

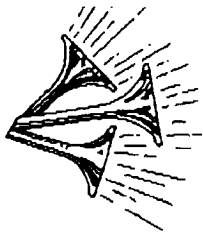


The Update

VOLUME 20 NUMBER 2

Spring 2010

Sannerud, Savarese & Associates, P.A. – “Certified Public Accountants”
1207 Constance Blvd. N.E. • Ham Lake, MN 55304 • (763) 434-5929 FAX (763) 434-8833 • www.sannerudsavarese.com



FROM SUE'S DESK

It is springtime again!
And with the spring comes many things new.....
Including New Tax Laws.

Please take some time and read the following articles relating to business tax changes that are “new” for 2010 and the coming years. As always, if you have specific questions, please call our office and we will do our best to help you!

Thank you for your continued trust in us to help you with your accounting and tax needs.

Happy Spring!

REMINDER...

If You Have Filed An EXTENSION -Corporations and Partnerships who are on extension for 2009 have until **September 15, 2010** to file their return. Individuals who are on extension for 2009 have until **October 15, 2010** to file their return.

(FYI...the current monthly penalty fee for not filing an S-Corporation or Partnership tax return by the due date (or extension date) is \$89 per partner/shareholder. In 2010 that monthly penalty fee will increase to \$195 per partner/shareholder.)

DID YOU KNOW???

- *The IRS employs 114,000 people (double the amount employed by the CIA and 3 times more than the FBI).*
- *300,000 trees are used each year to print tax forms – there are currently over 480 tax forms (a number that continues to grow each year)!*
- *There are over 7,000,000 words in the Internal Revenue Code.*
- *The 1040EZ (easy?) form has 33 pages of instructions.*

YOUR tax returns have been filed, NOW WHAT?

Your tax returns have been filed and here’s what the IRS wants you to know about refund status, recordkeeping, mistakes and what to do if you move.

Refund Information

Call 1-800-829-4477 (24 hours a day, seven days a week - automated refund information) or go to IRS.gov, and click on “Where’s My Refund,” to check the status of your 2009 refund (72 hours after IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after you mail a paper return). Be sure to have a copy of your 2009 tax return-you will need your filing status, the first Social Security number shown on the return, and the exact whole-dollar amount of the refund.

What Records Should I Keep?

Tax records should be kept for three years, but some documents — such as records relating to a home purchase or sale, stock transactions, IRAs and business or rental property — should be kept longer. If fraud is suspected in those three years, the IRS can go back seven years if audited. You should keep your income tax returns (pages 1 & 2) permanently.

Change of Address

If you move after you filed your return, you should send Form 8822, Change of Address to the Internal Revenue Service. If you are expecting a refund through the mail, you should also file a change of address with the U.S. Postal Service.

What If I Made a Mistake?

Errors may delay your refund or result in notices being sent to you. If you discover an error on your return, it can be corrected by filing an amended return using Form 1040X. *Always remember we are here to help with any questions you may have!*

FYI...

Starting May 28 – September 3, 2010
We will be closing at NOON on Fridays.

Summer Office Hours

Monday-Thursday	8:00 a.m.-4:30 p.m.
Friday	8:00 a.m.-Noon
or by appointment	
763-434-5929	

IN THIS ISSUE:

Tax News	Page 2-3
Tax, Business & Money News	Page 4-5
Staff News & Education	Page 6

TAX NEWS

Property Tax Refunds

A property tax refund is based on your household income and the property taxes paid on your principal place of residence. As a *homeowner*, you may be eligible for one or both of the following refunds if you owned and lived in your home on January 2, 2010. **Regular property tax refund.** Your total household income for 2009 must be less than \$98,290 (for 2008, less than \$96,940). The maximum refund is \$2,350.

Special property tax refund. Your net property tax on your homestead must have increased by more than 12 percent from 2009 to 2010, and the increase must be at least \$100. There is no income limit and the maximum refund is \$1,000. As a homeowner or mobile home owner, you must have been either a full- or part-year resident of Minnesota during the year, you cannot be a dependent, and your property must be classified as your homestead. Relative homesteads do not qualify.

As a *renter*, your total household income for 2009 must be less than \$53,030 (for tax year 2008, it must be less than \$52,300). The maximum refund is \$1,510. As a renter, you must have lived in a building in which property taxes were assessed or payment was made in lieu of property taxes. If you are not sure if property taxes are assessed on your building, contact your landlord.

Filing Due Date: August 16, 2010. Returns can be filed up to a year after the due date. **Refunds:** By the end of September if you file by August 1, or 60 days after you file.

