



**2011 Year-End Tax Planning for Small Businesses**

**Welcome to our Premier Issue**

**Inside this issue:**

Year-end Tax Planning for Individuals	2
How "Mobile" Are You?	2
Information Reporting Expands	3
Special Feature: Obama Signs 1099 Repeal Law	3
Good Recordkeeping Habits	4
Time to Upgrade QuickBooks Software?	5
Tools, Tips & Tidbits	5

**SMALL BUSINESS GROUP**

**MANAGEMENT TEAM:**

**JOSEPH M. FALBO, JR., CPA**  
**PARTNER**  
**JFALBO@TSACPA.COM**

**MELISSA S. HOWELL, CPA**  
**MANAGER**  
**MSH@TSACPA.COM**

Many tax benefits for small business will expire at the end of 2011. Two of the most important benefits are bonus depreciation and Section 179 expensing. Both of these tax benefits apply to the investment in tangible personal property that can be depreciated.

**Bonus depreciation**

Bonus depreciation is 100 percent for 2011. A small business can write-off, in the first year, the entire cost of its investment in new depreciable property. Under current law, bonus depreciation will decrease to 50 percent in 2012 and will terminate after 2012.

Planning for bonus depreciation is important because the property must satisfy placed-in-service and acquisition date requirements. Property is placed in service when it is in a condition or state of readiness on a regular ongoing basis for a specifically assigned function in a trade or business.

**Section 179 expensing**

Section 179 expensing (first-year write-off) has been

around for sometime, but at higher amounts in recent years. While there is no limit on bonus depreciation, 179 expensing is limited to a statutory amount. For 2011, this amount is \$500,000. It is scheduled to drop to \$125,000 in 2012 and to \$25,000 after 2012 (adjusted for inflation). The cap is reduced for the amount of total investment in Section 179 property. The phase out threshold is \$2 million for 2011, \$500,000 for 2012 and \$200,000 for 2013 and subsequent years. For small businesses who want to invest in depreciable property, the payoff is definitely greater in 2011. Taxpayers taking advantage of expensing should write-off assets that would otherwise have the longest recovery periods.

**Conclusion**

To maximize the benefits of 2011 year-end tax planning, a business must be proactive. Please contact our office if you have any questions regarding year-end tax strategies available now through December that may help maximize tax benefits for your small business.

*We are very happy to provide you with the premier issue of our newsletter for small business clients. Our newsletter — which we plan on delivering directly to your e-mail inbox each quarter — is designed to help you stay up-to-date with changes in our tax laws and how those changes may impact you and your small business. We will also offer tips and suggestions on how to keep more of the money you make as well as well as ways to manage your day-to-day business as efficiently as possible.*

*Like you, we know and appreciate how important small businesses are to Western New York, as well as the entire country. With an estimated 29.6 million small businesses in the U.S. that provide half of the nation's non-farm, private real gross domestic product and employ just over half of all private sector employees, small businesses are an economic engine with considerable power! With this thought in mind, we hope you will find great value in our newsletter, prepared especially with you in mind.*

*Jim Segarra*  
Managing Partner

*Joe Falbo*  
Tax & Small Business Group Partner

We value your feedback about our newsletter. Forward your comments to [SmallBusinessGroup@tsacpa.com](mailto:SmallBusinessGroup@tsacpa.com)

## 2011 Year-End Tax Planning for Individuals

*“A tax planning strategy that certainly makes sense from year-to-year is maximizing contributions to an IRA.”*

*“It is certainly worthwhile to look at these planning opportunities as part of an overall year-to-year financial strategy.”*

Any tax advice included in this written or electronic communication was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or any other governmental taxing authority or agency.

The information contained in this message may be privileged and confidential and protected from disclosure. If you are not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination of, distribution of, copying of, or taking action in reliance on this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by replying to the message and deleting it from your computer.

2011 year end tax planning for individuals lacks some of the drama of recent years, but is still necessary and very beneficial. Thanks to legislation enacted at the end of 2010, tax rates are stable for 2011 and 2012, although the uncertainty will return as 2013 approaches, as political pressure in Washington builds to do something quickly for the economy. Ordinary income tax rates for individuals currently are 10, 15, 25, 28, 33 and 35 percent; capital gains rates are zero and 15 percent.

