Excise Tax on Indoor Tanning Services

A 10-percent excise tax on indoor UV tanning services goes into effect on July 1, 2010. This excise tax requirement is part of the *Affordable Care Act* that was enacted in March 2010.

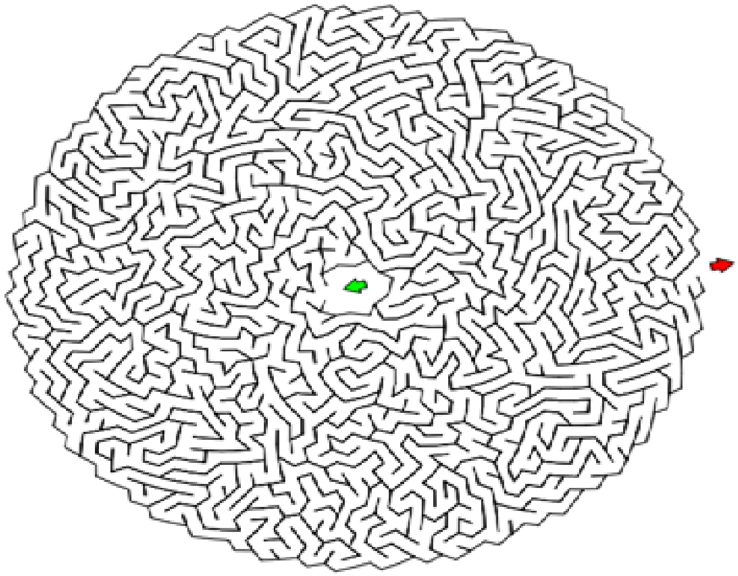
Businesses providing ultraviolet tanning services must collect the 10 percent excise tax at the time the customer pays for the tanning services. If the customer fails to pay the excise tax, the tanning service provider is liable for the tax. The tax does not apply to phototherapy services performed by a licensed medical professional on his or her premises. The tax does not apply to spray-on tanning services.

Want more Up to-the Minute tax information?
http://pktaxservices.com/blog

PK Tax Services, L.L.C.
Pat Kolodziej, CPA, MST
627 Arlington Lane
South Elgin, IL 60177
patk@pktaxservices.com
www.pktaxservices.com
847.858.5074

Congress Passes Homebuyer Tax Credit Relief

In a last-minute move before adjourning for the July 4th holiday, Congress has provided relief to taxpayers to claim the first-time homebuyer credit. On June 30, Congress passed The Homebuyer Assistance Improvement Act of 2010. The Homebuyer Assistance and Improvement Act of 2010 extends the closing date deadline to claim the credit, from June 30, 2010, to September 30, 2010, for homebuyers who signed sales contracts prior to May 1, 2010. It is estimated that this extension will enable an estimated 180,000 additional homebuyers to utilize the homebuyer credit. This will provide tax relief for those taxpayers who missed the June 30, 2010, deadline allowing them to close the contract and claim the $8,000 homebuyer tax credit.



UP *to-the* MINUTE
TIMELY TAX TIPS

SUMMER 2010

The Health Care Act

Representing a sweeping overhaul of the U.S. health care system, *The Patient Protection and Affordable Care Act* was signed into law on March 23, 2010. *The Health Care and Education Reconciliation Act* was signed into law on March 30, 2010.

The implementation schedule for the various provisions is as follows:

2009 Effective Date

- Investment Credit for Therapeutic Discovery Projects

2010 Effective Date

- Small Employer Health Insurance Credit
- Coverage for children under age 27
- Excise tax on indoor tanning services
- Adoption credit increased
- Tanning excise tax

2011 Effective Date

- Employer Health Plan Reimbursements limited to prescription medication
- Cost of employer-sponsored health coverage included on W-2
- Penalty tax increase on nonqualified HSA distributions
- Small employers can establish a simple cafeteria plan
- Prescription drug coverage deduction eliminated

2012 Effective Date

- Form 1099 Information Reporting required for payments to corporations (business to business)

2013 Effective Date

- Deduction for subsidized retiree drug costs eliminated
- Additional hospital insurance tax for high income workers
- Medicare Contribution Tax on unearned income
- Medical expense deduction floor increases to 10% for taxpayers under age 65
- Limitation on FSA reimbursements set
- Compensation deduction limit for health insurance providers
- Medical device excise tax

2014 Effective Date

- Individuals with no health insurance coverage must maintain minimum essential health coverage or pay a penalty
- Refundable tax credit for providing premium assistance
- Qualified plans offered through a cafeteria plan
- Health coverage excise tax for large employers
- "Free choice" vouchers for non-participating employees
- Employer reporting responsibilities for health coverage
- Corporate estimated tax payments increased

2017 Effective Date

- Medical expense deduction floor increases to 10% for taxpayers age 65 or over

2018 Effective Date

- Excise tax on high cost employer sponsored health coverage

Excise Tax on High-Value Health Plans

This provision is not a tax on individuals, but is a tax on health insurers who provide high-cost health plans (called "Cadillac plans" in the media). There is so much press on this issue, that I have included a basic description. The tax will be 40% of the cost of a health plan which exceeds $27,500 for a family and $10,200 for an individual. It takes effect in 2018.

