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THE Wisconsin Accountant

Wisconsin Association of Accountants ■ 1-800-237-4080 - 715-425-0482 - www.wiassociationofaccountants.com

2010 Seminars

September 19 - 21
WAA Annual Convention
Wisconsin Dells
Wilderness Hotel
(800) 867-9453

September 30 - Oct 1
Bob Jennings
Business Entities
Wisconsin Dells
Kalahari Resort
(877) 254-5466

October 18 - 19
Federal Tax Update
Wausau
Stoney Creek Inn
(715) 355-6858

November 1 - 2
Gear Up 1040
Waukesha
Country Springs Hotel
(800) 247-6640

November 29 - 30
Bob Jennings
1040 Update
Wisconsin Dells
Kalahari Resort
(877) 254-5466

December 6 - 7
Gear Up 1040
Hudson
Hudson House Inn
(715) 386-2394

Paper Federal Tax Deposit Form 8109 Discontinued

Submitted by Ashwaubenon Tax Professionals

IRS has released proposed regulations addressing the change in federal tax deposits from paper to electronic. The paper coupon Form 8109 will no longer exist. Comments on the proposed regulations must be received by IRS by September 22, 2010. The preamble of the proposed regulations contains the methods and addresses to be used for submitting comments.

Regulations have been released eliminating the rules for paper federal tax deposit coupons (Form 8109). As previous announced, starting January 1, 2011, taxpayers will no longer be able to use the paper Federal Tax Deposit coupons. This is expected to save the government $65,000,000 over the first five years. Of course, it will cost businesses a little more stress as they learn how to set up and use EFTPS. Or it will cost businesses money if they hire someone like us to set up the deposits for them.

These new rules apply to:
- Payroll taxes (withheld amounts, matching FICA, FUTA taxes)
- Corporate income and corporate estimated tax payments
- Trust estimated taxes
- Tax-exempt UBI taxes
- Private foundation excise taxes
- Taxes withheld related to nonresident aliens and foreign corporations
- Backup withholding and similar taxes
- Form 720 excise taxes

When the original announcement came out a few months ago, it mentioned there would be some exceptions to the requirement to make the deposits electronically. The regulations only mention one exception. This exception is for businesses that do not have a deposit requirement because their applicable taxes are less than the applicable amount ($2,500 or less in quarterly 941 tax liability, $500 or less in annual 940 tax liability, etc.) and the business wants to send the check with its applicable Form (941, 940, etc.).

Now would be a good time to help any affected clients get set up with EFTPS instead of waiting until next January.

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Executive Corner . . .

Byron Dopkins, Executive Director

We are all back from Washington DC and the annual NSA Convention. The location was great, the seminars were very educational, and best of all WAA's own Past President Harlan Rose of Marshfield , WI was elected as 2nd vice president! It was awesome to see Harlan's dream fulfilled! Now for him the work begins. Anyone interested in serving on a national committee, this is a great time to get plugged in. Final note on the convention…I don't understand why more Wisconsin Accountants don't take advantage of attending this annual convention! Always in great locations, most of the trip is deductible, and some could be deemed as a vacation! Next year's convention is in Anchorage Alaska at the Hilton. Year 2012 is on the island of Maui . What a great opportunity to visit the 49th and 50th states. It will be at the Maui Convention when we elect Harlan Rose as the president of the National Society of Accountants. Start planning now!

The WAA Annual Convention is right around the corner. Don't miss this one – bring the kids, grandkids, or kids at heart – they will love The Wilderness water parks! It is a great location!

Byron L Dopkins, EA, ABA
WAA Executive Director

Higher Tax Rate on the Way (Economic Effects of the Lower Tax Rate on Dividends, 6/7/10)

Submitted by Prof. John Connors

According to Special Report No. 181 by the Tax Foundation, the expiration of President Bush's tax cuts, along with the new Medicare taxes on investment income that were part of recent health care reform, will push the top effective tax rate on dividends in the U.S. to 68% (i.e., due to the double taxation on corporate profits), which is the highest among all industrialized nations. The average rate among Organization for Economic Cooperation and Development (OECD) member nations is about 44% and the average among the larger G-7 economies is about 47%. According to the report, the "double tax" on corporate profits will "discourage productive capital formation, ultimately reducing wages and living standards for U.S. citizens." (Code §1; Tax Rates)

