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Certified Public Accountants
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Dudley's Dogma



1 New Year 3 New Looks!

This issue marks a new look for CE's *Tax Bytes* Newsletter. Our expanded format will now be issued 3 times a year. It's packed full of numerous tax law changes and potential legislative issues that impact us all. We hope you enjoy it and we'd love your feedback.

CE also has a new website. Log on to www.ce-cpa.com and take it for a test-click.

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Tax Bytes

Winter 2010

What's the Status of Health Care Reform?

While Congress continues to debate health care, here's a brief summary as of January 1, 2010. What's interesting to note is how Congress intends to pay for this.



The Senate passed an \$871 billion health care reform bill by a vote of 60 to 39 on December 24, 2009. The "Patient Protection and Affordable Care Act of 2009" would expand health insurance coverage to 94% of Americans and pay for it with billions of dollars in new taxes and fees.

The House passed its version of health reform back in early November. Its bill, the "Affordable Health Care for America Act," also extends coverage and pays for it with a different collection of taxes and fees from those in the Senate bill.

Both bills are massive and contain provisions that would affect individuals, businesses, and the medical and insurance industries. A conference of members from the House and Senate will be held to work out the differences between the two bills and fashion one piece of legislation. When that bill comes out of conference, it must be passed by the House of Representatives and the Senate before it can be sent to the President to be

signed into law.

Among the tax provisions in the Senate bill:

* A 40% excise tax on employer-provided health insurance plans with annual premiums over \$8,500 for individuals and \$23,000 for families. Somewhat higher limit for retirees and those in high-risk professions.

* A penalty excise tax on individuals who fail to maintain health insurance coverage, starting at \$95 in 2014 and increasing to \$750 by 2016.

Among the tax provisions in the House bill:

* A 5.4% surtax on single taxpayers with incomes over \$500,000 and joint filers with incomes over \$1 million.

* An additional tax levied on those who fail to obtain health insurance coverage of either 2.5% of their adjusted income or the average cost of insurance premiums available on the new health care exchange. Exemptions provided for lower-income individuals.

Both the Senate and the House bills provide individuals and businesses with tax credits to help with the costs of insurance. It's important to note that the provisions in the final bill may differ significantly from those in either of the current bills, so as you begin your tax planning for 2010, remember that health reform and the taxes connected with it are still a work in progress, not a final law.



Is the Estate Tax Really Dead?

Officially, the estate tax has been repealed, but only for 2010. That's due to a provision in a 2001 law that gradually reduced the estate tax rates and increased the exemption amount, setting the tax to expire completely in 2010. According to that law, the estate tax is scheduled to be reinstated in 2011 at its pre-2001 levels.

Congress expected to deal with the estate tax by the end of 2009, and the House did in fact pass a permanent extension of the tax at 2009 levels (with a 45% top rate and a \$3.5 million exemption). The Senate, however, was focused on health care reform and ran out of time, leaving the estate tax issue for 2010.

Now, the expectation is that the Senate will deal with the estate tax in early 2010, reinstating it retroactive to the first of the year. However, there is still no consensus on what the law should be and no certainty that a bill will pass quickly.

Stay tuned. Though Congress may not find it easy to reach an agreement on the estate tax, it is likely to be at the top of their agenda this year.

Lite Bytes

Put Your Thinking Cap On

529 Plans have been a popular college savings strategy. Used properly, withdrawals from these plans are tax-free. Generally these plans are used to pay for tuition, related fees and books. In 2009 & 2010, these funds may also be used to pay for computers. Contributions to 529 plans are deductible for PA tax purposes [but not for Federal].

Tax Free Unemployment Benefits

The first \$2,400 of unemployment compensation benefits received in 2009 are not subject to federal income tax. This temporary exclusion for 2009 only was a provision of The American Recovery and Reinvestment Tax Act of 2009.

Truncate Social Security Number

A voluntary IRS pilot program will allow businesses to truncate social security numbers on some information returns, beginning in 2010. The social security number is truncated by replacing the first five digits of the social security number with asterisks or X's. A social security number of 987-65-4321 would appear on the information return as ***-**-4321 or XXX-XX-4321.

Provisions of the 2009-2010 PA Budget

The current budget was approved and signed by Governor Edward Rendell October 9, 2009. Some noteworthy provisions of the new budget are as follows:



- **Capital Stock/Franchise Tax [CST]** - The CST is a tax levied on corporations, S corporations and LLC's, based on five-year average book income and the book value of the company. The PA CST was to have been phased out completely after 2010. The budget extends the CST through tax years beginning in 2013. In addition, the rate of tax was increased from 1.89 mills to 2.89 mills for years 2009 through 2011, and will drop to 1.89 mills in 2012 and .89 mills in 2013.

