The SmallBiz Builder

PADGETT — THE SMALL BIZ PROS

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THIS MONTH:

1st Quarter 2010 Due Dates

January 15:

- *Individuals:* Fourth quarter 2009 estimated tax payments due.

February 1:

- *Employers:* Give your employees their copies of Form W-2 for 2009. File Form 941 for 4th quarter 2009, or annual Form 944. File Form 940 for 2009.
- *Businesses:* Distribute Form 1099 to recipients for 2009.

February 15:

- *Employees:* Submit a new Form W-4 to your employer to continue exemption claimed last year.

March 1:

- *Employers:* File Form W-3 with Copy A of all Forms W-2, and Form 1096 with Copy A of all Forms 1099. Large food or beverage establishments file Form 8027 to report 2009 tip income, reported tips, and allocated tips.

March 15:

- *Calendar-Year Corporations:* 2009 income tax return (Forms 1120 and 1120S) due, or file Form 7004 for an automatic six-month extension. Provide shareholders with copy of Schedule K-1 (Form 1120S.)
- *C Corporations & LLCs:* File Form 2553 to choose to be treated as an S corporation beginning on January 1, 2010.

2010 Standard Mileage Rates Drop

The Internal Revenue Service recently issued the 2010 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2010, the standard mileage rates for the use of a car (also vans, pick-ups or panel trucks) will be:

- 50 cents per mile for business miles driven by a self-employed individual or employee
- 16.5 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

The new rates for business, medical and moving purposes are lower than rates for 2009. The rate for charitable purposes is set by law and is unchanged from 2009.

The mileage rates for 2010 reflect generally lower transportation costs compared to a year ago.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System or after claiming a Section 179 deduction for that vehicle. In addition, the business standard mileage rate cannot be used for any vehicle used for hire or for more than four vehicles used simultaneously.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

IRS Begins Employment Tax Research in 2010

In February 2010, the Internal Revenue Service will begin its first Employment Tax National Research Project (NRP) in 25 years. Business practices regarding employment tax issues may have changed significantly since the last IRS employment tax study in the 1980s, necessitating the need for this study.

Examinations comprising the study will be conducted to collect data that will allow the IRS to understand the compliance characteristics of employment tax filers.

The results will allow the IRS to gauge more accurately the extent to which businesses properly comply with employment tax law and related reporting requirements. When completed, this information will help the IRS select and audit future employment tax returns with the greatest compliance risk.

There are two main goals for the Employment Tax NRP:

- To secure statistically valid information for computing the Employment Tax Gap, and
- To determine compliance characteristics so IRS can focus on the most noncompliant employment tax areas.

The IRS will randomly select 2,000 taxpayers each year for the next three years. The examinations will be comprehensive in scope. Taxpayers will receive notices describing the NRP process similar to those used in recent NRP studies for individuals and Form 1120S corporations.

Records pertaining to employment tax returns and issues will be subject to review during these examinations. Employers should have all of their records available to expedite these examinations.

Section 179: A Year-End Decision

It generally makes sense to write off eligible equipment using the Section 179 expense option in the year of purchase. You'll get the tax deduction faster than if you took depreciation over time. However, expensing may not make sense if you're in a low tax bracket in the year of purchase but expect to be in a higher bracket in future years, or if your new sole proprietorship is not making enough to trigger self-employment tax.

While the depreciation deductions may be spread out over time, if you're in a higher tax bracket or paying self-employment tax, the deductions will be worth more. You'll have to crunch the numbers and consider the time-value of money to be sure. Keep in mind that you don't have to write off the entire asset. If a machine cost $5,000, you can claim the Section 179 expense option on $2,000 and take regular depreciation over time on the remainder.