### Expiring tax breaks

Unfortunately, not all is quiet on the individual income tax front. There are some specific tax provisions that will terminate at the end of 2011, unless Congress and the President agree to extend them. These include:

- ◆ The tuition and fees above-the-line deduction for higher education expenses;
- ◆ The mortgage insurance premiums deduction;
- ◆ The state and local sales tax deduction;
- ◆ The classroom expense deduction for teachers;
- ◆ Non-business energy credits; and
- ◆ The exclusion for distributions of up to \$100,000 from an IRA to a qualifying charitable organization.

### Retirement contributions

A tax planning strategy that certainly makes sense from year-to-year is maximizing contributions to an IRA. The contribution is deductible up to \$5,000 (\$6,000 for taxpayers over 50), depending on

some specific taxpayer income levels and circumstances. Taxpayers in a 401(k) plan can reduce their income by contributing to their employer plan, for which the limit in 2011 is \$16,500.

In 2010, it was particularly important to consider whether to convert a traditional IRA to a Roth IRA, because the income realized on conversion could be recognized over two years. While a conversion continues to be worthwhile to consider because distributions from a Roth IRA are not taxable, there is no longer any special tax break to defer a portion of the income from the conversion.

### Alternative minimum tax

Elimination of the AMT has been a goal of long-term tax reform, but the loss of revenue has been considered much too high in the past. Without the "patch," the Congressional Budget Office estimates that an additional 20 million middle-class taxpayers would suddenly become subject to AMT, once designed only for millionaires.

For 2011, the AMT has once again been "patched" by Congress. The exemptions have been temporarily increased from the normal statutory levels to the "patched" levels:

- ◆ From \$33,750 to \$48,450 for single individuals;
- ◆ From \$45,000 to \$74,450 for married couples filing jointly and surviving spouses; and
- ◆ From \$22,500 to \$37,225 for married couples

filing separately.

The exemption amounts will revert to the "normal levels" once again in 2012 unless Congress takes the necessary action to maintain the patch.

### Conclusion

It is important for taxpayers to consider taking advantage of 2011 provisions to realize last-minute tax saving benefits. Some of these benefits may not be available in 2012. It is certainly worth investigating these planning opportunities as part of an overall year-to-year financial strategy. For more tax planning strategies, please contact our office or visit our [website](#) to view our [2011 Year-End Tax Planning Guide](#).

### How "Mobile" Are You?

- ① By 2014, mobile internet should take over desktop internet usage.
- ② 86% of mobile internet users are using their devices while watching TV.
- ③ On average, Americans spend 2.7 hours per day socializing on their mobile device. That's over twice the amount of time they spend eating and over 1/3 of the time they spend sleeping each day.
- ④ What do people use their mobile phones for?

61% Games  
55% Weather  
50% Maps/Search  
49% Social Networking  
42% Music  
36% News  
33% Entertainment  
25% Dining  
21% Video

## Scope of Information Reporting Continues to Expand (1099s)

As Congress seeks to close the tax gap, information reporting continues to expand for small businesses.

### Information Reporting

A large number of transactions are required to be reported to the IRS on an information return. The most common transaction is the payment of wages to employees. Every year, tens of millions of Forms W-2 are issued to employees. A copy of every Form W-2 is also provided to the IRS. Besides wages, information reporting includes many other types of transactions such as those reported on Form 1099. The IRS receives more than two billion information returns every year. Information reporting is valuable to the IRS because the Service can match the information reported by the employer, seller or other taxpayer with the information reported by the employee, purchaser or other taxpayer. When information does not match, this raises a red flag at the IRS.

### Reporting expansion

Congress has successfully enacted new information reporting requirements over the years, which include reporting the cost of employer-provided health insurance to employees, and broker reporting of certain stock transactions such as cost basis and realized gain/loss information.

### Further legislative expansion and taxpayer backlash

In 2010, Congress further expanded information reporting, but this time there was a significant backlash. The Patient Protection and Afford-

able Care Act (PPACA) required businesses to file an information return when they made annual purchases aggregating \$600 or more to a single vendor for payments made after December 31, 2011. This Act also repealed the long-standing reporting exception for payments made to Corporations.

In another piece of legislation, the Small Business Jobs Act of 2010, further expanded information reporting by landlords requiring the reporting of certain rental property expense payments of \$600 or more to a service provider made after December 31, 2011.