New Health Care Tax Credit Employer Benefits

This credit (one of the first health care reform provisions to go into effect) is designed to encourage small employers to offer health insurance coverage for the first time or maintain the coverage they already have.

In general, the credit is available to small employers (fewer than 25 employees-more if you have part-time employees-and less than \$50,000 in average wages) that pay at least half the cost of single coverage for their employees in 2010.

How much may you receive? For tax-years 2010 to 2013, the maximum credit is 35% of premiums paid by eligible small business employers and 25% of premiums paid by eligible employers that are tax-exempt organizations. Because the eligibility rules are based in part on the number of full-time employees, not the number of employees, businesses that use part-time help may qualify even if they employ more than 25 individuals. Company owners can be excluded from the calculation in order to qualify, if needed.

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. For tax-exempt organizations, the IRS will provide further information on how to claim the credit.

Go to www.irs.gov (Health Care Tax Credit) to see if your business is eligible.

Health Care and Taxes: Five More Things To Know...

With the health care reform package now the law of the land, below are five immediate and far-reaching tax implications you should know.

1. **Starting in 2014, large companies (50 or more workers) will be liable for an additional tax if they do not provide minimum essential coverage.** Even if the companies provide minimum essential coverage, they may be subject to a penalty if any employees received premium assistance or cost-sharing to purchase health insurance through an insurance exchange.
2. **Starting in 2014, individuals may be subject to an individual responsibility penalty for failure to maintain minimum essential health coverage.** Lower-income individuals may qualify for a refundable premium assistance tax credit.
3. **Starting in 2013, Medicare tax will be assessed on investment income for high-income individuals or families. Investment income includes interest, dividends, capital gains, rental income, royalties and passive business income.** In effect, that's an additional 3.8 percent tax on net investment income. Many analysts expect the top marginal rate to move up from 35 percent to 39.6 percent in 2011, an additional 4.6 percent tax increase. Top capital gain rates may also increase from 15 percent to 20 percent. Planning tip: The definition of "investment" does not include tax-exempt bonds.
4. **In addition to taxing investment income, the Medicare tax rate itself on earned income has increased by a third, from 2.9 to 3.8 percent, for higher-income individuals and families.**
5. **Starting in 2013, the legislation will increase the adjusted gross income threshold for claiming an itemized deduction for medical expenses, from 7.5 to 10 percent.** A temporary exemption is provided for senior citizens.

Action steps to take now: Invest the time necessary to become familiar with the legislation and to understand how this may affect you and/or your business-you may be entitled to a credit or at risk of a penalty. Please contact us if you have questions or would like explore your tax planning opportunities.

Courtesy of CCH, a Wolters Kluwer business Mark Luscombe, CPA, LLM, JD, Principal Tax Analyst

TAX NEWS

HIRE Act

Hiring Incentives to Restore Employment

Two new tax benefits are now available to employers hiring workers who were previously unemployed or only working part time. The two tax benefits are especially helpful to employers who are adding positions to their payrolls.

EMPLOYER FICA EXEMPTION

Employers who hire unemployed workers this year (after Feb. 3, 2010 and before Jan. 1, 2011) may qualify for a 6.2% payroll tax incentive, in effect exempting them from their share of Social Security (FICA) taxes on wages paid to these workers after March 18, 2010. Businesses, agricultural employers, tax-exempt organizations and public colleges and universities all qualify to claim the payroll tax benefit for eligible newly-hired employees. Household employers cannot claim this new tax benefit. *This reduced tax withholding will have no effect on the employee's future Social Security benefits, and employers would still need to withhold the employee's 6.2-percent share of Social Security taxes, as well as income taxes. The employer and employee's shares of Medicare taxes would also still apply to these wages.*

Who Qualifies?

- New hires, rehired former employees, students, COBRA recipients, part-timers etc. - that worked 40 hours or less in 60 days prior to hiring. Family members and relatives do not qualify. *Form W-11 must be filled out by new hire certifying that he or she was unemployed during the 60 days before beginning work or, alternatively, worked fewer than a total of 40 hours for someone else during the 60-day period.*
- Those hired after 2/3/10 and before 1/1/2011
- Those with wages paid after 3/18/10

EMPLOYER TAX CREDIT

In addition, for each worker retained for at least a year, businesses may claim an additional general business tax credit, up to \$1,000 per worker, when they file their 2011 income tax returns.

