

THE LEDGER

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NEW LAW REPEALS THE EXPANDED FORM 1099 REPORTING RULES

On April 14, 2011, President Obama signed legislation – the Comprehensive 1099 Taxpayer Protection and Replacement of Exchange Subsidy Overpayments Act of 2011 – repealing expanded reporting rules for businesses and landlords that had been created by laws passed in 2010.

Business reporting

The Form 1099 reporting rules were changed by the 2010 health care legislation. Under the Patient Protection and Affordable Care Act of 2010, every business, charitable organization, and governmental unit was required to file a Form 1099 for payments to any vendor or supplier of goods or services (other than a tax-exempt organization) totaling \$600 or more for the year. Both the vendor and the IRS had to receive a copy of the Form 1099. These rules were scheduled to take effect for payments made after December 31, 2011.

Before the passage of the health care law, payments to corporations were generally exempt from the Form 1099 reporting requirements. The law just signed by President Obama completely repeals this expansion of business reporting requirements, and the reporting rules return to what they were before health care legislation.

Rental property reporting

Similarly, new Form 1099 reporting requirements were recently imposed on landlords. Under the Small Business Jobs Act of 2010, owners of rental properties were generally required to file a Form 1099 for

rental-related payments to any provider for services totaling \$600 or more for the year. These reporting rules were to be effective for payments made after December 31, 2010.

The new law repeals these expanded Form 1099 reporting rules for landlords. As with the

repeal for business reporting, it's like the requirements never existed.

Repeal of the expanded business and rental property expense reporting rules will eliminate a flood of paperwork for most small business and rental property owners.

FOREIGN TAX DEADLINE APPROACHES

By June 30, any United States person with a foreign financial account meeting certain criteria is required to have filed Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts. Given the global environment that we live in today, it is possible that one may not even be aware that the filing requirement has been met. This can be an extremely costly mistake given the significant penalties that can be assessed for non-filing.

A United States person is defined as a U.S. citizen or resident individual or entity (for example, corporation, limited liability company, or trust, to name a few). A U.S. person that has a financial interest in or signature authority over foreign financial accounts must file the TD F 90-22.1 if the aggregate value of the foreign financial accounts exceeds \$10,000 at any time during the calendar year.

It is too easy to find examples of situations in which a filing requirement would apply to an unsuspecting person. For example, a person would have a filing requirement if he has financial interest in any entity in which he is a majority owner, considering both direct

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UIC FBC TO HOST MARKETING EVENT

On June 7, 2011, the UIC Family Business Council will host "Marketing Strategies to Help Your Business Survive – And Thrive". The event will be held at Eaglewood Resort & Spa in Itasca, IL. To find out more information, contact Deanna Salo or Roger Reitz at our office or register at www.uicfbc.com.

Cray, Kaiser Ltd. is a strategic sponsor of the UIC Family Business Council. We welcome our clients and associates to join us.

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CONSIDER THE TIME VALUE OF MONEY IN MAKING FINANCIAL DECISIONS

Suppose you're selling a piece of property worth \$400,000. You're offered \$210,000 down and lump sums of \$100,000 at the end of year one and year two. Should you

take the offer?

Most people know that \$1,000 now is worth more than \$1,000 a year from now. Here's why. In a year, a dollar will buy less than it would today due to inflation. Over time, the risk increases that some of the money owed you will not be paid. And finally, funds on hand could be invested and earning more money.

Present value analysis attempts to quantify these variables. It discounts the value of future funds by estimating inflation rates, risks of loss,

and rates of return from alternative investments.

Assume you could earn 2% by investing in a \$100,000 CD. Disregarding compounding, in a year your investment would be worth \$102,000. Conversely, if you postponed receipt of \$100,000 for a year and inflation eroded the principal by 3%, you'd receive the equivalent of \$97,000 in today's dollars. (Note that with 3% erosion, even the \$102,000 CD proceeds would be worth only \$98,940 in today's dollars.)

In the opening example, your proposed "investment" (a two-year \$200,000 note receivable) would be far riskier than a CD. To compensate, you might decide

not to accept anything less than an 8% return. A present value table indicates that at 8%, the discount factors for one and two years are .926 and .857, respectively. \$100,000 times .926 is \$92,600; \$100,000 times .857 is \$85,700. Thus, in today's dollars, the buyer is offering \$388,300 (\$210,000 down payment plus \$92,600 plus \$85,700). Since your property is worth \$400,000, you would be selling for \$11,700 less than full value.