Many businesses, especially small businesses, warned that compliance would be extremely costly. After several failed attempts, Congress finally passed legislation in April 2011 (H.R. 4, the Comprehensive 1099 Taxpayer Protection Act) to repeal both expanded business information reporting and rental property expense reporting.

### The future

In April 2011 after the legislative repeal took place, IRS Commissioner Douglas Shulman described his vision for tax collection in the future in a speech in Washington, D.C. Information reporting is at the center of Shulman's vision.

Shulman explained that the IRS would get all information returns from third parties before taxpayers filed their returns. Taxpayers or their professional return preparers would then access that information, online, and download

it into their returns. Taxpayers would then add any self-reported and supplemental information to their returns, and file their returns with the IRS. The IRS would embed this core third-party information into its pre-screening filters, and would immediately reject any return that did not match up with its records.

Shulman acknowledged that this system would take time and resources to develop. But the trend is in favor of more, not less, information reporting of various transactions to the IRS.

### Did You Know...

The Small Business Group at Tronconi Segarra & Associates offers a wide range of services and assistance, including:

- ◆ Corporate & individual tax planning & consulting
- ◆ Corporate & individual tax compliance
- ◆ Tax research
- ◆ Representation before federal and state tax authorities
- ◆ QuickBooks and other accounting software set up, training and consulting
- ◆ Recordkeeping review to identify efficiencies
- ◆ General ledger maintenance
- ◆ Financial statement preparation
- ◆ Account reconciliations
- ◆ Preparation of amortization and depreciation schedules
- ◆ Form 1099 processing and filing
- ◆ Payroll entry recording
- ◆ Sales tax preparation and filing
- ◆ Staff training

Contact us today for more information!

*“The IRS receives more than two billion information returns every year.”*

### SPECIAL FEATURE

[Click here to view/download our feature article: “1099 Taxpayer Protection Act of 2011—Obama Signs 1099 Repeal Bill.”](#)

*“Many businesses, especially small businesses, warned that compliance would be extremely costly.”*

## Next Year's Tax Return Starts with Good Record Keeping

*“Record keeping does not have to be complicated.”*

*“The type of business generally affects the type of records a business needs to keep.”*

*“Recordkeeping is not just for businesses.”*

As the 2011 tax filing season comes to an end, now is a good time to begin thinking about next year's tax returns. While it may seem early to be preparing for 2012, taking some time now to review your recordkeeping will pay off when it comes time to file next year.

### Requirements

Taxpayers are required to keep accurate, permanent books and records so as to be able to determine the various types of income, gains, losses, costs, expenses and other amounts that affect their income tax liability for the year. The IRS generally does not require taxpayers to keep records in a particular way, and recordkeeping does not have to be complicated. However, there are some specific recordkeeping requirements and record retention guidelines that taxpayers should keep in mind throughout the year.

### Record keeping

A business can choose any record keeping system suited to their business that clearly shows income and expenses. The type of business generally affects the type of records a business needs to keep for federal tax purposes. Many types of transactions occur in day-to-day business operations that generate supporting documents. Supporting documents contain information about the transactions evidencing that they took place and provide support for the entries in the books and records.

### Business income

Supporting documents for

business income include purchase orders, sales slips, cash register tapes, credit cards sales slips, invoices, receipts, deposit slips, and copies of checks.

### Business expenses

Supporting documents for business expenses include canceled checks; credit card statements; paid bills or invoices; and petty cash slips for small cash payments. Supporting documents for business expenses should show the amount paid and that the amount was for an ordinary and necessary business expense.

### Individuals

Record keeping is not just for businesses. The IRS recommends that individuals keep adequate records, which include the following:

- ◆ *Copies of Tax Returns*—Old tax returns are useful in preparing current returns and are necessary when filing an amended return.

- ◆ *Employee Expenses*—Travel, entertainment and gift expenses must be substantiated through appropriate proof. Receipts should be retained and a log may be kept for items for which there is no receipt. Similarly, written records should be maintained for business mileage driven, business purpose of the trip and car expenses for business use of a car.

- ◆ *Business Use of Home*—Records must show the part of the taxpayer's home used for business and that such use is exclusive. Records are also needed to show the depreciation and expenses for the business part of the home.

- ◆ *Capital Gains and Losses*—Records must be kept showing the cost of acquiring a capital asset, when the asset was acquired, how the asset was used, and, if sold, the date of sale, the selling price and the expenses of the sale.