- Workers must remain employed for at least 52 consecutive weeks to get \$1000 credit or 6.2% of wages paid to the qualifying worker over the 52-week period, whichever is less.
- Wages during the last 26 weeks must be at least 80% of wages paid for the first 26 weeks.
- The credit may not be carried back to a prior year and is non-refundable.
- The credit will be taken with 2011 returns.

There are no limits to the amount of new hires and an employer may utilize BOTH tax benefits on the same employee. New businesses also qualify if the employee qualifies.

FREE Small Business Courses Starting June 1, 2010

Starting next month, SmallBizU (www.anokaramsey.edu/training) offers nineteen free online courses created especially for small businesses and entrepreneurs. **Check it out!**

News Of The (MN. Sales Tax) Weird

Below are some weird but TRUE facts about Sales and Use Tax:

- If you purchase a baby receiving blanket it is non-taxable however, the purchase of a crib blanket is taxable.*
- Bottled water is non-taxable but, if a sweetener (flavored water) is added to it, it becomes taxable. All bottled water from a vending machine is taxable.*
- 100% juice is non-taxable, but juice cocktail (partial juice) is taxable.*
- Computer software maintenance agreements for upgrades are taxable but, computer phone support services are non-taxable.*
- Window washing and lawn mowing are taxable, but snowplowing is non-taxable.*
- Fees for an exercise facility are taxable however, YMCA memberships are non-taxable.*
- Golf shoes are taxable, tennis shoes are non-taxable.*
- Labor to install a remote car starter is taxable but, the labor to repair a remote car starter is non-taxable.*
- Admission to the County Fair is taxable however, admission to an Antique Show is non-taxable.*
- If you purchase the Quickbooks software program it is taxable.*
- If you purchase a custom computer program it is non-taxable.*
- Use a manufacturers coupon and you pay sales tax on the full purchase price. Use a retailers coupon and you pay sales tax on the purchase price less the coupon value.*
- A television commercial for a "convention" is taxable. A television commercial for the sale of a product is non-taxable.*
- Prizes for carnival games at festivals lasting less than 6 days are non-taxable. Prizes at festivals lasting 6 days or more are taxable.*

Weird, huh!

IRS RETIREMENT PLAN NAVIGATOR:

Find the right retirement plan for your business with the new IRS Retirement Plan Navigator:
<http://www.retirementplans.irs.gov/>
On this website you can compare and choose plans suitable for your business.

TAX, BUSINESS & MONEY NEWS

Summertime can be tax-cutting time!

As warm summer days arrive, you may be tempted to forget about serious things like taxes...that could lead to a higher 2010 tax bill. Here are just a few summertime tax-saving ideas to consider.

* If spring cleaning left you with outgrown clothing and household items you no longer use, donate them to charity. Items in good used condition qualify for a tax deduction.

* If you and your spouse work, consider sending your children to a summer day camp. The cost may qualify for the dependent care tax credit.

* If you operate an unincorporated business, consider hiring your children to work for you this summer. You can deduct reasonable wages paid to them for the work they perform, and there's no social security tax on their wages if they are under age 18.

* Summer is great for entertaining customers or clients. Keep records of the cost, the date, who was entertained, and what the business purpose was. Your tax deduction is limited to 50% of your cost.

* Combine business with your summer travel, and you may be able to take a tax deduction for the business portion of your costs.

Don't forget taxes but, by all means, *enjoy your summer!*

MOVE YOUR MONEY AND SAVE

Help Grandchildren Pay For College

Contributing to a 529 plan is a great way to help grandchildren pay for college and remove assets from their estate without paying gift taxes.

Grandparents can contribute up to \$65,000 per person to a 529 plan and avoid gift taxes.

Gift Appreciated Stock to Children

You may be able to avoid gain on the sale of stock or other securities by gifting them to children or grandchildren. Under current tax law your child or grandchild, over age 17, may be able to sell them tax-free.

Donate Stock

If you plan to make a charitable donation and you own appreciated stock, consider donating stock rather than giving cash. You will get a deduction for the fair market value of the stock but won't have to pay tax on the capital gains from the sale.

Ten Tips for Making Charitable Donations

Here are the top ten things the IRS wants every taxpayer to know before deducting charitable donations.

1. Only charitable contributions made to qualified organizations are deductible. Ask the organization if it's qualified or check IRS Publication 78, www.irs.gov, which lists most qualified organizations.

2. Charitable contributions are deductible only if you itemize deductions using Form 1040, Schedule A.

3. You generally can deduct your cash contributions/fair market value of most property you donate. Special rules apply to several types of donated property, including clothing or household items, cars and boats.

