THE SMALLBIZ BUILDER

PADGETT THE SMALL BIZ PROS

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New Extended Due Dates for Partnerships and Trusts

The IRS has recently announced a change in the extended due date on certain business returns to help individuals better meet their filing obligations. Currently, the extended due date for both businesses and individuals often falls on the same date, generally October 15 (for calendar year taxpayers). This creates a burden for individual taxpayers who rely on the information from Schedule K-1 and other similar statements to prepare and file their personal tax returns in a timely manner.

Beginning with tax returns due on or after January 1, 2009, partnership (Form 1065) and trust (Form 1041) returns can only receive an automatic five-month extension of time to file - generally September 15 for calendar-year taxpayers.

Thus, any 2008 calendar-year partnership or trust returns will be due April 15, 2009 as usual, but any extension will only be valid for five months, till September 15, 2009. (Returns with a fiscal year ending on or after September 30, 2008 will also be limited to a 5-month extension.)

The regulation does not change the process for requesting an extension of time to file, nor does it affect extensions of time to file other types of Business returns, such as those used by S corporations.

Housing Assistance Tax Act of 2008

The Housing Assistance Tax Act of 2008 provides four important tax law changes that impact individuals and small businesses.

First Time Homebuyer Tax Credit. A refundable tax credit of up to $7,500 for purchasing a primary residence is now available to first-time homebuyers. The credit is available for homes purchased after April 9, 2008, and before July 1, 2009, but the credit must be repaid in equal installments over 15 years.

Additional Standard Deduction for Property Taxes. Homeowners can claim an additional standard deduction of $500 (or $1,000 for joint filers) for property tax if they do not itemize. The deduction is available for the 2008 tax year only.

Income Reporting for Credit and Debt Card Payments. Income received through credit and debit card transactions will be reported to the IRS starting in 2011. Card payment processors will report gross annual receipts to the IRS for businesses with merchant accounts. There are some exceptions to the income reporting for smaller merchants with card payments under $20,000 per year.

Prorated Capital Gains Exclusion for Residential Real Estate. The amount of profit from the sale of a house that can be excluded is now based on the percentage of time when the house was used as a primary residence. Previously, the gain was able to be excluded as long as the homeowner owned and lived in the house for at least two out of the five years ending on the date of sale. Now, gain will need to be allocated based on usage. Only gain allocated to time spent living in the property as a primary residence will qualify for the tax exclusion.

Bartering Income

Transactions involving the exchange of property or services instead of cash are called barter exchanges. The fair market value (FMV) of the property or services received in an exchange is taxable income to the recipient.

For example, an auto mechanic repairs a landlord's car in return for 6 months rent-free use of an apartment. The landlord reports the FMV of the auto repair as rental income and the mechanic reports the fair market rental value of the apartment as self-employment income.

Caution: due to increased bartering activity via the Internet, the IRS has recently signaled its intent to pursue tracking barter exchanges.

More Taxpayers Can Use Cash Method of Accounting

Generally, if you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, you must take inventories into account at the beginning and end of your tax year.

However, if your average annual gross receipts for the 3 prior tax years are $1 million or less and you are an eligible taxpayer who adopts or changes to the cash method of accounting, you will not be required to account for inventories.

If your business has been in existence for less than three years, average gross receipts are determined over the tax years it has been in existence (including annualized amounts for short years). For this purpose, gross receipts are defined as all amounts from the trade or business required to be recognized under your current method of accounting. These amounts include total sales (net of returns and allowances), all amounts received from services, interest, dividends, and rents. You do not have to include taxes that are legally imposed on the purchaser and are merely collected and remitted on their behalf.

If you are not required to account for inventories and do not want to do so, you must treat inventory in the same manner as cost of materials and supplies that are not incidental. Under this rule, inventory costs for raw materials purchased for resale are deductible in the year the finished goods or merchandise are sold (or, if later, the year you paid for the raw materials or merchandise).

If you want to change to the cash method of accounting, you must file Form 3115*, Application for Change in Accounting Method*. You may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment, which is taken into account over a period not to exceed 4 years.