THE SMALLBIZ BUILDER

PADGETT THE SMALL BIZ PROS

January 2009 | PADGETT BUSINESS SERVICES® | Vol. 7, No. 1

THIS MONTH:

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1st Quarter 2009 Due Dates

January 15:

- *Individuals:* Fourth quarter 2008 estimated tax payments due.

February 2:

- *Employers:* Give your employees their copies of Form W-2 for 2008. File Form 941 for 4th quarter 2008, or annual Form 944. File Form 940 for 2008.
- *Businesses:* Distribute Form 1099 to recipients for 2008.

February 13:

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

March 2:

- *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 2008 tip income, reported tips, and allocated tips.

March 16:

- *Calendar-Year Corporations:* 2008 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, 2009.

2009 Standard Mileage Rates Set

The Internal Revenue Service recently issued the 2009 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, 2009, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 55 cents per mile for business miles driven by a self-employed individual or employee
- 24 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 slightly lower than rates for the second half of 2008 that were raised by a special adjustment mid-year in response to a spike in gasoline prices. The rate for charitable purposes is set by law and is unchanged from 2008.

The mileage rates for 2009 reflect generally higher transportation costs compared to a year ago, but the rates also factor in the recent reversal of rising gasoline prices. While gasoline is a significant factor in the mileage rate, other fixed and variable costs, such as depreciation, enter the calculation.

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 (MACRS) 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.

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"X" Forms are Here

Beginning in 2009, new procedures are in place for correcting errors on employment tax returns such as Forms 941 and 944. Corrections will be made on new "X" forms, which will be available starting in January 2009.

To correct employment tax errors discovered on or after Jan. 1, 2009, use the new corresponding "X" forms to correct employment tax errors as soon as they are discovered. For example, for an error discovered in January 2009 on the third quarter 2008 Form 941, immediately file the new Form 941-X, *Adjusted Employer's QUARTERLY Federal Tax Return*, to correct the error.

The "X Forms apply to both underpayments and overpayments resulting from errors; however, Form 843, *Claim for Refund and Request for Abatement*, can alternatively be filed in an overpayment situation. Amounts due with the "X" form can be made using EFTPS, by sending a check, or by credit card.

IRA Down?

Convert to a Roth! One of the great advantages of a Roth IRA is that withdrawals after retirement age are non-taxable. The downside is when contributing to a Roth, there is no deduction available, and when boosting your Roth with funds from a traditional IRA, you will have to pay tax on the conversion. Considering the current state of the market, now may be a perfect time to make a conversion. If your traditional IRA has plummeted in value, taxes on the conversion will also be much less. If stocks or mutual funds are in your Roth, any increase in value over time will escape taxation. A word of warning: A Roth conversion is not allowed if you make too much money, so check with us before acting.

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. And keep in mind that you don't have to write off the entire asset. Although 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.

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