4. If your contribution entitles you to receive merchandise, goods, or services in return (admission to a charity banquet or sporting event) you can deduct only the amount that exceeds the fair market value of the benefit received.

5. Keep good records of any contribution you make, regardless of the amount. For cash contributions, you must maintain a record of the contribution such as a bank record – including a cancelled check or bank/credit card statement – a written record from the charity (date, amount of the contribution and donor's name or payroll deduction record).

6. Only contributions actually made during the tax year are deductible. For example, if you pledged \$500 in September but paid the charity only \$200 by Dec. 31, your deduction would be \$200.

7. Include credit card charges and payments by check in the year they are given to the charity, even though you may not pay the credit card bill or have your bank account debited until the next year.

8. For any contribution of \$250 or more, you must have written acknowledgment (cash amount, description of any property you contributed, and whether the organization provided any goods or services in exchange for the gift) from the organization to substantiate your donation.

9. To deduct charitable contributions of items valued at \$500 or more you must complete Form 8283, Non-Cash Charitable Contributions, and attach the form to your return.

10. An appraisal generally must be obtained if you claim a deduction for a contribution of non-cash property worth more than \$5,000. In that case, you must also fill out Section B of Form 8283 and attach the form to your return.

For more information visit www.irs.gov, IRS Publication 526, Charitable Contributions, and for information on determining value, refer to Publication 561, Determining the Value of Donated Property.

Don't Panic If You Receive an IRS Notice

The Internal Revenue Service sends millions of notices to taxpayers every year. Here are a few things you should know if one shows up in your mailbox.

- ✓ Don't panic. Many of these letters can be dealt with simply and painlessly.
- ✓ Follow the instruction on what you are asked to do to satisfy the inquiry.
- ✓ If you receive a correction notice and agree with the correction to your account, then no reply is necessary unless a payment is due or the notice directs otherwise. If you do not agree, you should send a written explanation of why you disagree and include any documents/information you want the IRS to consider, along with the bottom tear-off portion of the notice. Allow at least 30 days for a response.
- ✓ If you have questions, call the phone # listed on the notice. Have a copy of your tax return and the correspondence available when you call.
- ✓ Make sure to keep copies of any correspondence with your permanent records.

TAX, BUSINESS & MONEY NEWS

LOCAL MN. SALES & USE TAX FACTS

- Sales tax is the tax paid at the time of the purchase.
- Use tax applies when you buy or rent a taxable item or service without paying the sales tax at the time of the purchase or rent.
- Sales tax is collected by the seller and paid to the state by the seller, use tax is self-assessed and paid by the purchaser (end user). The purchaser pays the tax directly to the state.
- Minnesota has a 6.875 % general sales tax rate. The tax rate is the same for both sales and use tax, and the same exemptions apply.
- If you do business in any of the following five metro counties: Anoka County, Dakota County, Hennepin County, Ramsey County, Washington County you are required to collect Transit Sales and Use Tax (one quarter of one percent = .25 percent or .0025).
- Sales taxable items may also require a Transit Use Tax- *i.e.* A business located in Anoka County (transit tax county) that has a repair done for a piece of equipment that broke down in Sherburne County (non-transit tax county) needs to pay the Transit Use Tax (.25%) on parts and/or labor (if taxable).
- The most frequent assessments made in audits involve unreported Use Tax (Reminders: If you are located in an area that has one or more local tax, be sure to also report that local use tax due. Keep track of your purchases subject to use tax and report them when you report your sales tax. Also, keep a record of the purchases on which you paid use tax (date & amount paid).
- Other misc. items subject to sales tax: tips/gratuity included on a bill (such as a restaurant), renting a parking lot from another business, parking permits for students (high school & universities), admission/membership fees charged by game farms & hunting clubs, wedding pictures and video's and many more are listed at: www.taxes.state.mn.us.

Avoid An Audit, Cut Taxes And Relieve Stress in 2010

Below are a few pro-active steps that may help you avoid an audit, minimize your tax burden and reduce your stress level next before next April 15th:

