Small Business Health Care Tax Credit

The small business health care tax credit was included in the Affordable Care Act enacted last year and is designed to encourage small businesses to offer health insurance coverage to their employees for the first time or maintain coverage they already provide.

Small businesses that pay at least 50 percent of the premiums for employee health insurance coverage under a qualifying arrangement may be eligible for this tax credit. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ 25 or fewer fulltime equivalent employees with average incomes of $50,000 or less. For 2010 through 2013, the credit may offset up to 35 percent of premiums paid by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations.

Self-Employed Health Insurance

Generally, sole-proprietors may not deduct the cost of health insurance when calculating self-employment tax. However, under the **Small Business Jobs Act**, self-employed business owners may be able to deduct the cost of health insurance for themselves and their family.

The deduction is not available if the self-employed individual is eligible to participate in an employer-subsidized health plan maintained by the employer of the taxpayer or the employer of the taxpayer's spouse.

Those who can claim the self-employed health insurance deduction include:

- Small businesses and sole-proprietors reporting income on Schedule C
- Employees of an S Corporation who own 2% or more of the S corporation's stock
- Farmers reporting on Schedule F
- General partners in a partnership and actively participating members in an LLC treated as a partnership who have self-employed income

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Need a break from tax time? Try your hand at this puzzle.

	2		4					6
	5		3			4		
	7	1		5				9
	3		1			7	8	
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UP to-the MINUTE
TIMELY TAX TIPS

WINTER 2012

Taxpayers Required to Attach Checklist to all 2012 Returns with Earned Income Credit Claims

The IRS has issued proposed regulations that require paid tax return preparers to file a due diligence checklist with any federal return claiming the Earned Income Credit (EIC), beginning in 2011. As a preparer, I have been required to complete this form and retain it in my client records. However, now it must be sent in with the tax return. To fill out the checklist, I am required to ask questions about a client's dependents, sources of support, living situation, and family relationships. Requiring that this checklist be submitted as part of the tax return raises its legal significance and subjects it to much greater scrutiny by the IRS. At this point, it also is unclear to what extent my clients will need to prove to me the accuracy of the information they are conveying. The IRS regulations state that I must "make reasonable inquiries if the information furnished appears to be incorrect, inconsistent, or incomplete."

The significance of this change for you is that your tax return will be more complicated to complete and you can expect the IRS to more closely investigate your eligibility for the earned income credit.

The earned income credit is targeted to low and moderate-income workers and working families, and the tax benefit varies by income, family size and filing status. Unlike most deductions and credits, the EIC is refundable — taxpayers can get it even if they owe no tax. For 2011 tax returns, the maximum credit will be $5,751.

Tax Provisions that Expired in 2011

Business Provisions
- 100 Percent Bonus Depreciation
- Enhanced $500,000 Expensing of Depreciable Property (not including real estate)
- Expensing of leasehold improvement property, qualified restaurant property, & qualified retail improvement property.
- Small Business Stock Exclusion
- Research and Development Tax Credit.
- Work Opportunity Tax Credit for Employers
- New Markets Tax Credit

Energy Incentives
- Nonbusiness Energy Credit for Energy-Efficient Building Improvements and ResidentialEnergy Property, such as furnaces, central air conditioners, water heaters, heat pumps and similar components.
- Electric-drive Vehicles and Plug-in Conversions
- Energy-Efficient Home Construction
- Energy Efficient Appliance

Individual Provisions
- Temporary 2% Payroll Tax Cut
- Increased Individual Alternative Minimum Tax (AMT) exemption & Nonrefundable Personal Tax Credits Allowed Against the AMT
- Deduction for State and Local Sales Taxes.

Note: The expiration of this provision will make a huge difference for taxpayers who live in states with no state income tax – and taxpayers who are planning to buy expensive items, such as appliances, motor homes, and boats.
- Tuition and Fees Deduction for Higher Education.
- Itemized Deduction for Mortgage Insurance Premiums.
- $250 Deduction for Teacher Classroom Expenses
- IRA Direct Charitable Contributions

ELECTRONIC FILING REQUIRED FOR MOST RETURNS IN 2012

New electronic filing requirements for tax return preparers go into effect in 2012. Starting in January 2012, any paid preparer that expects to file 11 or more Form 1040 returns must use IRS e-file. However, if you file these forms yourself, you may choose to file by paper, even if I prepare the return for you.

