

Taxing Times

Tax information for clients and friends of Stambaugh Ness



September 23, 2009

LAST CALL ...

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PENNSYLVANIA SALES TAX INCREASE

Pennsylvania has enacted legislation that enables Philadelphia to temporarily increase the city's sales tax rate from 1% to 2%. Since the bill has been fully enacted, look for the increase sales and use tax rate in Philadelphia to start in the near future.

By Tax Advisor Colette Brownson
Tax Specialist Melissa J-L Myers

INDIVIDUAL TAX NEWS TAX PLANNING SERIES

Over the next few monthly editions, we will provide you with some tips for tax planning in 2009. This month, we are going to revisit the tax advantages of owning a home.



[Tax Specialist
Melissa J-L Myers](#)

First-time Homebuyer Credit

As we have mentioned previously in the May edition of the Taxing Times, first-time homebuyers are eligible to receive a credit on their tax return of up to \$8,000 if they purchase and settle on their home in 2009. This credit will reduce the individual's tax liability dollar for dollar and will be fully refundable. This credit is not required to be repaid to the IRS unless the home ceases to be the taxpayer's main residence within the three-year period of the purchase date.

MELISSA'S COMMENTS: *"If you are a first-time homebuyer, now is the time to purchase a home to receive the credit. In order to qualify, you must purchase and settle on your home prior to December 1, 2009. Taxpayers, including a spouse if married, are considered a first-time homebuyer if they have not owned a principal residence at any time during the three years prior to the date of the purchase of the new home."*

Home and Domestic Service Workers

Your family may need outside assistance to provide care and supervision for your children or elderly parents while you work. You may hire cleaning help or a landscaper to assist with the upkeep of your home, or someone to walk your dog during the work week. These lifestyle choices simplify your daily routine, but there are rules you must follow when compensating your domestic workers.

**MELISSA'S
COMMENTS:**

"This legislation allows only temporarily increasing the total state and local sales tax rate from 7% to 8% until July 1, 2014. The city has stated the increase will help with approximately \$700 million in budget cuts they are currently facing. Proceeds from the rate increase must be used to fund municipal pension fund obligations."

For instance, understanding the difference between an employee and an independent contractor is very important. If you are an employer, you are required to withhold and contribute a matching amount of FICA and Medicare taxes from your domestic worker's income. However, if your workers are independent contractors, you are only required to report payments of \$600 or more on a Form 1099-MISC.

MELISSA'S COMMENTS: *"If you incur qualified expenses on behalf of a child under age 13, or a disabled spouse or dependent, you may be able to claim a child and dependent care tax credit as we mentioned in last month's Taxing Times. The credit that may be claimed ranges from 20 to 35 percent of qualified employment-related expenses, but is subject to a cap which is calculated as a percentage of these expenses. The maximum amount of eligible expenses is \$3,000 if you have one qualifying dependent and \$6,000 if you have two or more qualifying dependents."*

Mortgage Debt Forgiveness

The Mortgage Forgiveness Debt Relief Act of 2007 provides an exclusion for discharged qualified principal residence acquisition indebtedness. The exclusion applies to indebtedness that is discharged on or after January 1, 2007 and before January 1, 2013. This exclusion applies to debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure.

Discharged acquisition indebtedness is only excludable if it is incurred with respect to the taxpayer's principal residence. The term "principal residence" generally means being owned and used by the taxpayer as a principal residence for periods aggregating 2 years or more during a relevant 5 year period.

MELISSA'S COMMENTS: *"Acquisition indebtedness is indebtedness with respect to the taxpayer's principal residence if it is incurred in the acquisition, construction, or substantial improvement of the residence. The indebtedness must be secured by the residence. Refinancing of this indebtedness is also considered acquisition but only to the extent that the amount of refinancing does not exceed the debt being paid off."*

**Deadline
Quickly
Approaching**

The weather is starting to change, the days are getting shorter and before you know it October 15th will be here.

If you requested a tax filing extension, your individual return will be due on or before this date.

If you haven't done so already, now is the time to gather together all of your tax information and give your accountant a call to discuss the status of your 2008 tax return.

Also, just in case you've missed the date – any 3rd quarter 2009 estimated payments were due September 15, 2009.

