

# George Johnson & Company *Informer* Spring 2010

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### To Our Clients and Friends:

On Wednesday, May 5<sup>th</sup>, we will hold a breakfast seminar for our non-profit clients at Wayne State University's McGregor Center. Our speaker, Bill Haller, whom many of you have met, will discuss operation management, fraud, and embezzlement, as well as the latest updates on audit and accounting procedures. If either you or someone from your organization would be interested in attending, please give us a call. Invitations have also been mailed. Many attendees have said that the information we provide at these seminars is especially useful.

We are very pleased to announce that our firm has successfully completed a peer review of its auditing practice. To conduct the peer review, we engage another CPA firm to evaluate the methods used by George Johnson & Company in conducting its audits to ensure that we meet the quality control standards set by the AICPA. The review also looks at the training we provide our team in order to substantiate that all members are up to date on audit practices and procedures.

Since our firm was established in 1971, we have hired and retained staff that we believe are well qualified and dedicated to the profession. Through their hard work and the continuing education we provide, we strive to provide the highest quality auditing and tax work to our valued clients. We will settle for nothing less.

Last year, we instituted a new in-house employee training program that has resulted in improved efficiency and a faster orientation of new team members to the firm. In addition, all of our professional staff receive specialized training both in-house and at seminars outside the firm. This enables them to keep abreast of the many changes in auditing and tax regulations and procedures.

We are very pleased to announce that Kimberley Alleman has been promoted to Manager from Managing Senior, and Nejdiah Zaidi has been promoted from Staff Accountant to Senior Accountant. Congratulations also to Laura Stone for passing the CPA exam in November 2009.

All of you are valued clients and friends. We hope you enjoy this issue of the *Informer*.

Sincerely,



George Johnson  
Managing Director

## HIRE Act Has Tax Breaks for Businesses

The Hiring Incentives to Restore Employment Act (HIRE Act) was signed into law by President Obama on March 18. The law includes temporary tax breaks for businesses that hire workers who have been unemployed for at least 60 days, and it extends for one year the higher expensing limit for business equipment purchases.

**Hiring incentives.** The HIRE Act provides \$13 billion in tax incentives to private businesses that hire unemployed workers. Employers can receive an exemption from Social Security payroll taxes for every qualified worker hired after February 3, 2010 and before January 1, 2011. For new hires kept on the payroll for at least 52 weeks, employers may qualify for a tax credit of the lesser of \$1,000 or 6.2 percent of wages paid during the 52-week period for each retained worker.

The payroll tax forgiveness provided in the law does not apply to the Medicare portion of the tax. Also, the new employee cannot displace a current employee unless that employee quit or was fired for cause. Relatives of the employer are not considered qualified employees for these tax breaks.

**Increased expensing limits.** The 2009 maximum amount that could be expensed for the purchase of new or used business equipment was \$250,000, with a dollar-for-dollar reduction once total equipment purchases for the year exceeded \$800,000. The expensing limit fell to \$134,000 for 2010, with phase-out set at \$530,000. The HIRE Act retroactively reinstates the higher 2009 expensing limits for 2010. This is a one-year extension only, and it does not include an extension of bonus depreciation allowed last year. Off-the-shelf computer software will continue to qualify for expensing for 2010 purchases.

The HIRE Act does not extend the business and individual tax breaks that expired at the end of 2009; nor does it extend COBRA premium assistance. These provisions are addressed in other bills under consideration by Congress.

