Tax Tips
For Small Business
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New Categories Added for Work Opportunity Credit

Two new categories added for individuals hired in 2009 and 2010

A new law expanded the Work Opportunity Tax Credit (WOTC) to include two new targeted groups: unemployed veterans and disconnected youth.

A "veteran" is an individual certified as either having served on active duty in the U.S. Armed Forces for more than 180 days, or having been discharged or released from active duty in the U.S. Armed Forces for a service-connected disability. An "unemployed veteran" is a veteran who is certified by the designated local agency as having been discharged or released from active duty in the Armed Forces at any time during the five-year period ending on the hiring date, and being in receipt of unemployment compensation for not less than four weeks during the one-year period ending on the hiring date.

A "disconnected youth" is any individual who is certified by the designated local agency as having attained age 16 (but not over the age of 25) on the hiring date, not regularly attending any school during the six-month period preceding the hiring date, not regularly employed during that six-month period, and not readily employable by reason of lacking a sufficient number of basic skills.

With the additions of unemployed veterans and disconnected youth, there are a total of 11 targeted groups for calculating the WOTC: (1) qualified members of families receiving assistance under the Temporary Assistance for Needy Families (TANF) program; (2) qualified veterans; (3) qualified ex-felons; (4) designated community residents; (5) vocational rehabilitation referrals; (6) qualified summer youth employees; (7) qualified members of families receiving Food Stamp assistance; (8) qualified Supplemental Security Income recipients; (9) long-term family assistance recipients; (10) certain unemployed veterans; or (11) disconnected youth.

With the exception of summer youth employees, the WOTC is calculated using up to $6,000 ($10,000 for a long-term family assistance recipient and $12,000 for certain veterans)

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of first-year wages per employee. If the employee completes at least 400 hours of service, wages taken into account are multiplied by 40 percent (if at least 120 hours but less than 400 hours of service for the employer, they are multiplied by 25 percent). Long-term family assistance recipients can qualify the employer for a second-year credit amount.

For summer youth employees, the employer can only take into account up to $3,000 of wages. The wages must be paid for services performed during any 90-day period between May 1 and September 15.

The credit isn't available for certain employees who are related to the employer or who work more than 50 percent of the time outside of a trade or business of the employer (e.g., working as a maid or a nanny in the employer's home). Furthermore, the credit generally isn't available for employees who have previously worked for the employer.

Hire Your Children for the Summer

Save your business some payroll taxes

There are benefits to hiring your children to work for you. If your children are under the age of 18, you are not required to withhold social security and Medicare taxes from their wages. You are also not required to pay federal unemployment taxes on their wages until they reach the age of 21.

Only self-employed business owners can take advantage of this benefit. Partnerships are included in this category as long as the parents are the only partners. If your business is incorporated, the children are considered employees of the corporation, and are subject to the normal payroll taxes regardless of their age.

New Rules for Net Operating Loss Carrybacks for 2008 Only

Change in law extends carryback period up to five years

If you carry back a net operating loss (NOL) from a tax year beginning or ending in 2008, a new law allows you to carry it back up to five years instead of two. Only small businesses with average annual gross receipts of $15 million or less qualify for this rule. The new law gives these businesses the choice of carrying back an NOL three, four, or five years.

The increased carryback is elective, but you must make the election by the due date, including extensions, for the 2008 income tax return. Therefore, if you obtained an extension to file your 2008 Form 1040, generally you'd make the election by October 15, 2009. Once the election is made, it is irrevocable and cannot be changed.

Changes in Estimated Taxes for Small Businesses

Reduced required estimated tax payments

If your income is primarily generated from operating a small business in 2009, you may be eligible for reduced required estimated tax payments. A new law allows you to base the computation of the 2009 estimated payments on 90 percent of your 2008 income tax liability instead of 100 percent. In order to qualify for this reduced amount, your adjusted gross income must be less than $500,000; in addition, more than 50 percent of the gross income shown on your return for the prior year has to be income generated from operating a small business. A small business is defined as a trade or business with an average of 500 or fewer employees.

Meal Rates for Day Care Providers

Keeping track of meal expenses is easier than ever

If you provide day care services in your home, some of the most difficult expenses to track are meals. The IRS has made it easier for you by allowing a standard meal allowance that can be used in lieu of actual expenses. The chart outlines the meal rates allowed for 2009.

Meal	Alaska	Hawaii	All Other States
Breakfast	$1.86	$1.36	$1.17
Lunch/Dinner	$3.53	$2.55	$2.19
Snack	$1.05	$0.76	$0.65

Starting Your Own Business

Tips for turning a hobby into a profitable business

With the economy the way it is today, jobs are hard to find. Starting your own business might be the only way to earn a living. You have to have a good idea, map out all the details needed to put it into operation, and be firmly convinced of your ability to make it work. Having it all worked out in your head is one thing, but it's only when you take the time to create a written document that embodies your thoughts that you realize the scope and magnitude of what's involved in running a business. In your head, you've concentrated on the idea. In your business plan, you can examine the nuts and bolts of running a business to make the most of your idea.

A well developed plan can serve as one of your most important management tools. A good plan will provide a blueprint and step-by-step instructions on how to translate your idea into a marketable service or product. Once the business plan is in writing, you need to follow it so you can stay on track and avoid costly mistakes. It might also help when it comes time to find investors.

