FSA is typically funded through employee voluntary salary reduction contributions. The employee chooses how much money to have withheld from his or her paycheck during the year to be used for FSA purposes. As the employer, the business is permitted (but not required) to make contributions to the FSAs for each employee. One drawback is that this is a use-it-or-lose-it

Quik *Tips*

1	The standard mileage rate for business travel in 2010 is 50¢ per mile.
2	The maximum amount of wages subject to social security tax is $106,800 in 2010. There is no limit on wages subject to Medicare tax.
3	For 2010, the maximum expensing amount under §179 is $250,000, which is reduced dollar-for-dollar by the amount of §179 property placed in service during the year that exceeds $800,000.
4	Up to $230 per month in employer-provided transit and vanpooling benefits can be provided as a tax-free fringe benefit to employees in 2010.
5	Maximum employee elective deferrals to 401(k) or 403(b) plans are $16,500 for 2010.
6	The maximum amount your business can contribute to your employees' health savings accounts in 2010 is $3,050 for employees with self-only coverage and $6,150 for employees with family coverage.
7	The depreciation limit for a truck or van used in business and placed in service in 2010 is $3,160.
8	Employer-provided dependent-care assistance benefits of up to $5,000 are excludable from employee wages.

benefit, so the employee would generally have to forfeit any amounts not used by the end of the plan year.

One advantage for the business owner is that this type of employee benefit is generally very affordable to offer. The only expense you would have is the cost of administering the plan. However, this cost can be minimized by outsourcing this function to a third-party administrator, which is what many businesses do.

Like-Kind Exchanges Provide Tax Deferral

Could it work for your business?

Are you planning to sell business property that has appreciated in value and then purchase like-kind property a short time later? The tax code provides special rules that allow you to defer the tax on the gain you realized as long as you meet certain requirements set forth in the rules for like-kind exchanges. These transactions are sometimes called tax-free transactions, but that term is inaccurate because you're really deferring the gain on the sale of the first property into the property you acquired in the like-kind exchange. By deferring the gain, you don't have to pay tax on the gain until you sell the new property.

For example, assume you own a building and sell it for a $1 million gain, and then buy another building for $3 million 60 days later. If you follow the rules for like-kind exchanges, you can defer the gain when you sell the first building by reducing your basis in the second building by $1 million, creating a $2 million basis in the newly acquired building.

The code allows for this tax deferral based on the position that by changing from one property to another, you are still in the same economic position. Basically you defer the tax until you sell the second property.

However, there are still some formalities that need to be met, so it's important to meet with your tax professional to be certain that the transaction is set up properly.

Simplified Employee Pensions

The easiest retirement plans to set up and administer

Despite the many advantages of qualified retirement plans, many small business owners don't take the time to sit down with their tax preparer and discuss the options that are available to them. If you are a small business owner, a Simplified Employee Pension (SEP) may be a good option to explore.

A SEP is a form of IRA arrangement with you, as employer, making contributions to your own SEP IRA. The amount that can be contributed and deducted to your SEP account is based on the income from your business.

Start-up costs for a SEP generally are low because you can use a prototype plan instead of creating a plan of your own. Reporting requirements also are minimal when there is a single participant in the plan.

If your tax return is on extension, you might even be able to set up a SEP in time to get some deductions for the 2009 tax year. The deadline for establishing a SEP and making the contribution for the year is the income tax return due date for the year, plus filing extensions. A SEP is the only type of plan that you can set up after the year has ended.