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Newsletter

JULY 2011

Tax filing reminder

- August 1 – Deadline for filing 2010 retirement or employee benefit returns (5500 series) for plans on a calendar year. (Normal deadline is July 31, but since that day is a Sunday, the deadline moves to the next business day, August 1.)

Look into the benefits of a solo 401(k)

Have you heard about solo 401(k) plans? The traditional type of 401(k) retirement plan is now available for self-employed individuals. And it lets you save more than other types of plans.

In the past, 401(k) plans were typically offered by larger corporations. Employees could make pre-tax contributions by payroll deduction. The company would then usually match a percentage of those contributions. Investments grew tax-free until withdrawn at retirement. One advantage of a 401(k) plan is the relatively large amount you can contribute each year – \$16,500 in 2011 with an extra \$5,500 catch-up if you're 50 years old or older.

Now you can establish the same type of plan if you're self-employed or run an "owner only" business. That's a business with just you and possibly your spouse, but no employees. You can save more with a solo 401(k) than with the traditional SEP, SIMPLE, or Keogh plans. That's because you are able to make two types of tax-deductible contributions. First you make the usual employer contribution as owner of the business. Then you can make an additional salary deferral as an employee. As a result, you could potentially shelter up to \$49,000 of your 2011 self-employment earnings from tax. If you're eligible for the over-50 catch-up, that rises to \$54,500.

The solo 401(k) plans are flexible and relatively simple to administer. If you think this plan might be right for you, please contact our office. We can tell you more about it and help show you how much you could save.

Summertime tax tips

Summertime fun can be made even more enjoyable by adding tax savings. Here are some tax-saving ideas to consider.

- If you have summer travel plans and the primary purpose of your trip is business, you can deduct all the travel costs to and from your business destination and all other business-related costs even if you

add on a few extra days for pleasure. You can't deduct costs related to the pleasure portion. Including a spouse or friend on your trip is permissible, but you can't deduct the additional costs for that person.

- If you itemize your deductions, you can deduct the mortgage interest and property taxes paid for your vacation home. A boat or RV can qualify as a vacation home if it has sleeping quarters, cooking facilities, and a bathroom. If a retreat also serves as rental property, you can control your tax deductions by changing the number of days you use it for vacation.

- If you and your spouse work, the cost of sending your children to a summer day camp may qualify for the child care credit.

- If you own a business, consider hiring your child for the summer. Your child can earn up to \$5,800 tax-free this year, and your business is entitled to a deduction for the wages paid. You must pay your child a reasonable wage for the work performed. If your business isn't incorporated, a child under 18 is not subject to FICA taxes.

A critical business question: Should you incorporate or not?

One of the first decisions you face as a new business owner is whether or not to incorporate the business. The biggest advantage of incorporating is limitation of your liability. Your responsibility for debts and other liabilities incurred by a corporation is generally limited to the assets of the business. Your personal assets are not usually at risk, although there can be exceptions to this general rule. The trade-off is that there is a cost to incorporate and, in some cases, tax consequences.

- **Should you incorporate?**

You might not need to incorporate. Depending on the size and type of your business, liability may not be an issue or can be covered by insurance. If so, you could join millions of other business owners and operate as an unincorporated sole proprietor.

If you do decide to incorporate, you'll face a choice of corporate forms. All offer limitation of your liability, but there are differences in tax and other issues.

- **C corporation**

The traditional form of corporation is the C corporation. C corporations have the most flexibility in structuring ownership and benefits, and most large companies operate in this form. The biggest drawback is double taxation. First the corporation pays tax on its profits; then the profits are taxed again as they're paid to individual shareholders as dividends.

- **S corporation and LLCs**

Two other forms of corporation avoid this double taxation: S corporations and limited liability companies (LLCs). Both of these are called "pass-through" entities because there's no taxation at the corporate level. Instead, profits or losses are passed through to the shareholders and reported on their individual tax returns.

S corporations have some ownership limitations. There can only be one class of stock and there can't be more than 100 shareholders, none of whom can be foreigners. State registered LLCs have become a popular choice for many businesses. They offer more flexible ownership than S corporations and certain tax advantages.

Whether you're already in business or just starting out, choosing the right form of business is important. Even established businesses change from one form to another during their lifetime. Some companies use more than one type of corporation – for example, an LLC to hold the business's real estate and an S corporation for other operations.

Consult our office and your attorney for guidance in selecting the form that is best for your business.