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## Health Care Reform - A Tax Perspective — Roberta Norman, CPA

Although two pieces of federal legislation passed in March 2010 are designed to reform the US health care system, they contain many revisions to the tax code. Individuals and business are affected starting in 2010 as various pieces of the legislation phase in from 2010 - 2018. Below are some highlights of these changes.

### Changes effective for 2010

Those with employer-provided health insurance can keep their adult child on their health insurance policy up through age 26 unless the child's job offers health insurance. Starting in 2014, children through age 26 can stay on their parent's employer plan even if they have an offer of coverage through their employer.

The adoption credit has been increased by \$1,000, made refundable, and extended through 2011.

Effective July 1, 2010, an excise tax of 10% is imposed on the cost of service at tanning salons. The tax is imposed on customers, but must be collected by the salon owner.

In 2010 through 2013, eligible small employers can receive a credit of up to 35% (25% for tax exempt organizations) of the cost of premiums if they provide medical insurance to their employees. The credit is targeted at small businesses and tax-exempt organizations that primarily employ low- and moderate-income workers and provide health insurance. The maximum credit can be claimed by small employers that have 10 or fewer full time equivalent (FTE) employees and pay annual average wages of \$25,000 or less. The credit is fully phased out for employers that have more than 25 FTEs or pay average wages of \$50,000 or more per year. See the "3 Simple Steps" chart on page 2 to determine if your business qualifies for this credit.

### Looking forward to 2011 and beyond - a brief summary

#### Changes taking place in 2011

Over-the-counter drugs will no longer be considered eligible medical expenses for flexible spending accounts, health savings accounts, health reimbursement arrangements or Archer medical savings accounts. These accounts can only be used to pay for prescriptions medications or insulin starting in 2011.

The penalty for non-eligible distributions from medical accounts goes up to 20% from 10%.

Employers are required to disclose on each employee's W-2 the value of the employee's health insurance coverage sponsored by the employer.

#### Changes taking place in 2013

Individuals who earn more than \$200,000 for the year will pay an additional .9% (.09) Medicare tax. (\$250,000 for joint filers) This increased tax applies to both employees earning wages and self-employed persons.

Individuals with adjusted gross income that exceeds \$200,000 (\$250,000 for joint filers) will also pay an additional 3.8% of the lesser of net investment income or the excess of modified adjusted gross income over the threshold amount.

The itemized medical expense deduction floor for regular tax purposes will increase from 7.5% to 10% for those under age 65.

Contributions to Flexible Spending Accounts will be capped at \$2,500.

#### Changes taking place in 2014

Individuals will generally be required to maintain minimum essential health insurance coverage. Those not meeting the exclusion without coverage will be subject to a penalty.

The maximum small business tax credit for providing health insurance increases to 50% (35% for tax-exempt organizations).

(Continued on page 2)



Have you been wondering how Health Care Reform will affect you or your business?

## Health Care Reform - A Tax Perspective—continued from page 1

Penalties will be imposed on employers with more than 50 employees that do not provide health insurance coverage.

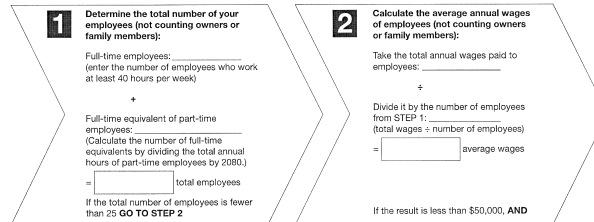
### Changes taking place in 2018

A 40% excise tax will be imposed on high-cost "Cadillac" employer-sponsored health coverage.

Please contact our office if you have questions on provisions that are effective now or in the future.

### 3 SIMPLE STEPS

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the **Small Business Health Care Tax Credit** by following these three simple steps:



**3** You pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then

you may be able to claim the **Small Business Health Care Tax Credit**.

## The HIRE Act—Amy Iles, CPA

To help jumpstart business hiring and spending, President Obama recently signed the Hiring Incentives to Restore Employment Act of 2010 (the HIRE Act). This Act provides for payroll tax forgiveness and an employer tax credit of up to \$1,000 for qualified new hires. The HIRE Act also extends enhanced Code Sec. 179 small business expensing, makes some enhancements to tax credit bonds and imposes additional reporting and disclosure requirements for taxpayers with interests in specified foreign financial assets. Some highlights of the Act include:

**Payroll tax forgiveness.** The HIRE Act provides qualified employers with temporary payroll tax forgiveness of the employer's 6.2 percent share of Social Security payroll taxes on wages paid to new hires who had been previously unemployed. Payroll tax forgiveness is effective for qualified employees on wages earned after March 18, 2010 and on or before December 31, 2010. The employer generally must be a private sector for-profit or tax-exempt employer. Employers remain liable for Medicare taxes.

The newly hired employee cannot displace a worker who is currently on the employer's payroll unless the worker voluntarily separated from employment or was fired for cause. A qualified individual may be hired for any number of hours, full-time or part-time, since the benefits to the employer are tied only to 6.2 percent of any salary paid.

The HIRE Act requires that individuals certify they have not been employed for more than 40 hours during the 60-day period prior to employment. IRS Form W-1 I, HIRE Act Employee Affidavit, should be completed and maintained in the employee's personnel file.

Beginning for any new-hire wages paid starting April 1, an employer takes forgiveness into account in depositing payroll taxes under the regular deposit rule applicable to that employer. Exempt wages are reported on a revised IRS Form 941 as well as the employee's W-2.

