Keeping Good Records - Why It's Important for Your Business

A business owner who keeps good records is able to easily monitor the progress of his or her business. Records can show whether the business is improving, what items are selling, or what changes may be necessary to make it more profitable. Keeping good records can increase any business owner's chances of success.

Records are needed to prepare your financial statements. Income statements and balance sheets are used to prepare your income tax returns. Saving your receipts makes it easy to keep track of which expenses are business-related and which ones are not. Keeping good records also helps you to distinguish between taxable and nontaxable income.

Keeping track of expenses lessens the chance that you'll forget which expenses need to be deducted when it comes time to prepare your tax return. Any record that supports the information reported on your tax return is a record worth saving. If the IRS audits your tax return, having a complete set of records for the year in question will speed up the examination process.

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

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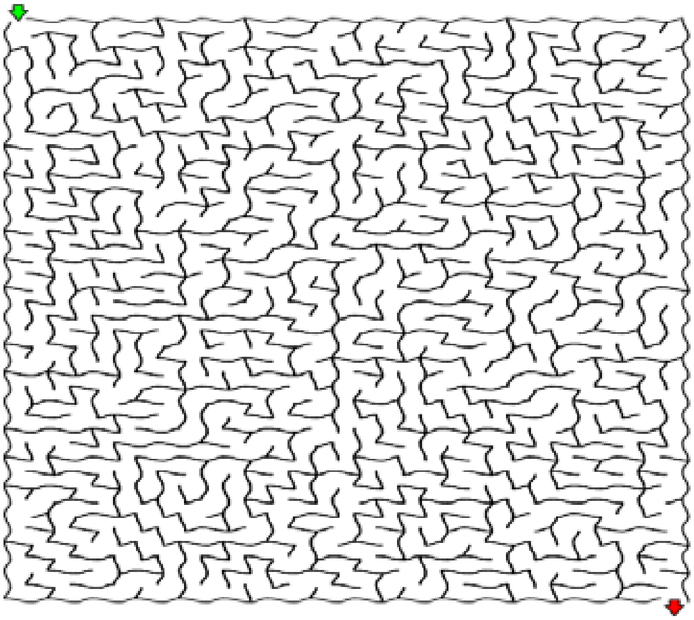

Upcoming Speaking Events

Wednesday, January 13, 2010, Women's Leadership Network
Thursday, February 4, 2010, Women in Business, Marengo Chapter

If you are interested in having me speak at one of your events, please contact me at patk@pktaxservices.com.

UP *to-the* MINUTE
TIMELY TAX TIPS

WINTER 2009

Roth IRAs - Is This a Good Place to Put Your Money?

Roth IRAs can be more beneficial than other retirement accounts because qualified distributions are not taxable, and you don't have to take required minimum distributions when you reach the age of 70½. However, you cannot make a Roth IRA contribution when your income exceeds certain limits. For 2009, the Roth IRA contribution limit is phased out (reduced) when your modified adjusted gross income (AGI) is between $105,000 and $120,000 ($166,000 and $176,000 if married filing jointly).

If your income is too high to make a Roth IRA contribution for 2009, you can still make a contribution to a traditional IRA. In general, the contribution will be nondeductible if you or your spouse is covered by a retirement plan at work, but it will give you basis in the IRA. On the other hand, if you and your spouse are not covered by a retirement plan at work, the contribution will be fully deductible regardless of your AGI.

For 2010 and beyond, the $100,000 modified AGI limit on converting a traditional IRA to a Roth IRA has been eliminated, so you can convert that 2009 traditional IRA contribution to a Roth IRA in 2010 regardless of your AGI.

You must recognize the amount converted, except any basis, as income. However, any taxable income from a 2010 conversion will be included in gross income ratably over a two-year period beginning in 2011, unless you elect out of the two-year period and include all of it in 2010. This two-year rule only applies to 2010 conversions. Examine your tax situation to determine which year(s) to recognize any taxable income from a 2010 conversion.

Employer-Provided Educational Assistance:
Giving Back to Your Employees

You can provide your employees with tax-free education assistance by offering an educational assistance program. This allows you to provide up to $5,250 for tuition, fees, books, and supplies for classes without having to include the amount in an employee's wages. Both undergraduate and graduate level courses qualify for the assistance. The classes need not be job-related to qualify.

A Moment of Truth:

If you want to feel rich, just count the things you have that money can't buy.

Health Savings Accounts (HSAs):
What are the employer contribution limits for 2009?