A similar analysis can be applied to any transaction involving future payments. For help with the calculations, contact us at 630-953-4900.



CAREER PLANNING

PRESERVE YOUR 401(K) WHEN YOU CHANGE JOBS

Changing jobs can be a stressful event. A new boss, new co-workers, and new benefits to sign up for. These days you might well have one more decision to make – what to do with your 401(k) plan.

You'll have several choices. Unfortunately, the easiest choice

is the worst choice: that is, to take a distribution from the old plan and put it in the bank. It may be tempting, because who couldn't use some extra cash. But if you do, you'll owe taxes on the balance and usually a 10% penalty as well. You'll lose the benefits of future tax-deferred growth on your

savings. And if you spend the money, you'll have to start from scratch in saving for retirement.

Consider three options

■ Ask your new employer whether you can roll your balance into the new company's plan. If you can, arrange a direct transfer between plans. You may have to complete a probationary period before you can join your new company's plan.

■ Explore whether you can leave your balance in the old plan, at least for a while. That removes the pressure for an immediate decision. Later you may be able to transfer to your new plan or follow the third option.

■ Roll over your balance into an individual retirement account (IRA). This avoids immediate taxes and lets your savings

continue to grow tax-deferred. It also gives you maximum flexibility for future investments. You even have the flexibility to later convert into a Roth IRA. Be sure to ask for a "trustee-to-trustee" transfer to avoid any short-term tax risk.

A word of caution: If part of your account is invested in company stock, get details on the tax issues before you withdraw or roll over funds. Special rules may allow you to gain additional tax savings if you handle the transaction correctly.

The bottom line: Do all you can to keep your savings in a tax-favored account. You'll be glad you did when you reach retirement age.

Please call our office if you're facing this situation. We'll be happy to advise you on your options.



FOREIGN TAX *Continued from page 1*

and indirect ownership. Indirect ownership considers certain familial relationships. A person would also have a filing requirement if he has signature authority to control the disposition of assets held in a foreign financial account. This requires, for example, a corporate officer with signature authority to understand the corporate holdings to determine whether he may individually have a filing requirement.

Penalties for failure to comply range from a civil penalty of \$10,000 to the greater of \$100,000 or 50 percent of the balance in the account at the time of the violation. Additionally, willful violations may also be subject to criminal penalties.

The U.S. now has a Voluntary Disclosure Initiative in place that expires August 31, 2011. If a qualifying disclosure is made pursuant to the initiative, the non-filing penalties are greatly reduced.

If you have questions about whether you have a Form TD F 90-22.1 filing requirement, please call our office.

A CRITICAL BUSINESS ISSUE: TO INCORPORATE OR NOT

One of the first decisions you face as a new business owner is whether or not to incorporate the business. The biggest advantage of incorporating is limitation of your liability. Your responsibility for debts and other liabilities incurred by a corporation is generally limited to the assets of the business. Your personal assets are not usually at risk, although there can be exceptions to this general rule. The trade-off is that there is a cost to incorporate and, in some cases, tax consequences.

Should you incorporate?

You might not need to incorporate. Depending on the size and type of your business, liability may not be an issue or can be covered by insurance. If so, you could join millions of other business owners and operate as an unincorporated sole proprietor.

If you do decide to incorporate, you'll face a choice of corporate forms. All offer limitation of your liability, but there are differences in tax and other issues.

C corporation.

The traditional form of corporation is the C corporation. C corporations have the most flexibility in structuring ownership and benefits, and most large companies operate in this form. The biggest drawback is double taxation. First the corporation pays tax on its profits; then the profits are taxed again as they're paid to individual shareholders as dividends.

S corporation and LLCs

Two other forms of corporation avoid this double taxation: S corporations and limited liability companies (LLCs). Both of these are called "pass-through" entities because there's no taxation at the corporate level. Instead, profits or losses are passed through to the shareholders and reported on their individual tax returns.

S corporations have some ownership limitations. There can only be one class of stock and there can't be more than 100 shareholders, none of whom can be foreigners. State registered LLCs have become a popular choice for many businesses.