You'll also need to develop a marketing plan. You won't sell your product or service unless the public knows you exist. The Internet has become a great place to advertise your business, and the costs you incur are deductible as advertising expenses once the business is open.

There are several different forms of business entities: corporations, partnerships, sole proprietorships, and limited liability companies (LLCs). What type of entity should you choose? Getting good advice from your tax professional prior to starting any business activity will save you time and money later.

COBRA Premium Subsidy

Involuntarily separated employees can elect to pay only 35 percent of COBRA coverage

A new law allows individuals who are involuntarily separated from employment between September 1, 2008, and January 1, 2010, to elect to pay 35 percent of their premium for COBRA coverage and have it treated as being paid in full.

The former employer will be required to pay the other 65 percent and will be reimbursed through the filing of Form 941.The amount will be credited against income tax withholding and payroll taxes the employer is otherwise required to remit to the federal government. The maximum period for which the subsidy can be provided is nine months.

QUIK TIPS

1 The expense deduction for business equipment purchased in 2009 remains at $250,000.

2 Instead of deducting the actual expenses for the business use of your vehicle, opt for the standard mileage rate. In 2009, you can deduct 55 cents for each business mile you drive.

3 A deduction is allowed for the cost of an energy efficient building placed in service during the tax year of up to $1.80 multiplied by the square footage of the building.

4 The Social Security wage base increases to $106,800 in 2009, up from $102,000 for 2008. This means that you are no longer required to withhold social security tax for employees after meeting this threshold. You are, however, required to withhold Medicare taxes regardless of the amount of wages paid.

5 If you are disposing of property used in your business, you may want to consider a like-kind exchange to defer the taxable gain on the sale.

6 If your business owns a vehicle that is available for an employee's personal and business use, the vehicle is nevertheless considered used 100 percent for business on the business tax return. The personal-use percentage is included on the employee's W-2 as additional compensation.

7 Employer-provided education assistance benefits of $5,250 provided under a written plan are excludable from wages. The education need not be job-related to qualify.

8 If you are planning on starting a SIMPLE retirement plan for yourself or your employees, do it now. The deadline for setting up a SIMPLE plan is October 1, except if you are a new employer coming into existence after October.

Choosing an LLC as a Form of Doing Business

Many business advantages make this option a good choice

A limited liability company (LLC) is a business entity separate from its owners. The major advantage is that it allows owners to participate in the management and to take advantage of the pass-through taxation while limiting their liability for debts or the business. LLC members have limited liability that is usually only common in corporations.

A single member LLC is taxed as a sole proprietorship by default; an LLC with two or more members is taxed as a partnership by default. Either LLC can elect to be taxed as a corporation.

The other attributes of the LLC usually will be determined by how the LLC is taxed. An LLC taxed as a corporation follows the corporation rules; an LLC taxed as a sole proprietorship follows the sole proprietor provisions; and an LLC taxed as a partnership follows the partnership rules. For example, an LLC taxed as a sole proprietor will not issue a Form W-2 to the single member for services provided, because a sole proprietor cannot issue a Form W-2 to himself or herself. The same is true for an LLC taxed as a partnership; members will not receive a Form W-2 from the partnership. However, an LLC taxed as a corporation will issue a Form W-2 to a member who provides services.

An LLC is formed under the state where the business is conducted. An LLC's Articles of Organization usually define who will be responsible for managing the company. Liquidation of the LLC will depend on how the entity is taxed.

Bonus Depreciation Extended

The 50 percent first-year bonus depreciation has been extended

The 50 percent first-year bonus depreciation is now available through December 31, 2009. The additional bonus depreciation is taken on top of the regular depreciation allowed for property placed in service for tax year 2009. With this larger deduction in the first year, the depreciation expense in later years will be smaller. If you'll have more income in later years, and would like a larger depreciation deduction in those years, you can opt out of taking the 50 percent first-year bonus depreciation.

To qualify for the 50 percent first-year bonus depreciation, the property you purchase must have a useful life of 20 years or less, be depreciable computer software, be water utility property, or be qualified leasehold improvement property. Qualified leasehold improvement property is nonresidential real property that has improvements made to the interior of the building pursuant to a lease, and made more than three years after the property was placed in service.

Solo 401(k)

Option increases retirement savings

If you're the sole owner of a business, you may wish to consider the implementation of a solo 401(k) retirement plan to accumulate retirement savings on a tax-deferred basis.

Self-employed taxpayers can contribute to a solely owned 401(k) retirement plan as both employer and employee. As an employer, you can contribute up to 25 percent of your total net earnings to your retirement plan; as an employee, you may also contribute an additional $16,500 in 2009. If you are age 50 or older, you can contribute an additional $5,500 for a total of $22,000.

Your maximum contribution to a solo 401(k) plan is the lesser of $49,000 or the sum of your employer and employee maximum contributions. The solo 401(k) plan provides you with an additional opportunity to maximize your yearly retirement contribution. As an added bonus, this type of plan, unlike other retirement plan options, allows participants to take out loans from the plan.

The information contained in this newsletter is not intended to provide specific tax advice or to take the place of either the written law or regulations.