- **Net Operating Loss Carryforwards [NOL's]** - NOL's were previously limited to the greater of \$3,000,000 or 12.5% of taxable income. The new budget keeps the \$3,000,000 limit in place, but increases the taxable income percentages to 15% for years beginning after December 31, 2008, and 20% for years beginning after December 31, 2009.

- **Corporate Net Income Tax Apportionment** - In most states, a corporation that conducts business in multiple states is taxed on their income based on an apportionment fraction with three factors - sales, property and payroll. The apportionment fraction in PA had weighted the factors at 70% sales, 15% property and 15% payroll. The new budget revises the factors to 83% sales, 8.5% property & 8.5% payroll for 2009. In 2010 and subsequent years, the factors change to 90% sales, 5% property and 5% payroll.

- **Tax Credits** - The new budget makes some changes to some popular tax credits over the 2009-2010 and 2010-2011 fiscal years. The reductions to the credits are only in effect for these two fiscal years, and afterward will return to their previous amounts.

- **Tax Amnesty** - PA has enacted a tax amnesty program that will start April 26, 2010, and is scheduled to run through June 18, 2010. Eligible taxes for this program are all taxes administered by the PA Department of Revenue. During the amnesty period, taxpayers can submit delinquent taxes and take advantage of a 50% waiver of interest and a full abatement of penalties. Any taxes that are reported under the amnesty program but not paid until after the program expires are subject to a 5% non-participation penalty.

- **Sales/Use Tax Filing Requirement Changes** - changes have been made for the timing of filing returns for sales/use tax. For sales taxes, if in the third quarter of the previous year a taxpayer had a sales tax liability between \$600 and \$25,000 the taxpayer will now need to file monthly. For taxpayers whose third quarter liability was \$25,000 or more, returns will be required semi-monthly. This provision begins after May 31, 2011.

- **Employer Withholding Filing Requirement Changes** - For employer withholding, employers expecting to withhold \$1,200 or more but not more than \$4,000 must file a monthly return, \$4,000 or more but less than \$20,000 must file semi-monthly returns. If withholding is expected to be over \$20,000, employers must pay the tax on the Wednesday after payday if the payday falls on a Wednesday, Thursday or Friday, otherwise, the tax is due the Friday after payday. This is effective for tax returns due after May 31, 2010.

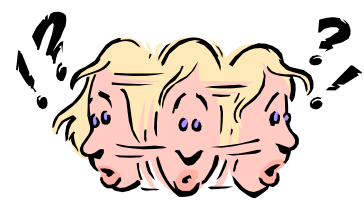
2010 IRS Mileage Rates



The IRS has announced the 2010 mileage rates effective 1/1/2010:

- Business mileage rate is 50 cents/mile [decrease of 5 cents from 55 cents]
- Medical and moving expense rate is 16.5 cents/mile [decrease of 7.5 cents from 24 cents]
- Charitable travel rate is 14 cents/mile [unchanged]

Questions???



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Defined Benefit 401(k) Plan



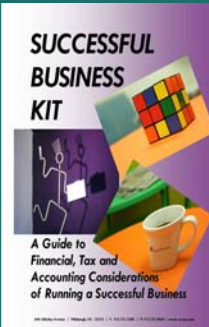
A new qualified retirement plan for small businesses is available on January 1, 2010. It is called the defined benefit 401(k) plan and is for small employers with at least 2 employees and fewer than 500 employees. It combines a defined benefit plan that is based on final average pay with a safe harbor 401(k) plan.

The requirements are: (1) that the defined benefit component be either equal to 1% of the final average pay times the employee's years of service up to a maximum of 20% of final pay or a cash balance plan that increases its benefit with the participant's age and (2) an automatic enrollment feature for the 401(k) portion with a 4% employee compensation deferral and a fully vested employer matching contributions of 50% of the first 4% employee's deferral. If employers meet these requirements, they will only have to file one document for the plan and one Form 5500 and won't have to be subjected to the testing procedures for 401(k)s.

Starting A New Business?

You can maximize your chances for success by proper attention to the accounting, tax, and financial needs of your business. That's where we come in. We offer a full range of accounting and tax services, including bookkeeping set up & training.

We've just published our Successful Business Kit - A Guide To Financial, Tax and Accounting Considerations of Running a Successful Business. This book is packed with useful information for new businesses, including all the forms you need to register with the Internal Revenue Service and other tax authorities. Call us at 412.731.1500 for your complimentary copy (no cost or obligation).



It takes a special kind of person to start a business; let us help you with our special kind of service. We're easy to talk to, have a clear fee structure, and do things on time!

2010 Withholding Amounts

The Making Work Pay Credit was enacted in 2009 after three months had passed. The IRS withholding tables were adjusted to spread the effect of the credit over the remaining nine months of 2009, resulting in lower withholding amounts for eligible wage earners. For 2010, the withholding tables allocate the credit over a 12-month period, so the amount of withholding on each pay will increase, resulting in a smaller amount of take-home pay.