- Hire a trustworthy, experienced accountant to which you can work with all year round. Start now to work with your accountant to create a plan that involves taking full advantage of all tax deductions for which you may be eligible and to carefully monitor the payment of your income tax throughout the year.
- Start keeping good records. Create a filing system for your tax related documents (i.e. tax statements, sales receipts, contributions etc.). If you travel often for work, keep a journal in your car to record mileage/other travel related expenses. If you use a computer at home for both work and personal reasons, keep track of the time you use the computer for each.
- Document peaks and valleys. Large increases or drops in your income or deductions from one year to the next will draw raised eyebrows at the IRS. Make sure that you can clearly document such increases or drops.
- Use receipts. If your business customers often pay with cash or personal checks, issue receipts with the name and address of your business. This will create a paper trail for both you and your customers.
- Always file your taxes on time. Assemble your tax records as quickly as possible after the new year to give yourself as much time as possible to prepare your taxes and understand your tax burden. If you are concerned about your ability to pay your taxes, call the IRS Taxpayer Assistance Center at (800) 829-1040 or go to www.irs.gov. Keep in mind, if you were laid off and received a severance package, or dipped into your 401k or an IRA to make ends meet, you may need to pay taxes on the income.
- Neatness counts. Most tax returns are scanned or processed by computer. If your tax return is sloppy or difficult to read, it will be pulled for inspection.
- Don't throw away your tax returns. Always keep the last seven years of tax returns in a safe location should you be audited.

Courtesy of ARAcontent

GOING GREEN MAY REDUCE YOUR TAXES

Invest in energy-efficient products and you may save money on your energy bills and your tax return. Below are energy-related tax credits created or expanded by the American Recovery and Reinvestment Act of 2009.

Residential Energy Property Credit

Qualified energy efficient improvements (adding insulation, energy efficient exterior windows and energy-efficient heating and air conditioning systems) made to existing homes. Credit is 30% of the cost of all qualifying improvements. Maximum credit is \$1,500 for improvements placed in service in 2009 and 2010 combined.

Residential Energy Efficient Property Credit

Credit helps individual taxpayers pay for qualified residential alternative energy equipment (solar hot water heaters, solar electricity equipment, geothermal heat pumps, wind turbines and fuel cells) installed on or in connection with their home (in U.S.). Credit is 30% of the cost of qualified property (runs through 2016).

Plug-in Electric Drive Vehicle Credit

ARRA modifies this credit for qualified plug-in electric drive vehicles purchased after Dec. 31, 2009. The minimum amount of the credit for qualified plug-in electric drive vehicles, is \$2,500 and the credit tops out at \$7,500, depending on the battery capacity (runs through 2014).

Plug-in Electric Vehicle Credit

Special tax credit for two types of plug-in vehicles — certain low-speed electric vehicles and two- or three-wheeled vehicles. Credit is 10% of the cost of the vehicle, up to a maximum credit of \$2,500 for purchases made after Feb. 17, 2009, and before Jan. 1, 2012.

Credit for Conversion Kits

Credit is equal to 10% of the cost of converting a vehicle to a qualified plug-in electric drive motor vehicle that is placed in service after Feb. 17, 2009. The maximum credit is \$4,000 (runs through 2011).

STAFF NEWS & EDUCATION

Spring Tax Tip:

Don't forget to bring in your 2009/2010 property tax statement to see if you qualify for a refund. If you had your 2009 taxes prepared here at our office, the property tax refund processing is a free service we provide to our clients.

LOST & FOUND:

All you ladies -
If you lost a black/silver beaded jewelry piece this past tax season...We have it! Give us a call!
(763) 434-5929



From All Of Us At
Sannerud Savarese & Associates, P.A....
"Happy spring and
thank you for your business!"

The staff has attended the following classes:

Sue Savarese: 2010 HealthCare & HIRE Bills (Jennings Seminars)

Upcoming Community Education

(Taught by Sue Savarese, CPA)

Class: **Small Business Recordkeeping**
Date: October 26, 2010
Location: Staff Development Center, Anoka, MN
For more information about the class or to register,
call: 763-506-5766.

*** Staff ***

A.M. Sannerud, Founder Certified Public Accountant (Inactive)
Susan E. Savarese, Managing Partner Certified Public Accountant
Dawn Smith Senior Accountant
Jamie Akerson-Anderson Certified Public Accountant
Pauline Mittelstaedt Firm Administrator
Paulette Hynes Enrolled Agent
Ruth Hunter Staff Accountant
Jody Newlander Accounting Clerk
Tracy Slepica Receptionist, "Update" Editor
Betty Sannerud Support Services
Mary Lou Michels Custodial Services

MINNEAPOLIS, MN
PERMIT #4190
U.S. POSTAGE PAID
STANDARD
PRESORTED

ADDRESS SERVICE REQUESTED

The Update
Sannerud, Savarese & Associates, P.A.
1207 Constance Blvd. N.E.
Ham Lake, MN 55304

The Update is published for our clients and friends. It is designed to provide accurate information with respect to the subject covered. Before any action is taken based upon this information, it is essential that competent, individual, professional advice be obtained.