Comment: Given that the overall corporate tax rate in the U.S. now stands at 39.3% according to recent studies, this makes our country the highest taxing jurisdiction in an ever expanding global economy. Japan had held the top spot, but when they dramatically reduced their corporate rate a few months ago, we emerged as the leader. This is why there has been such a strong push to reduce our overall corporate rate. The proposals have ranged from dropping the current 35% rate to 32% by eliminating the Code §199 "qualified domestic activities deduction" which is at 9% for 2010 and which would equate to approximately a 3% rate reduction. Furthermore, this deduction is very hard to calculate precisely, and more importantly, it has nothing to do with foreign markets or income. Other proposals have the top corporate rate dropping even further to 30.5%, 28% or 25%. But, when Charlie Rangel was removed as the head of the House Ways and Means Committee, some momentum was lost (at least temporarily) for these suggested rate changes.

WAA Benefits

- Seminars and Educational Forums
- Accreditation
- Local Chapter Involvement
- Government Agency Liaison
- Monitor Legislation
- Insurance Programs
- Accountants Protection Plan

WAA Objectives

- To raise professional standards and improve the practice of accountancy.
- To strive for excellence in the profession.
- To encourage accountants in a continuing program of professional development.
- To foster increased recognition for the professional in the public, private and educational sectors of our state.
- To initiate legislative action and provide government liaison between the accounting profession and government leaders.
- To provide meetings and fellowship for accountants.
- To promote the highest standard of ethical conduct among its member.

AFRs and 7520 Rates for September 2010

Submitted by Ashwaubenon Tax Professionals

** AFRs
When a taxpayer makes a loan or sells something on installment, a minimum interest rate normally has to be charged. The minimum rate depends on the month of the loan or sale. The IRS releases the Applicable Federal Rates (AFRs) each month. They are broken down into short-term (3 years or less), mid-term (more than 3 years, but not more than 9 years), and long-term (more than 9 years). They are further broken down into Annual, Semi-Annual, Quarterly, or Monthly compounding periods.

The September 2010 applicable federal rates (AFRs) are (annual, semi-annual, quarterly, monthly):
Short-term---.46---.46---.46---.46
Mid-term---1.94---1.93---1.93---1.92
Long-term---3.66---3.63---3.61---3.60

** IRC 7520 Rates
These rates are normally used when determining life estate & remainder interests when property has been gifted with the giver retaining a life estate. The rate for September is 2.4%.

Revenue Ruling 2010-27

Advance Earned Income Credit

Submitted by Wisconsin Department of Revenue

The federal Education Jobs and Medicaid Assistance Act was signed by President Obama on August 10, 2010. One of the provisions of this Act eliminated the advance payment of the federal earned income credit (EIC). This provision is effective for taxable years beginning on or after January 1, 2011.

Wisconsin law provides for an advance payment of the Wisconsin EIC. The Wisconsin advance payment is available only to those persons who claim the federal advance EIC, and is based on a percentage of the federal advance EIC. Because the federal advance EIC was eliminated, the Wisconsin advance EIC will not be available for taxable years beginning on or after January 1, 2011.

New Tip Credit Instructions for Form 8846 Take into Account HIRE Act Legislation

Submitted by Prof. John Connors

The IRS has issued revised instructions for 2009Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips. The form is used by food or beverage establishments to claim a business tax credit on their income tax returns in an amount equal to their FICA tax obligation on tips in excess of those treated as wages for purposes of satisfying the federal minimum wage.

The instructions were revised to include information on the payroll tax exemption in the HIRE Act. The IRS has now added a note to the 2009 Form 8846 about the payroll tax exemption, as fiscal year income tax filers may not have filed this form yet and they may be able to claim the payroll tax exemption. The note explains that if any tipped employee's wages are exempt from Social Security taxes due to the HIRE Act legislation, the employer should check the box on line 4 of Form 8846 and attach a separate computation showing the amount of tips subject to only the Medicare tax rate of 1.45%. Employers should subtract the tips in the separate computation from the line 3 tips, and multiply the difference by 7.65%. They should then multiply the tips subject only to Medicare tax by 1.45%. The sum of the amounts in the preceding two sentences should be reported on line 4. (Code §45B; Tip Credit)

Final Tax Return Preparer Registration Fee Set

Submitted by Ashwaubenon Tax Professionals

IRS has finally announced the FINAL cost each registered tax return preparer will have to pay to be registered this year. Last month we announced the IRS side of the annual fee ($50), now we have the fee that is charged by the administrator of the online registration system. Their fee is $14.25, which brings the combined annual fee to $64.25.