**Retained worker business credit.** Under the HIRE Act, employers that hire new workers who qualify for payroll tax forgiveness may also be eligible for a tax credit for each qualified employee. For the employer to be entitled to this new credit, the qualified employee must be retained on the employer's payroll for 52 consecutive weeks. The business credit under Code Sec. 38 will be increased, with respect to each qualified retained worker, by the lesser of \$1,000 or 6.2 percent of wages paid by the taxpayer to the qualified retained worker during the 52 week period.

**Expensing.** As an incentive for business investment in capital and equipment, the HIRE Act includes a provision extending the available expense deduction limitation under Code Sec. 179 of \$250,000 and the phase-out amount starting at \$800,000 through 2010. Bonus depreciation however has not been extended.



Please contact our office for more information.

(Continued on page 3)

## The HIRE Act—continued from page 2

The expense deduction of \$250,000 is scheduled to drop to \$25,000 for qualifying assets placed in service after 2010. Similarly, in 2011, the phase-out amount is scheduled to be reduced to \$200,000. No word is yet available on whether current limits are likely to be extended for 2011.

**Pending legislation.** Congress continues to debate several other bills designed to stimulate economic growth. Pending bills include a package of extenders. These are popular but temporary tax breaks, which generally expired at the end of 2009. Also waiting for passage in Congress is an extension of the federal estate tax, which expired for decedents dying after December 31, 2009. Several retirement and pension bills are also pending. Watch our future NewsBriefs for details of new laws, extenders and updates from Washington!

## Estate Tax - 2010 Year of Uncertainty—Diane McDonough, CPA and CFP®

The uncertainty arises because Congress has been known to make retroactive tax law changes, and many predict this will happen due to the revenues lost and other headaches in the law as it now stands.

For ten years Congress has known that the Federal Estate Tax would be repealed for the year 2010 only, and no one expected them to let it happen. With "more pressing issues" on the table such as the economy and health care, the repeal has happened.

The change is not only the repeal of the tax. Other aspects of the passing of property at death have been significantly altered for 2010 only as well. For example, the adjustment to market value of the assets (which is usually upward) is now limited to \$1.3 million (plus an additional \$3 million of property passing to the surviving spouse). So estates with less than \$3 million going to the surviving spouse and less than \$1.3 million going to other heirs would receive the beneficial "step-up" without any real headaches. But if the estate has \$10 million, then at least \$5.7 million of the assets would have to "carryover" tax basis to the heirs, which is often difficult to determine.

Without any action by Congress, the estate law will revert as of January 1, 2011 to an exemption of \$1 million and a maximum tax rate of 55% with all assets being adjusted to market value.

As a result, estates of decedents passing away in 2010 are in limbo, but must still make elections and hold back dollars for potential taxes. Also, the wills of decedents written with an anticipated exemption may send assets in different directions than originally intended.

Therefore, a review of the provisions in your will is important. We would be glad to answer any questions that we can, keeping in mind wills are legal documents and you may need to contact your attorney.

## NY State's New Record Keeping Requirements For Sales Tax Vendors— Diane C. Bonafiglia

In it's 2009/2010 budget legislation, New York State imposed new recordkeeping requirement for sales tax vendors.

The New York sales tax regulations require sales tax vendors to keep records going back at least three years, documenting each taxable sale or transaction. Such sales records are required to be adequate, to provide sufficient detail to determine the taxable status of each sale, and the amount of tax.

The penalty that could be imposed under the prior law for failing to keep adequate records was capped at a one-time only penalty of \$500. The new law imposes a penalty of \$1,000 for the first quarter and \$5,000 for each additional quarter in which a vendor fails to maintain or provide the statutorily required sales tax records to an auditor. Under tax law section 1135(a) a vendor is required to keep a true copy of each sales slip, invoice, receipt, statement or memorandum for each separately stated taxable sales transaction. In addition to the basic recordkeeping requirement imposed on vendors, the new subsection imposes an additional requirement that a vendor's records be maintained "in an auditable form" such as being organized by date or invoice number. No more shoe boxes full of jumbled papers, or an additional penalty of \$1,000 per quarter can be assessed. In addition, any records that are maintained in an electronic format (such as an excel file or Quickbooks) must be submitted to the auditor upon request.

We recommend that you consider registering your business with New York State to obtain a "Certificate of Authority". Even if you do not collect sales tax, often items are purchased from outside of New York State without paying New York State sales tax. Being registered allows you to adequately report and pay the sales tax (called use tax) on these items on either a quarterly or annual basis rather than trying to re-

(Continued on page 4)



**“Without any action by Congress, the estate law will revert as of January 1, 2011...”**

**“Therefore, a review of the provisions in your will is important.”**





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**NYS New Record Keeping Requirements... —continued from page 3**

port the purchase(s) within 20 days.

If you have any doubt regarding whether your current accounting systems satisfies the new record keeping standards, or need help registering with New York State, please contact our office to discuss this issue.

**International Financial Reporting Standards—Chirag R. Desai**

There has been increasing focus on the adoption of International Financial Reporting Standards (IFRS) by public companies in the US. While the Securities and Exchange Commission moves toward a June 2011 vote on whether to require US public companies to report using IFRS, a simplified version for private company financial reporting users is already an option.

IFRS for small and medium-sized entities (SMEs) is a thinner version of the full IFRS by eliminating some of the requirements meant specifically for public entities issued by the IASB on July 9, 2009. It includes 35 separate sections. Organizations which adopt IFRS must adopt either IFRS for SMEs or full IFRS.

Below are a few website links which delve deeper into the specific differences and standards:

- IFRS for SMEs-US GAAP Comparison Wiki: <http://wiki.ifrs.com>
- The Journal of Accountancy has been tracking the convergence: <http://www.journalofaccountancy.com>
- The CPA Journal also provides additional thought leadership on the convergence: <http://www.cpajournal.com>

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