## Not Much Change in IRS Inflation-Adjusted Tax Numbers for 2010

The IRS is required to adjust many tax numbers for inflation each year. Because there was little inflation last year, there's very little change in 2010 numbers. Here are the numbers you'll need for your 2010 planning:

- \* The standard mileage rate for business driving drops from 55¢ per mile to 50¢ per mile, effective January 1, 2010. The rate for medical and moving mileage drops from 24¢ per mile to 16.5¢ per mile. The general rate for charitable mileage remains at 14¢ per mile.
- \* The maximum earnings subject to Social Security tax remain at \$106,800. The earnings limit for those under full retirement age is \$14,160. For those at full retirement age, there is no earnings limit.
- \* The "nanny tax" threshold remains at \$1,700 for 2010. If you pay household workers more than this amount during the year, you're responsible for payroll taxes.
- \* The "kiddie tax" threshold is unchanged for 2010. If your child under age 19 (under age 24 for students) has more than \$1,900 of unearned income this year (e.g., dividends and interest income), the excess could be taxed at your highest rate.
- \* The maximum individual retirement account (IRA) contribution you can make in 2010 remains unchanged at \$5,000 if you're under age 50 and at \$6,000 if you are 50 or older.
- \* The maximum amount of wages employees can put into a 401(k) plan remains at \$16,500. The 2010 maximum allowed for SIMPLE plans is \$11,500. If you are age 50 or older, you can contribute up to \$22,000 to a 401(k) and \$14,000 to a SIMPLE plan.

For details or for assistance as you begin your 2010 tax planning, give our office a call.

## Giving Your Children the Financial Education They Need

Are your children learning about personal finances from the mass media? If so, they might think credit is a limitless resource and savings something you only find on a clearance rack. To fill in the gaps in their financial education, parents should teach their children the fundamentals of handling money. But where do you start? Perhaps begin with the following benchmarks of financial literacy:

**Time value of money.** One of the most essential of all financial concepts is the time value of money. Children should be shown the benefits of saving money, watching it grow, and patiently deferring purchases until a future time. When children grow a

little older, they can learn the reverse lesson: how debt today results in accumulated interest costs down the road. To illustrate the point, show them a loan amortization schedule for a typical car or home loan. That will get their attention.

**Transactional skills.** In today's cashless society, your children will someday need to know how to write a check, use a debit or credit card, and how to bank online. When they are ready, consider setting aside a morning to take them to the bank, introduce them to a representative, and set up their first checking account and bank card. Children will appreciate this rite of passage to adulthood, and they will learn how to navigate an ATM or bank website the right way.

**Keeping good records.** You might feel a little hypocritical when pointing out your children's recordkeeping shortcomings, but they probably need your help more than you think. Knowing how to reconcile a checkbook and track where they spend their money is a valuable life skill. Developing a system for safely storing receipts, warranties, and other valuable papers is also important. When they begin driving, point out the location and importance of the vehicle proof of insurance and registration.

**Reflecting your values.** Like any other area of life, you will naturally want to pass down truisms that have guided you financially. Succinct phrases often suit this purpose quite effectively, such as "Keep a little gas in the tank, a little money in the bank" or "Don't place all your eggs in one basket." Sound corny? Perhaps. But such sayings today might just remind your children of something important tomorrow.

If you value philanthropy, consider including your children in the charity selection process. Teach them why certain causes are important to you and how you decide how much to give. Consider giving your children gifting discretion over a small portion of the family's charitable dollars.

**Investments 101.** The day will eventually come when your children will be ready to talk investments, retirement, and taxes. Feeling intimidated yet? There is no need to fear. Our firm can assist you and your children with these advanced topics. Being financially literate is not child's play. But then again, neither is being a parent.

## FUTA Surtax Is Extended

The federal unemployment surtax (FUTA) was scheduled to end after 2009. The surtax has,

however, been extended through June 2011 in order to help offset the cost of extending unemployment insurance benefits for the unemployed.

## Wages or Dividends? An Important S Corporation Issue

S corporations are the most popular form of corporate business structure. There are excellent tax planning benefits uniquely available to S corporation shareholders who are also employees, not the least of which is the opportunity to manage self-employment and payroll tax liabilities. Unlike sole proprietorships, for example, S corporations can pay wages to shareholder-employees and also distribute income to them as corporate dividends, which are free of the payroll taxes that apply to wages.

