



June 2010

SMALL BUSINESS OUTLOOK

What's Included?

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TREASURY REQUIRES ELECTRONIC PAYMENTS FOR PAYROLL TAXES

The US Treasury Department announced its intention to move to an all-electronic payment system.

Small businesses are likely to be impacted by one of the three major parts of this initiative – the requirement to use EFTPS to make business tax payments. After December 31, 2010, the Treasury will not accept paper federal tax deposit coupons. You must use the Electronic Federal Tax Payment System (EFTPS) starting January 1, 2011. To learn more about how the electronic filing system works, go to www.eftps.gov or we would be happy to assist you. According to the Treasury, almost 98% of businesses already make their payments using the electronic system.

If your business is not already registered, you will need to allow 4-6 weeks for all systems to be set up, so it will make sense to start soon so you are not late with your first EFTPS payment in 2011.

There is an exception to the e-filing requirement for businesses who pay \$2,500 or less in quarterly tax liabilities when filing their returns.

The government knows some small businesses are concerned about the protection of private payment information on an electronic web-based system. They point to the documented benefits of electronic transactions, including the safety, convenience, and control for taxpayers, and are moving to strengthen the system in place. ♦

WASHINGTON TAX CHANGES

During the recent session in Olympia, Washington's legislature made several significant changes to Washington taxes and administration.

The Business & Occupation (B&O) tax rate for services was increased from 1.5% to 1.8% effective May 1, 2010. You should be aware of this as you complete your Quarter 2 excise tax return. The return has a separate line for April 2010 service revenue to split it out to the lower rate.

The tax treatment of corporate director fees has been clarified as being taxable income subject to B&O tax as service income. The legislature also explicitly stated that independent contractors are subject to B&O tax as well. This means that independent contractors and corporate directors will need to be registered with the Department of Revenue.

To avoid sales tax on items you will resell, a Reseller's permit must be given to the vendor. Effective January 1, 2010, the Department of Revenue issues the permit. Reseller's permits were formerly called seller's permits or resale certificates. ♦

SIMPLE CAFETERIA PLANS

As part of the Health Care Reform bill, a new, simpler cafeteria plan is now available. Currently, if you are self-employed, participation in cafeteria plans is prohibited. In 2011, under the new Simple Cafeteria Plans, group term life insurance, self-insured medical expense reimbursement plans and dependent care assistance can now be offered to all employees, including the self-employed, with a safe harbor from the nondiscrimination requirements.

The employer must make a mandatory contribution to the cafeteria plan for each employee of either a) a uniform percentage (up to a 2% max) of compensation or b) the lesser of a match of the employee's contribution capped at 6% of employee compensation or double the amount the employee puts into the plan.

If you are interested in these types of plans, we can discuss them further with you, or your benefits advisor may be able to as well. ♦

IMPORTANCE OF ANNUAL MEETINGS

As you are probably aware, one of the requirements for maintaining a corporation's existence (and the liability protection that it affords) is that the shareholders and Board of Directors must meet at least annually. Although most people view this requirement as a necessary evil, it doesn't have to be a waste of time. For example, in addition to being a first step in making sure the corporation is respected as a separate legal entity, an annual meeting can be used as an important tool to support your company's tax positions.

Other than the election of officers and directors, additional actions that should be considered at the annual meeting include the directors approving the accrual of any bonuses and retirement plan contributions, and ratifying key actions taken by corporate officers during the year. The directors should also specifically approve any loans to shareholders to lessen the opportunity for the IRS to reclassify the loans as taxable dividends. In addition, if the corporation is accumulating a significant amount of earnings, the minutes of the meeting should generally spell out the reasons for the accumulation to help prevent an IRS attempt to assess the accumulated earnings tax.

These are just a few examples of why well documented annual meetings can be an important part of a corporation's tax records. We would be happy to be involved in your company's annual meeting and to assist in making sure tax effective minutes of the meeting are prepared. When scheduled shortly before the corporation's year-end, many companies consider the annual meeting as an opportune time for their accountant and attorney to plan together for the wrap up of the year. Thus, please feel free to call us when the time for your annual meeting draws near. ♦

TEMPORARY EMPLOYER SOCIAL SECURITY TAX EXEMPTION FOR WAGES PAID TO NEW HIRES

Wages paid by a qualified employer to a qualified new employee for employment between March 19, 2010 and December 31, 2010 are exempt from the 6.2% employer portion of the Social Security tax. However, there's no exemption for the 6.2% employee portion of the tax, and there's no break for individuals who pay self-employment tax.

The maximum amount of employer Social Security tax savings for a high-paid employee is \$6,621.60 (6.2% × \$106,800 Social Security tax ceiling for 2010). Savings

will be less for workers who are paid less than \$106,800 for employment between March 19, 2010 and year-end.

Qualified new employees are full-time or part-time workers who start work between February 4, 2010 and December 31, 2010 and who were not employed more than 40 hours during the 60-day period ending on their start dates. However, the new worker cannot replace another worker unless that person quit voluntarily or was discharged for cause.

To give both employers and the IRS time to gear up for this new Social Security tax exemption deal, the benefit of the exemption for any eligible wages paid during March will be reflected as a credit on the employer's federal employment tax return (Form 941) for the second quarter of 2010. ♦

TEMPORARY TAX CREDIT FOR RETAINING QUALIFIED NEW EMPLOYEES

Above and beyond the temporary Social Security tax exemption explained above, employers can also claim a temporary new tax credit of up to \$1,000 for wages paid to each qualified new employee, using the same definition as for the Social Security tax exemption.

There are some additional requirements for the credit. The worker must be kept on the payroll for at least 52 consecutive weeks, and wages during the second 26 weeks of the 52-week period must equal at least 80% of wages paid during the first 26 weeks of that period.

The credit amount equals the lesser of 6.2% of wages paid during the 52-week period or \$1,000. To claim the maximum \$1,000 credit, the worker must be paid at least \$16,130 during the 52-week period.

The credit can only be claimed for the tax year ending after March 18, 2010 during which the 52-week requirement is first met for the applicable worker. The credit is a one-time deal for each eligible worker, based on wages paid during the 52-week period that starts with the worker's employment date.

Because the 52-week requirement cannot be met until February of 2011 at the soonest, the credit can't be claimed on a calendar-year 2010 return. Instead, you'll have to wait until your calendar-year 2011 return is filed. If your business uses a fiscal tax year, you too will have to wait a while to collect your rightful credit. Even so, hiring a qualified new employee now and retaining that individual for at least 52 weeks can generate a credit that will eventually save taxes. ♦