An HSA is a tax-exempt custodial account set up to pay or reimburse your medical expenses incurred during the year. The HSA is set up with a qualified HSA trustee. Eligible individuals must: (1) be covered under a high deductible health plan (HDHP) on the first day of the month, (2) have no other health coverage, (3) not be enrolled in Medicare, and (4) not be claimed as a dependent on someone else's tax return.

The amount that you can contribute to an HSA depends on your type of HDHP, age, and date of eligibility. The date you are no longer eligible must also be considered if applicable. Employers can contribute up to a specified dollar limit, which is exempt from federal income tax withholding, social security tax, Medicare tax, and FUTA tax. For 2009, the employer can contribute up to $3,000 ($4,000 if age 55 or older) if you have self-only coverage under a HDHP or up to $5,905 ($6,950 if age 55 or older) if you have family coverage under an HDHP.

Happy Holidays from the Kolodziej Family!
Wishing you a healthy and prosperous New Year!

Employee or Independent Contractor?
Determining the proper worker status.

When you hire someone to work in your business, that individual will either be an employee or independent contractor for tax purposes. Failure to properly classify the worker can subject you to an IRS audit and possibly interest and penalties for failing to withhold and deposit payroll taxes. Under common-law rules, if you have control over what work is being done and how it will be done, you are generally regarded as an employer and the worker is considered your employee.

The IRS uses three factors to determine the proper worker classification. Behavioral control refers to facts that show whether there is a right to direct or control how the worker does the work. Behavioral control looks at the type of instruction given, the degree of instruction, an evaluation system, and training.

The second factor is financial control. Financial control refers to facts that show whether or not the business has the right to control the economic aspects of the worker's job. Financial control factors consist of significant investment, unreimbursed expenses, opportunity for profit or loss, services available to the market, and method of payment. If you provide the tools and supplies to do the job, set the work hours, provide the location where the work is performed, and can hire or fire the worker, chances are this worker is classified as an employee. However, if the worker provides his own tools and supplies, performs services for an agreed price, performs these same services to others, and maintains control over how the work is completed, the worker is more likely an independent contractor.

The third factor is the type of relationship between you and the worker. Under type of relationship, take into consideration any written contracts, employee benefits, permanency of the relationship, and services provided as the key activity of the business. An employee will be hired for a long-term relationship and employee benefits will generally be provided.

You must weigh all of 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 an independent contractor. The key is to look at the entire relationship you have with the worker, consider the degree or extent of the right to direct or control, and finally document each of the factors used in arriving at a determination.

If you are unsure whether your newly hired worker is an employee or independent contractor, you may file Form SS-8 with the IRS. They will assist you in making a proper determination, thus avoiding mistakes, audits, and additional taxes and penalties.

Choosing the §179 Expense Deduction:
Take Advantage of Year-End Equipment Purchases

Each year, the IRS allows a business to write off the cost of purchased equipment. For 2009, the maximum amount allowed is $250,000. The equipment can be purchased and placed in service at any time during the tax year. Even if you wait until the last day of the year to purchase and place in service a piece of equipment, you are allowed the full $250,000 deduction.

The $250,000 maximum is reduced dollar-for-dollar if your asset purchases exceed $800,000. This means that if you purchase $1,050,000 of eligible §179 properties during 2009, no deduction is allowed. Another limitation is that the §179 deduction cannot exceed your taxable business income. Business income includes the income from your trade or business plus wages received by you or your spouse, if married filing jointly.

Going Out of Business? Know the tax consequences before closing your doors.

You can close your business by selling all of the assets or converting the assets to personal use. The tax consequences of selling your business depend on whether you are operating a sole proprietorship or corporation. As a sole proprietor, if you sell all the assets of your business, you report the sale of each asset separately to determine the gain or loss. If you close your sole proprietorship business and keep all the assets to use personally, there may be some tax on recapture of depreciation.

When you want to end your corporate business, you can either sell the stock or the assets. If the assets are sold, the corporation pays the tax on any gain. As the shareholder, you don't have any tax consequences unless the corporation liquidates and distributes the proceeds to you in exchange for your stock. If the stock is sold, you report the sale of your corporate stock on your personal tax return.

If you take the assets out of the corporation, gain or loss is recognized on the liquidating distribution of assets as if the corporation sold the assets to you at fair market value. You, as the shareholder, do not have any tax consequences unless the fair market value of the assets distributed exceeds your stock basis.

As with any sales contract, it's important to determine the tax consequences before signing on the dotted line.