THE
SMALLBIZ BUILDER

PADGETT
THE SMALL BIZ PROS

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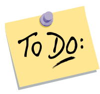
THIS MONTH:

- SIMPLE Plan Deadline
- Car Sales vs. Trade Ins
- Expense Reimbursements



SIMPLE Plan Deadline Approaches

A Savings Incentive Match Plan for Employees (SIMPLE plan) is a written arrangement that provides your small business and its employees with a simplified way to make contributions to retirement. Under a SIMPLE plan, employees can choose to defer as much as $11,500 (for 2010) to the plan rather than receiving these amounts as a part of their regular pay, and there generally is a mandatory employer contribution as well. Plan assets grow tax deferred until withdrawal and participants have complete direction over their own retirement assets held in their account.

New SIMPLE plans must be set up prior to Oct. 1. This requirement does not apply if you are a new employer that comes into existence after October 1 of the year the plan is set up and you set up a SIMPLE plan as soon as administratively feasible after you come into existence.

Car Sales vs. Trade In

The decision of whether to trade in an old business car or try to sell it for cash ought to hinge on factors such as the amount you can get on a sale versus a trade-in, and the time and bother a sale will entail. However, important tax factors also may affect your decision-making process. Here's an overview of the complex rules that apply to what appears to be a simple transaction, and some pointers on how to achieve the best tax results.

In general, the sale of a business asset yields a gain or loss depending on what you receive from the sale and your basis for it. “Basis” is your cost for tax purposes, usually your purchase price less the depreciation deductions you claim for the asset over the years. Under the tax-free swap rules, trading in an old business asset for a new, like-kind asset doesn't result in a current gain or loss, and the new asset's basis will equal the old asset's remaining basis plus any cash you paid to trade up. The rules generally are the same for business cars, with a couple of extra twists. Here are some pointers.

Consider trading in your old business car:

- if you used it 100% for business and its basis is very low. The trade-in may avoid a current tax. For example, if you sell your 100% business car for $9,000, and

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Expense Reimbursements

The general rule is that funds received in connection with services you render are included in your taxable income. Reimbursements of your out-of-pocket expenses, however, are another matter. Whether reimbursements are taxed depend on how you’re reimbursed. If your employer requires you to submit a detailed expense report and reimburses you with the exact amount, then the reimbursement is not taxable, but your out-of-pocket expense is not deductible either. If you do not submit such a report, then the reimbursement is taxable, but the expense may be deductible. The same rule applies if you are an independent contractor. Your W-2 or 1099-MISC should include the reimbursement only if it is taxable.

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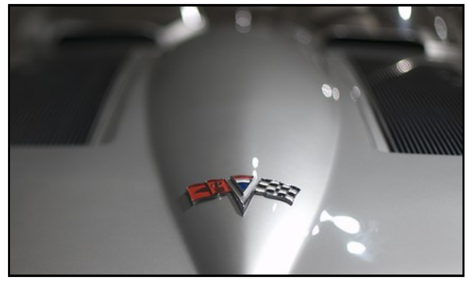

your basis in it is only $7,000, you will have a $2,000 taxable gain, but if you trade it in, a current tax may be avoided.

Consider selling your old business car for cash:

- if you used it 100% for business and depreciation on the old car was limited by the annual depreciation dollar caps. In this situation, your basis may exceed its value, so if you sell it, you will recognize a loss for tax purposes (but not if you trade it in). For example, if you sell your 100% business car for $14,500 and your basis is 16,000, a $1,500 loss will be recognized. Had it been traded in, there would be no current loss.
- if you used the standard mileage allowance to deduct car-related expenses. The standard mileage allowance has a built-in allowance for depreciation which must be reflected in the basis of the car. The deemed depreciation for 2010, for example, it is 23 cents per mile. If the depreciation allowance leaves you with a higher remaining basis than the car's value, the car should be sold in order to recognize the loss.

Are loans involved? "Boot" can trigger gain recognition on a trade-in. "Boot" can occur if the loan on your old car is higher than the loan on the new car, or when cash is received as part of the trade-in.

Was your car partially for business, partially for personal use? The rules are more complicated in this situation, which can occur if you are self-employed, or an employee required to use your car for business.

Thinking of leasing a business car? The complex rules that apply to purchased business autos are one reason many businesses are leasing autos instead of buying them. There are, however, a few special angles you should be aware of:

- If you trade in a car in exchange for a lower lease price on a new car, the transaction won't be a tax-free like-kind swap, so any realized gain or loss will be recognized under the rules that apply to a sale.
- If you pay an additional sum up-front, it should be amortized over the life of the lease.
- Any refundable deposit required as part of the lease deal can't be deducted at all.

All of this sounds very complicated, and it is. Before you sell or trade in your business car or lease a new one, please give us a call and we'll set up a meeting to discuss the options.