Halcolm Bard
Certified Public Accountant & Consultants

TAX AND BUSINESS ADVISOR

Visit our web page at www.halcolm.com

TAX AND BUSINESS Alert™

January 2009

Controlling Expenditures in Difficult Economic Times

The current slowing economy has prompted many individuals to take a closer look at how and where they spend their money. If you find yourself in this situation, and many of us do, you may need to develop some restraint in consumption and grasp the value of saving to build wealth for the future. However, an intellectual grasp of the reasons to control expenditures may not be enough. You may need to establish budgetary controls over your expenditures, as well.

To properly analyze your spending habits, carefully review your expenditure levels from previous periods. This can be done by analyzing your bank and credit card statements for a period of several months, an entire year, or even longer. By using the best or most easily obtained information about your past expenditures, you can identify areas needing control in the future.

But, acknowledging that restraint is necessary is quite often not enough to bring about a change in spending habits. You should make a serious commitment to reduce spending. Next, develop a workable technique for budgeting. This can be done by acquiring a simplified budgeting system that can help you get started on a budgeting routine.


Photos.com

You are probably familiar with the timeless adage that says you should pay yourself first. That's an excellent way to build your savings. In that light, you are less likely to spend money if you do not actually see it. You may require the discipline of having savings taken care of automatically. You can arrange to have your bank systematically transfer funds from checking to savings accounts. Mutual funds can be purchased with systematic transfers from your bank to the fund company. Your employer can also make automatic payroll deductions to fund voluntary contributions to employer 401(k) and savings plans.

In summary, controlling expenditures and systematic savings, even in tough economic times, can help build wealth to fund future endeavors.

Tax Calendar

January 15—Individual taxpayers' final 2008 estimated tax payment is due unless Form 1040 is filed by February 2, 2009, and any tax due is paid with the return.

February 2—Most employers must file Form 941 (Employer's Quarterly Federal Tax Return) to report Medicare, social security, and income taxes withheld in the fourth quarter of 2008. (If your tax liability is less than $2,500, you can pay it in full with a timely filed return.) If you deposited the tax for the quarter in full and on time, you have until February 10 to file the return. Small employers who have been notified by the IRS should file Form 944 (Employer's Annual Federal Tax Return).

—Give your employees their copies of Form W-2 for 2008. If an employee agreed to receive Form W-2 electronically, have it posted on the website and notify the employee.

—Generally, give annual information statements to recipients of certain payments you made during 2008 (see February 17 for exceptions). You can use the appropriate version of Form 1099 or other information return. Form 1099 can be filed electronically with the consent of the recipient.

—File Form 940 [Employer's Annual Federal Unemployment (FUTA) Tax Return] for 2008. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it is more than $500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.

—File Form 945 (Annual Return of Withheld Federal Income Tax) for 2008 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.

February 17—Give annual information statement Forms 1099-B, 1099-S, and 1099-Misc. (if box 8 or 14 is checked) to recipients of certain payments you made during 2008. You can use the appropriate version of the Form or other information return.

March 2—The government's copy of Form 1099 series returns (along with the appropriate transmittal form) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to March 31.

—The government's copy of Form W-2 series returns (along with the appropriate transmittal form) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to March 31.

March 16—2008 income tax returns must be filed or extended for calendar-year corporations. If the return is not extended, this is also the last day for calendar-year corporations to make 2008 contributions to pension and profit-sharing plans.

Social Security Changes for 2009

Photos.com

The Social Security Administration (SSA) recently announced numerous adjustments to Social Security benefit amounts, thresholds, limits, and exclusions. For 2009, Social Security and Supplemental Security Income (SSI) beneficiaries will receive a 5.8% cost of living adjustment. The maximum benefit for workers retiring, after attaining full retirement age, in 2009 will be $2,323/month (up from $2,185/month in 2008). Finally, the wage base for calculating the Social Security portion (OASDI) of the annual payroll tax obligation will be $106,800 in 2009 (up from $102,000 in 2008). There is no limit on wages for calculating the Medicare contribution.

The SSA estimates the average monthly benefit for all retired workers in 2009 will be $1,153, up from $1,090 in 2008. For aged couples, both receiving benefits, the average 2009 monthly benefit is estimated to be $1,876, compared to $1,773 in 2008. Finally, the SSA estimates the monthly benefit for all disabled workers will be $1,064, up from $1,006 in 2008.