- ◆ *Divorce Decree*—Taxpayers deducting alimony payments should keep canceled checks or financial account statements and a copy of the written separation agreement or the divorce, separate maintenance or support decree.

### Don't forget receipts

In addition, the IRS recommends the following receipts be kept:

- ◆ Proof of medical and dental expenses;

- ◆ Form W-2, Wage and Tax Statement, and canceled checks showing the amount of estimated tax payments;

- ◆ Statements, notes, canceled checks and, if applicable, Form 1098, Mortgage Interest Statement, showing interest paid on a mortgage;

- ◆ Canceled checks or receipts showing charitable contributions; for contributions of \$250+, an acknowledgment of the contribution from the charity or a pay stub or other acknowledgment from the employer if the contribution was made by deducting \$250 or more from a single paycheck;

- ◆ Receipts, cancelled checks and other documentary evidence that support miscellaneous itemized deductions.

*Continued next page...*

## Good Record keeping, Continued

### Electronic records

Records maintained in an electronic storage system, if compliant with IRS specifications, constitute records as required by the Code. These rules apply to taxpayers that maintain books and records by using an electronic storage system that either images their hard-copy books and records (example, PDF file) or transfers their computerized books and records to an electronic storage media, such as a CD or DVD.

### Specific guidelines

For more detailed information on recordkeeping and document retention guidelines, please contact us or visit our website at [www.tsacpa.com](http://www.tsacpa.com).

SPECIAL  
FEATURE

[Click here to view and/or download "Records Retention Guidelines" from our web site.](#)

"Today, it takes more brains and effort to make out the income-tax form than it does to make the income."

Alfred E. Neuman

## Is it Time to Upgrade Your QuickBooks File?

The answer is yes, if you are currently using version 2009 or earlier. QuickBooks is committed to developing easy, straightforward financial tools that help you today and grow with you tomorrow, however, it's a balancing act - making QuickBooks better and easier to use while still supporting older versions. QuickBooks offers support for the current version - 2012 and the two previous versions - 2011 & 2010. If your company doesn't make use of QuickBooks live technical support or any of its add-on services, and you are happy with your current version of QuickBooks, you can continue to use it - although Tronconi Segarra & Associates does not recommend it. We are now advising our clients to upgrade their version of QuickBooks at least every other year.

By upgrading your QuickBooks file to the latest version, you are ensuring that your business has access to the newest tools and features that you need to make your accounting tasks more efficient as well as ensuring that you have the technical

support available should you need it.

Should you be considering an upgrade to the latest version of QuickBooks, please contact us in advance so that we can pass our QuickBooks discount along to you. If you have questions regarding which QuickBooks edition is the best fit for your business (Pro, Premier, or Enterprise), we would be happy to assist you.

In most cases, the time required for updating QuickBooks and your company file is less than an hour. The larger your company file, the longer it takes. If you are not comfortable upgrading your file on your own, call us and we will guide you through the process or come out to your office and complete the upgrade with you.

Why take the chance of having something go wrong with an outdated version of QuickBooks?

Contact us today - we can help get you started with the latest version of QuickBooks for your business.

## More Tools, Tips and Tidbits

The following is a sampling of quick links to tools and articles that you can find on our web site - [www.tsacpa.com](http://www.tsacpa.com)

[Article: American Jobs Act of 2011 \(proposed legislation\)](#)

[Tax Compliance Calendar](#)

[2011 Year-end Tax Planning Guide](#)

[IRS Tax Forms](#) / [IRS Tax Publications](#)

[Payroll Deductions Calculator](#)

**TRONCONI SEGARRA  
& ASSOCIATES** LLP

Certified Public Accountants  
Business Consultants

SOLUTIONS BEYOND THE OBVIOUS

### Williamsville Office [Main Office]

6390 Main Street, Suite 200, Williamsville, NY 14221  
716.633.1373 / Fax: 716.633.1099

### Niagara Falls Office

345 Third Street, Suite 440, Niagara Falls, NY 14303  
716.285.5277 / Fax: 716.285.5321

### Clarence Office

9280 Main Street, PO Box 387, Clarence, NY 14031  
716.759.6879 / Fax: 716.759.8609

Email: [SmallBusinessGroup@tsacpa.com](mailto:SmallBusinessGroup@tsacpa.com)