If you do not want your return filed electronically, I can mail printed income tax returns to the IRS for you. However, I will need to obtain a hand-signed and dated statement from you stating that you do not want your return e-filed.

The benefits to filing this way are that the returns are processed quickly and you should get your refund in much less time.

Mortgage Debt Forgiven?

You may qualify for tax relief

More and more home owners have experienced mortgage debt forgiveness. If your mortgage debt is partly or entirely forgiven after 2006 and before 2013, you may be eligible for special tax relief. Normally, debt forgiveness results in taxable income; however, under the Mortgage Forgiveness Debt Relief Act of 2007, you may be able to exclude up to $2 million ($1 million for married filing separate) of qualified principal residence indebtedness.

Debt reduced through mortgage restructuring and mortgage debt forgiven in a foreclosure may be excluded. To qualify, the debt must have resulted from buying, building or substantially improving your principal residence. It also must be secured by that residence. Refinanced debt proceeds used for the purpose of substantially improving your principal residence also qualifies for the exclusion.

Proceeds of refinanced debt used for other purposes, such as paying off credit cards, do not qualify for the exclusion. Debt forgiven on second homes, rental property, business property, credit cards or car loans also do not qualify for this tax relief provision. However, these situations may qualify under bankruptcy, insolvency or as qualified business use real property.

In the year your debt is reduced or eliminated, your bank should send you Form 1099-C, Cancellation of Debt. Bring it to your tax appointment so the required forms can be filed.

Bartering Income

How can it impact your taxes?

Many small business owners use bartering as a way to save a little money. But many do not realize the tax consequences associated with bartering. When bartering occurs, there is usually no money exchanged, just goods and/or services.

In general, you are required to issue a Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, to the party you traded with. This form indicates the fair market value of the item you traded.

The fair market value of the item you receive is income to you and is taxable in the year the service is received. Your bartering activities also may result in ordinary business income, capital gains or capital losses, or you may have a nondeductible personal loss. In addition, the fair market value of the item you traded may also be deductible to the extent the barter received is a deductible expenditure. Bartering income may result in liabilities for income tax, self-employment tax, employment tax or excise tax.

Employee or Independent Contractor?

This classification determines if payroll taxes are required

For some business owners, determining whether a worker is an employee or an independent contractor can be tricky. Generally, you must withhold income taxes, withhold and pay social security and Medicare taxes and pay unemployment tax on wages paid to an employee. However, you don't generally have to withhold or pay any taxes on payments made to independent contractors.

There is a misconception that you may be able to choose which classification works best for your company. In reality, however, the facts and circumstances impose the worker status. In determining whether the person providing a service is an employee or an independent contractor, you must consider all information that provides evidence of the degree of control and independence. You'll need to answer these four questions:

1. Does the company control or have the right to control what the worker does and how the worker does his or her job?

2. Are the business aspects of the worker's job controlled by the payer? Examples include how a worker is paid, whether expenses are reimbursed and who provides tools/supplies.

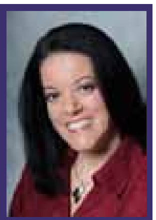
3. Are there written contracts or employee-type benefits like a pension plan, insurance, vacation pay?

4. Will the relationship continue and is the work performed a key aspect of the business?

Businesses must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent contractor. No set number of factors makes the worker an employee or an independent contractor and no single factor stands alone in making this determination. The concept is to look at the entire business relationship, consider the degree or extent of the right to direct and control, and finally, to document each of the factors used in coming up with the determination.

If you classify an employee as an independent contractor and you have no reasonable basis for doing so, you may be held liable for employment taxes for that worker. File a Form SS-8 with the IRS if the factors for determining worker status remain unclear.

Pat's Pick



Everyone needs a super-hero!

This summer The Avengers will hit the big screen bringing back to life all the great 1963 Marvel Superheroes – Iron Man, The Incredible Hulk, Thor, Captain America, Hawkeye and Black Widow.

In typical superhero fashion, when an unexpected enemy emerges threatening global safety and security someone must save the world. The thrill of The Avengers is the ability of so many great heroes teaming up to pull the world back from the brink of disaster. This movie is guaranteed to be action packed and full of spectacular special effects!

Hello Avengers!

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