How Earned Income Impacts Your Social Security Benefits

If you are a social security beneficiary under full retirement age (currently age 66), an *earnings test* determines whether your social security retirement benefits will be reduced because you earned more from a job or business than an annual exempt amount (discussed below). A different earnings test applies to individuals entitled to disability benefits.

As a general rule, the earnings test is based on income earned during the year as a whole, without regard to the amount you earned each month. However, in the first year you receive benefits, they are not reduced for any month in which you earn less than one-twelfth of the annual exempt amount.

One of the provisions of the Senior Citizens' Freedom to Work Act is that the social security retirement earnings test is eliminated in the calendar year in which you reach your full benefit retirement age for the month of, and months after, such attainment. In other words, once you reach your full benefit retirement age, there is no longer an earnings test to reduce your social security retirement benefits. However, the earnings test still applies for the years and months before the month you reach your full benefit retirement age.

Social security beneficiaries under the full benefit retirement age who have earnings in excess of the annual exempt amount are subject to a $1 reduction in benefits for each $2 earned over the exempt amount ($14,160 in 2009) for each year before the year during which they reach the full benefit retirement age (see the example in the next column). However, in the year beneficiaries reach their full benefit retirement age, earnings above a different annual exempt amount ($37,680 in 2009) are subject to a $1 reduction in benefits for each $3 earned over the exempt amount. Social security benefits are not affected by earned income beginning with the month the beneficiary reaches full benefit retirement age.

You would use the first exempt amount ($14,160 for 2009) from the year you reach age 62 through the year before the year you reach your full benefit retirement age. The second exempt amount ($37,680 in 2009) is used in the year you reach your full benefit retirement age. (However, social security benefits are not affected by earned income beginning with the month you reach your full benefit retirement age.)

Photos.com

Example: Applying the annual earnings test.

Linda retired in 2008 at age 63. In 2009, her social security retirement benefits are $1,200 per month, so she expects to receive benefits totaling $14,400 during the year. Linda's employer asks her to come back to work for four months during 2009 at a salary of $6,000 per month (a total of $24,000) and Linda accepts. Since she received $9,840 over the exempt amount ($24,000 – $14,160), her benefits are reduced by half that amount, or $4,920. Therefore, she will receive only $9,480 in social security benefits in 2009 ($14,400 – $4,920). The fact she worked only four months during the year is inconsequential. The results would be the same if Linda was self-employed, rather than an employee.

As you plan your retirement, be mindful that, as the example shows, working during retirement may reduce your social security benefits. This, in turn, could have a negative impact on your financial plans.

Please call us if you have questions on the taxability of social security benefits or any other tax planning or compliance issue.

Managing Business Net Operating Losses

We touched upon current poor economic conditions and the need to control expenditures, particularly during tough economic times, in the page one article. But, the anemic economy has also impacted small business owners, many of whom may have an operating loss for 2008.


Photos.com

That's the bad news. The good news is, if your business sustained an operating loss, you may be able to benefit from carrying what is called a net operating loss (NOL) into a different tax year—a tax year in which you had or will have taxable income—and take a deduction for the current NOL against that different year's taxable income. This is what is known as taking an NOL deduction, which could result in a refund of previously paid taxes (or a reduction of future taxable income).

Generally, an NOL can be carried back two years and forward for up to 20 years to offset taxable income in those years. The NOL first offsets taxable income from the previous two years (the earliest year first), and is then carried forward to offset taxable income in future years. The initial result is a refund of all or a portion of the taxes you paid for the two prior years, limited by the amount of the NOL.

There are more advantageous rules for treating NOLs arising from special situations. For example, a three-year carryback applies for NOLs sustained by small businesses and farmers and arising from federally declared disasters, no matter when they arose. A special five-year NOL carryback is available for farming losses (whether or not related to disaster areas) incurred in tax years after December 31, 1997. Finally, for NOLs in tax years beginning after 2007, there is a special five-year carryback period to the extent of a qualified disaster loss occurring in a federally declared disaster area before January 1, 2010. These extended carryback periods allow taxpayers the opportunity to receive a quick refund of taxes paid in several prior years versus waiting to carry the NOL forward.

In determining the amount of your NOL, you don't simply use your negative taxable income from your tax return. Several modifications must be made and the computations can grow quite complex, depending upon your particular circumstances. So, please contact us to discuss how a business loss might qualify as an NOL and turn into a tax refund to supplement your cash flow during this difficult economic period.