The fee for future years will vary depending on the costs related to the program.

The online registration will be through the TAX PROFESSIONALS page of www.irs.gov.

Reminder - One of the first parts of this registration is that each tax preparer must have a PTIN and use it to sign tax returns instead of using a Social Security Number. The PTIN is obtained by filing a Form W-7P. In preparation for the registration process, IRS will stop issuing PTINs August 22, 2010, until the new system is up and running.

Anyone who already has a PTIN (obtained prior to August 22, 2010) has to reregister through the online system when it is up. The prior PTIN is still valid and a new PTIN is NOT assigned. IRS has records of previous PTINs assigned, but still requires a reregistration of these preparers. This way IRS will know the PTIN holder is still actively a tax return preparer and can also collect their annual fee. This fee is intended to cover the compliance and suitability checks to be conducted on registered tax return preparers as well as compliance related matters, while the administrators fee is to cover the cost of the online registration and customer support.

A tax return preparer currently includes anyone who prepares a tax return. This includes income tax returns, information returns, payroll returns, etc.

IRS Addresses Specific Issues Regarding HIRE Act

Submitted by Prof. John Connors

The “Hiring Incentives to Restore Employment Act” (HIRE Act, PL 111-147) continues to be a major topic of discussion on the monthly payroll industry telephone conference calls.

Comment: The IRS has issued a June 2010 version of HIRE Act employee affidavit Form W-11, Hiring Incentives to Restore Employment (HIRE) Act Employee Affidavit (Rev. June 2010). The IRS is advising taxpayers who downloaded the April 2010 version of Form W-11 before June 22, 2010, that the only change to the form itself is the addition of an Office of Management and Business (OMB) number in the upper right-hand corner. The Paperwork Reduction Act Notice has also been added to the form’s instructions.

Eligibility to Receive Benefits in HIRE Act: Ligeia Donis, who is in the IRS Office of Division Counsel/Associate Chief Counsel, Tax Exempt and Government Entities, discussed a situation where a new hire began employment before Feb. 3, 2010, was terminated on March 22, 2010, and then rehired by the employer on Aug. 21, 2010, when the employer’s workload began to pick up. In this situation, the employer could claim the payroll tax exemption on wages paid from August 21 until the end of the year, but not on the wages paid from March 19 to March 22 (i.e., since he was hired before 2/3).

HIRE Act Affidavit and Form 941, Schedule B: On an April 15 conference call, Donis stated that the Form W-11 (or similar statement) must be received by the employer by the deadline for filing Form 941, in order for an employer to claim the exemption in that quarter. On the June 3 conference call, she discussed a situation where an employer did not receive the majority of Forms W-11 from new hires until close to the end of the quarter. In this situation, an employer has two options with respect to reporting its tax liability on Form 941, Schedule B, Report of Tax Liability for Semiweekly Schedule Depositors: (1) it could recalculate its semiweekly tax liability on Schedule B since the beginning of the quarter to reflect the fact that it was eligible to claim the payroll tax exemption as of the date that the qualified individual was employed; or (2) it could reduce one of the last tax liability amounts for the quarter by the entire payroll tax exemption. Employers need to be make sure that this schedule is completed correctly to avoid being assessed a federal tax deposit penalty. Donis noted that there should be no negative amounts on Schedule B. Instead, employers should enter zeros on this schedule until there is a tax liability to report.

Comment: The IRS did not see any issues with accepting a Form W-11 that had been prepared and signed on paper, and then converted to a scanned electronic document for recordkeeping purposes. Also, minors are permitted to sign Form W-11.

Seasonal Employees: An employer would not be able to claim the payroll tax exemption on a seasonal worker who it only employs during certain times of the year if the employment relationship began a few years ago, and the employee had never been terminated. On the other hand, the employee might have met those requirements if he/she had been “terminated and then rehired” after Feb. 3, 2010.

Retention Credit: An employee who was hired in December 2010 and first paid in 2011 may be a “qualified individual” for purposes of the new hire retention credit, but not for the payroll tax exemption. For purposes of the new hire retention credit, a qualified individual must meet the normal requirements and must also be a person who: (1) is employed by the employer on any date during the tax year; (2) continues to be employed by the employer for a period of not less than 52 consecutive weeks; and (3) receives wages for such employment during the last 26 weeks of the period that are at least 80% of such wages during the first 26 weeks of the period. (Code §3111; HIRE Act)