CORPORATE TAX NEWS

**PERSONAL USE OF
COMPANY PROVIDED VEHICLE**

Although the business use of an employer-provided vehicle is non-taxable, the personal use is considered to be a taxable fringe benefit. Employers are required to calculate the value of this personal use and include it in the employee's wages reported on Form W-2.



Tax Advisor
Colette Brownson

The personal use of a company-provided vehicle is not taxable for Pennsylvania tax purposes. The employee must submit to the employer an accounting for the business use of the vehicle to alleviate the employer from reporting the entire value of both business and personal use of the car on the employee's Form W-2.

The Internal Revenue Service has provided several valuation methods for the employer to select from which to determine the amount of income that will be subject to reporting and taxing the employee's wages. The employer may either use the "general valuation method" or select one of the following "safe harbor" valuation methods:

- Commuting Valuation
- Cents per Mile Valuation
- Annual Lease Valuation

When the employer chooses one of the three "safe harbor" valuation methods, they are required to notify their employees, in writing, by January 31 (or 30 days after the employer provides the vehicle to the employee), as to which method will be applied to their assigned vehicle. This written notice, which must be posted in a location where all affected employees are reasonably expected to see it, must state the following:

- The special valuation rule that has been selected
- The substantiation requirements under IRC Section 274(d)
- The effect of failing to comply with the substantiation requirements
- Date notice was posted
- If the employer has elected NOT to withhold Federal Income Tax



MELISSA'S COMMENTS: *"An employer must adopt a valuation rule by the first day on which the vehicle is made available to the employee. The employer must continue to use the same valuation method for an employee until the vehicle is no longer used by the employee unless the employee and employer change to the commuting method."*

Multi-State Tax Seminar

DON'T BE AFRAID TO GROW YOUR BUSINESS!

Have you left Pennsylvania? If so, be proactive about your role in multi-state taxation.

It's *not too late* to register for our Camp Hill, PA Business Tax Seminar set for Sept. 29. Topics include both Income Tax and Sales and Use Tax.

Find out [more information here](#).

CORPORATE TAX NEWS

WHAT IS A COMPOSITE TAX RETURN AND WHO FILES THEM?

The requirement that out-of-state partners or shareholders file returns and pay taxes in every state in which a pass-through entity has nexus can create a significant compliance burden for these individuals if the pass-through entity has nexus in numerous states.

One method of reducing this burden is to allow the pass-through entity to file a composite return on behalf of the out-of-state shareholders. A composite return is a single filing in which the participating shareholders report their distributive shares of the pass-through entity's income. This entity then pays the state tax on behalf of the shareholders. Most states permit partners, who are individuals and meet certain requirements, to file a composite return.

If you are a shareholder or partner in a pass-through entity and find yourself needing to file non-resident individual income tax returns in various states you may want to look into the option of electing to file a composite tax return. A majority of states allow this type of tax filing provided the shareholders meet a few minimum requirements. Examples of the requirements include:

- The partner is a non-resident of the state in which the composite return is filed
- The partner does not have any additional source income from that state other than his distributive share of taxable income from the pass-through

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COLETTE'S COMMENTS: *"Those individuals who are currently filing multiple non-resident state tax returns to report income received from a pass-through entity may want to inquire about the possibility of the company filing a composite tax return on behalf of the shareholders. This can be a great tool to simplify your individual filing requirements."*

S CORPS: TIME FOR A YEAR-END TAX PROJECTION

As the year end approaches, it's time to identify tax planning moves you should make before December 31st. The first step in the process is to prepare a projection of the current year's income, along with expected tax deductions and tax credits. With this projection in hand, various year-end planning strategies which may affect your tax liability can be prepared.

For example, if the projection shows a taxable loss from your S corporation, cash may be need to be injected into the company in order to have sufficient basis to deduct the entire loss on this year's return. S corporation shareholders cannot deduct corporate losses that exceed their "basis" in the stock they own. Basis is equal to the amount of your investment in the company, with some adjustments.

COLETTE'S COMMENTS: *"By taking the necessary steps now, you may be able to reduce your tax bill. If you wait until it's time to prepare your tax return, it will be too late. With proper planning, you may be able to pass business losses through to your personal tax return – and use them to offset income from other sources."*

CONTACT US

For more information about any of these tax topics or other tax-related concerns, please contact our SNPC tax professionals, Colette or Melissa, at 717-757-6999/800-745-8233. You may also visit [our website](#) or reply to this email. Links to [past issues of "Taxing Times"](#) can also be found on our website.



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