They offer more flexible ownership than S corporations and certain other tax advantages.

Whether you're already in business or just starting out, choosing the right form of business is important. Even established businesses change

from one form to another during their lifetime. Some companies use more than one type of corporation – for example, an LLC to hold the business's real estate and an S corporation for other operations.

What to consider before you decide

However you do business, it's a decision you should revisit periodically. That's because there's no single "correct" choice that is best for every business at all stages of its life. Each option has its own advantages and limitations in a number of areas.

Among the questions to consider are:

- How many owners or shareholders will the business have, now and in the future?
- How great is the need for protection against liabilities?
- How do you want profits to be taxed?
- How do you want to allocate profits and losses among owners?
- Do you want to provide retirement and fringe benefits to owners?
- What are the plans for future growth?
- What are the annual costs to maintain the business entity?

Consult our office and your attorney for guidance in selecting the form that is best for your business.

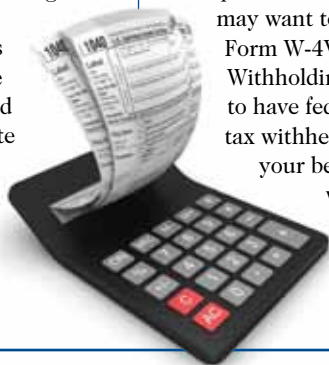


UNEMPLOYMENT BENEFITS: ARE THEY TAXABLE?

Unemployment compensation can provide a welcome buffer while you're transitioning to a new job. But with the help comes a tax effect, because the benefits provided under federal or state laws are usually includable in your income in the year you receive them.

As a result,

depending on the amount of unemployment benefits you expect to receive, you may want to complete Form W-4V, Voluntary Withholding Request, to have federal income tax withheld from your benefits. The withholding rate is generally 10%. You can also ask the



office to withhold state income tax.

Alternatively, you can adjust or begin making quarterly estimated tax payments.

The amount of unemployment compensation you report on your income tax return is also affected by benefits you have to repay. If you receive and repay benefits in the same year, you can subtract the repayment from the total you received.

However, if you make

repayments in a year following the receipt of the benefits, the tax treatment depends on how much you repay, and can be claimed either as an itemized deduction or a credit against your current-year tax.

Please contact us if your employment situation changes. We can help with tax and benefit related issues such as severance pay, retirement account rollovers, and deductions related to job hunting.

TAX TALK

“Tax Freedom Day” came later in 2011

“Tax Freedom Day” fell on April 12 in 2011, three days later than in 2010. According to the Tax Foundation, all the money earned by taxpayers in the first 102 days of 2011 will go to pay their federal, state, and local taxes.

Another statistic from the Tax Foundation: If the government were to collect enough taxes to fund all spending for 2011 (with no deficit), Tax Freedom Day would be May 23, 2011. That’s 41 more days of work to provide the additional \$1.48 trillion of revenue needed.



IRS raises threshold for imposing tax liens

The IRS recently announced that it will moderate its use of tax liens to collect back taxes. A federal tax lien gives the IRS a claim on a delinquent taxpayer’s property for unpaid taxes.

This change means the IRS won’t use a tax lien unless at least \$10,000 in back taxes is owed; the previous threshold had been \$5,000.

In addition, the IRS says it will “withdraw” more tax liens once the back taxes have been paid. A withdrawal removes the lien from the taxpayer’s credit record, whereas a lien “release” as previously used left the lien on the credit record for at least seven years.



BY THE NUMBERS

IMPORTANT DATES FOR SUMMER 2011

June

15 – Second quarter 2011 individual estimated tax is due.

15 – Second quarter 2011 estimated tax is due for calendar-year corporations.

30 – Deadline for Form TD F 90-22.1.

August

1 – 2010 retirement and employee benefit plan returns are due for calendar-year plans.

September

15 – Third quarter 2011 individual estimated tax is due.

15 – Third quarter 2011 estimated tax is due for calendar-year corporations.

15 – Deadline for filing 2010 calendar-year tax returns for corporations with extensions of the March 15 deadline.

15 – Deadline for filing 2010 partnership returns with extensions of the April 18 deadline.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.



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