Lite Bytes 2

Obtaining an Old Tax Return

There is a new IRS service that allows tax practitioners to quickly retrieve electronic transcripts of clients' previously filed returns. You can still obtain a paper transcript of your old returns for free by calling the IRS at 800.829.1040. Please be aware it will take 7 to 10 days to receive the transcript by mail.

Caution to Taxpayers - Phony IRS e-mail

Among the many scams on the internet are e-mails that appear to be from the IRS, notifying people that they are owed refunds or are under investigation. These e-mails come from scam artists trying to obtain people's personal information, not the IRS. The IRS will not contact you via e-mail regarding official matters, so be cautious and do not reply to these phony e-mails.



Dudley's Dogma

(Continued from page 1)

You can find weekly and monthly tax updates as well as current and archived issues of this newsletter. It has resources for you to use in our "Tool Chest" as well as information about the services we can provide. While you're there, don't forget to check out the "CrawfordEllenbogen News" and "Pet Projects" section to see what your favorite accountants are doing. We're proud of our new look. Let us know what you think.

Also let me take a minute to introduce you to my new sister, Hershey. She's a two year old chocolate lab (we think) that came from the Animal Rescue League in October. Hershey loves coming to work, so don't be surprised if you get to meet her during your next visit.



CE Welcomes Sharon

Please join us in welcoming **Sharon Davis** to our team. Sharon, originally from upstate New York, currently lives in Plum with her husband, Matt and son, Matthew. She worked at National City Bank for the past 7 years, as a teller then in the title insurance department and most recently in the Trust department. She has an Associates Degree in computer science and is currently working on her bachelor's degree at Robert Morris University. Sharon is a great addition to our team!!

New Homebuyer Credit Rules

The "first-time homebuyer credit" isn't just for first-time homebuyers anymore. Thanks to a new tax law change, longtime homeowners may also qualify.

Under the new "Worker, Homeownership and Business Assistance Act of 2009," you must complete the purchase of the home before May 1, 2010. If you secure a binding contract before May 1, you actually have until June 30, 2010 to finalize the sale. Best of all, you don't have to wait until you file your 2010 tax return to reap the rewards. You can claim the credit on your 2009 return -- even if you buy the home in 2010. Taxpayers who claim the first-time homebuyer credit on their 2009 returns will not be able to file electronically.



The new law includes the following changes effective as of November 6, 2009 (the date of enactment).

- The deadline for the credit is extended from December 1, 2009 to May 1, 2010. No further extension is expected.
- The credit is available to more taxpayers. Previously, it was limited to "first-time homebuyers" who did not own a principal residence for three years prior to purchasing a home. For purchases after November 6, 2009, you may qualify for a maximum \$6,500 credit if you've owned and used a home as your principal residence for any five consecutive years during the last eight years. The replacement home doesn't have to cost more than the old one.
- The phase-out ranges are increased. The new phase-out ranges are between \$125,000 and \$145,000 of modified adjusted gross income for unmarried filers, and between \$225,000 and \$245,000 for joint filers.
- The price of the home is capped at \$800,000 for all purchases after November 6, 2009. No credit is allowed for homes priced above this threshold.
- The credit isn't available for a home purchased from your spouse or your spouse's relatives. This extends the rule denying the credit for purchases from your own lineal ancestors or descendants.
- To curb abuses, homebuyers must provide proof of purchase (i.e., a HUD-1 form). The homebuyer (or spouse) must be at least 18 years and can't be claimed by someone else as a dependent.

Individual Taxpayers - What's New for 2009?



Lots! Some of these changes are highlighted below.

- The standard deduction for taxpayers has increased to \$5,700 for single and married filing separately, \$8,350 for heads-of-household, and \$11,400 for married filing jointly and qualified widow(er)s.
- Taxpayers that use the standard deduction may be able to increase the standard deduction by the amount they claim for sales and excise taxes on new vehicles purchased during 2009.
- Personal exemptions for taxpayers have increased to \$3,650 per person, and begin to phase out at adjusted gross income of \$125,000 for married filing separately, \$166,800 for single, \$208,500 for heads-of-household, and \$250,200 for married filing jointly and qualified widow(er)s.
- The alternative minimum tax exemptions for taxpayers have increased to \$35,475 for married filing separately, \$46,700 for single and heads-of-household, and \$70,950 for married filing jointly and qualified widow(er)s
- The first \$2,400 of unemployment compensation received in 2009 by a taxpayer is not taxable.
- If you have a child who is under age 18 or a full-time student under age 24, whose earned income is not more than half of the child's support, the amount of taxable investment income these children can have without it being subject to tax at the parent's rate has increased to \$1,900, a \$100 increase from 2008.
- There is a new education credit called the American Opportunity Tax Credit, which replaces the Hope Scholarship credit. This credit of \$2,500 is available for all four years of post-secondary education.

If you have any questions relating to the individual tax changes, please do not hesitate to contact us.

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