The HIRE Act

The Hiring Incentives to Restore Employment Act (the HIRE Act) was signed into law by the President on March 18, 2010.

Payroll Tax Holiday For New Employees

The bill gives employers a payroll tax holiday during 2010 for hiring unemployed workers.

Specifically, the HIRE Act relieves employers from having to pay the employer's share of social security taxes on wages paid to new employees between March 19, 2010 and December 31, 2010. The social security tax rate for employers is 6.2% on wages up to $106,800 for 2010. (The new law does not cover the 1.45% Medicare tax.) A special rule allows a portion of payroll taxes already paid by employers in the first quarter of 2010 to be applied as a credit against the employers' second quarter tax.

Qualified Hires

Employers can only claim the credit for qualified workers. The Act defines "qualified workers" as individuals who meet the following criteria:

- They begin work after February 3, 2010 and before January 1, 2011.
- The new law requires employers to get a statement from each eligible new worker certifying this information: they were unemployed during the 60 days before beginning work or had worked fewer than 40 hours for anyone during the 60 days before being hired. (Note: The IRS has a new form to use for the employee affidavit, which I will provide to you if you want to claim this exemption. You do not have to file this form with your taxes, but you need to keep it on file with other payroll and income tax records.)
- They are not employed to replace another employee unless the previous employee left the job or got fired for cause.
- They are not related to the employer.

The payroll credit will not be allowed if an employer fires an employee to take the credit on someone else they hire. The payroll tax holiday is not available for self-employed workers who must pay self-employment taxes. It also is not available for hiring household employees, such as maids or babysitters.

Credit For Retained Workers

The new Act also gives employers an additional credit for employees who stay on the job for a year. The "retention credit" increases an employer's general business credit by $1000 for each worker the employer keeps on the payroll for at least 52 weeks. A "retained worker" also must receive wages during the last 26 weeks that are least 80 percent of the wages the employer paid the worker during the first 26 weeks. While the general business credit usually can be carried back and carried forward, the employee retention credit may not be carried back to earlier tax years.

Higher Deduction For Business Property

The 2010 HIRE Act increases for one year the amount a taxpayer may deduct for investments in business property. Under the bill, taxpayers may take an immediate deduction instead of depreciation for up to $250,000 of the cost of business property. For taxable years beginning in 2010, these limits were going to be reduced to $125,000, however, the HIRE Act continues the higher limits.

Health Coverage Tax Credit Available to Small Employers

Included in the *Patient Protection and Affordable Care Act*, signed by President Obama on March 23, is a credit designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees.

The maximum credit is 35 percent of premiums paid in 2010 by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. In 2014, this maximum credit increases to 50 percent and 35 percent respectively.

The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ low and moderate income workers. It is generally available to employers that have fewer than 25 full-time equivalent (FTE) employees paying wages averaging less than $50,000 per employee per year. Because the eligibility formula is based in part on the number of FTEs, not the number of employees, many businesses will qualify even if they employ more than 25 individual workers. The maximum credit goes to smaller employers – those with 10 or fewer FTEs – paying annual average wages of $25,000 or less.

Eligible small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011.

Health Benefits Coverage for Adult Children

If you have adult children who need to participate in a group health insurance plan, you now may be able to cover them under your employer's plan. Health insurance coverage for an employee's children under 27 years of age is tax-free to the employee, effective March 30, 2010. The Health Care Act requires group health plans and health insurance issuers that now provide dependent coverage of children to continue to make coverage available for an adult child up until age 26.

Increased Medicare Tax on Individuals and Investment Income

Another revenue raiser in the Health Care Act is an increased Medicare tax on higher income individuals of .09% and a Medicare tax of 3.8% on the net investment income of higher-income taxpayers. The Act increases the employee portion of the Medicare Hospital Insurance Tax by an additional .09% on wages received over the threshold amount of $250,000 for a joint return or surviving spouse, $125,000 for a married individual filing a separate return, and $200,000 for all other taxpayers. This additional tax also applies to the Medicare portion of self-employment taxes.

The Medicare tax on investment income is a significant change from current law. Under current law, the Medicare tax is only imposed on wage or compensation income. For the first time under this bill, the Medicare tax will be imposed on investment income—which is income from interest, dividends, annuities, royalties, rents, and capital gains. The tax begins in 2013 and is imposed on net investment income if a taxpayer's income exceeds the threshold amount of $250,000 in adjusted gross income for a joint return or surviving spouse, $125,000 for a married individual filing a separate return, and $200,000 for all other taxpayers.