If you incorporate and elect to be taxed as an S corporation, the result can be dramatically different. Assume that your business income is \$200,000 and the corporation pays you a salary of \$60,000 (which you can demonstrate as reasonable). You and the corporation, as your employer, will pay a combined 15.3 percent on your \$60,000 salary as payroll (FICA) taxes. The total tax is \$9,180. The remaining \$140,000 of business income can be distributed to you as S corporation dividends free of payroll or self-employment taxes. The result is a significant tax savings.

\* Do a comparison. If your business is a sole proprietorship with net income of \$200,000, 92.35 percent of this amount (or \$184,700) will be subject to self-employment tax. The Social Security portion of the tax is 12.4 percent on the first \$106,800. The Medicare tax of 2.9 percent applies to the full \$184,700. So your self-employment tax will be \$18,600. You can take a deduction for 50 percent of this tax.

The IRS is very much aware of the potential for abuse by taxpayers paying unreasonably high or low salaries. In the example above, if the IRS determined that your salary was set low to avoid taxes, you could face a reclassification of all or part of your \$140,000 S corporation dividends as wages subject to payroll taxes. The key: Pay reasonable and well-documented salaries.

\* So what is "reasonable"? Determining whether wages are reasonable involves many factors, including the nature of the services performed, the

responsibilities involved, the time spent, the size and complexity of the business, prevailing economic conditions, compensation paid by comparable firms for comparable services, and salaries paid in prior years. There are no hard and fast rules, and there is no definition of “reasonable” in the tax law. To analyze this strategy for your particular business situation, give us a call.

### **New Credit Card Protections Go Into Effect**

The Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (CARD), designed to protect consumers from unfair credit practices, generally took effect on February 22, 2010. Here’s a summary of several key provisions.

- \* Introductory rates offered by credit card companies must remain in effect for at least one year (six months for promotional offers). Consumers must receive at least 45 days’ notice (instead of the previous 15 days) before a rate hike. (This provision became effective August 20, 2009.)
- \* Companies will be required to mail credit card statements at least 21 days before the due date (seven days longer than before).
- \* Issuers can’t raise rates on an existing balance unless you’re late by 60 days or more.
- \* Credit card payments will be applied to debt with the highest interest first. Previously, companies did the opposite.
- \* Double-billing cycles, the practice of basing finance charges on both the current and previous balance, are banned.
- \* To reduce “over-the-limit” fees, companies must obtain a cardholder’s permission to process transactions above their personal limit.
- \* Consumers must be notified how long it will take and how much it will cost to eliminate debt through minimum monthly payments.
- \* Applicants under age 21 won’t qualify for a credit card without showing an ability to pay or a co-signer.

- \* Statements must prominently display fees paid to-date as well as explanations for those fees.

### **Do You Owe Self-Employment Tax?**

If you earned more than \$400 during 2009 from work as a sole proprietor or independent contractor, you may owe self-employment tax. That’s true no matter what your age – even if you’re receiving Social Security benefits.

The tax is assessed on your earnings from self-employment, which can include income from qualified joint ventures and partnerships, as well as fees you earn working as a director for a corporation. In this context, “earnings” generally means your income after deducting expenses incurred while operating your business. If you have multiple businesses, you combine the net income and losses.

For your 2009 return, the self-employment tax rate is 15.3 percent of the first \$106,800 that you earned. Income above the base is still subject to Medicare tax at a 2.9 percent rate.

What happens when you earn Social Security wages or tips from an employer and also have a side business? Your wages count toward the taxable base. Depending on how much you earn as an employee, your self-employment income may be subject to part or all of the tax.

You can pay self-employment tax on a quarterly basis as part of your estimated tax payments. One half of the total self-employment tax that you pay during the year is deductible on your income tax return, and you don’t have to itemize to claim the deduction.

Are you new to self-employment? Give us a call for details and any assistance you need.

### **Thanks! We Appreciate You**

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

#### **Your Referrals Are Appreciated**

We appreciate your business, and we would appreciate your referrals. If you know someone in need of our services, please mention our name to them. We are a growing firm, and we would like more good clients like you.

Please contact our office by phone: 313.965.2655

*This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.*