MarksNelson
VOHLAND CAMPBELL RADETIC LLC
Certified Public Accountants and Business Consultants

(913) 498-9000 www.marksnelsoncpa.com

Year End Tax Planning Ideas

By Dennis Nelson, Tax Partner
December, 2010

We've already seen legislation with major tax changes this year, and, even though the year is almost over, more legislation is almost certainly on the way. Despite confusion created by the never-ending changes, the 2010 federal income tax environment is still quite favorable. However, we may not be able to say that for 2011 and beyond. Therefore, tax planning actions taken between now and year-end may be more important than ever. In this issue, we review a few ideas that may apply to your business.

Consider Paying a Dividend in 2010. If you're a shareholder in a closely- held C corporation, the current federal income tax rate structure is helpful to your cause. If the company pays you a taxable dividend in 2010, the maximum federal rate is only 15% (it is 0% to the extent you are in the 10% or 15% ordinary income tax brackets). However, this may well change in the near future. Thus, now may be a good time to convert some of your C corporation wealth into personal cash at a very manageable tax cost (and possibly none at all). Although the current administration has stated that it wants to hold the dividend tax rate to 20%, unless Congress acts soon, the maximum federal rate on dividends is scheduled to skyrocket from the current 15% to 39.6% starting with 2011.

Take Advantage of Tax Breaks for Purchasing Equipment, Software, and Certain Real Property. If you have plans to buy a business computer, office furniture, equipment, vehicle, or other tangible business property or to make certain improvements to real property, you might consider doing so before year-end to maximize your 2010 deductions.

Claim New Health Insurance Tax Credit for Small Employers. Qualifying small employers can claim a new tax credit that can potentially cover up to 35% of the cost of providing health insurance coverage to employees. A qualifying small employer is one that: (1) has no more than 25 Full-time Equivalent (FTE) workers, (2) pays an average FTE wage of less than $50,000, and (3) has a qualifying healthcare arrangement in place.

Social Security Tax Exemption for Wages Paid to New Hires. Wages paid to a qualified new employee between March 19, 2010 and December 31 2010 are exempt from the employer's portion only of the Social Security tax (the employer portion equals 6.2% of wages up to $106,800). Qualified employees are full-time or part-time workers who (1) start work after February 3, 2010 and by no later than December 31, 2010, and (2) were not employed more than 40 hours during the 60-day period ending on the start date.

Tax Credit for Retaining New Hires. Above and beyond the Social Security tax exemption, employers can also claim a new tax credit of up to $1,000 for wages paid to each qualified new employee (defined the same way as for the Social Security tax exemption). However, there are some additional requirements to collect this break. You must keep the worker on the payroll for at least 52 consecutive weeks, and wages during the second 26 weeks must equal at least 80% of wages paid during the first 26 weeks. The credit equals the lesser of (1) 6.2% of qualifying wages paid during the 52-consecutive-week period or (2) $1,000. Since the credit is claimed in the tax year that the 52-week period is met for the worker, the credit will be claimed on your 2011 return. Still, you have to get the ball rolling by hiring the new employee in 2010.