

Client Update

The Basics of Estimated Taxes

By: Pat Hoffert phoffert@rpblp.com

Even if you are proactive enough to work with your CPA on calculating estimated tax payments, it is sometimes unavoidable to owe tax at year end. Owing tax isn't really a bad thing; it just means you didn't pay more to the IRS than you needed to. Think of it as bonus money in your pocket during the year. What is undesirable and avoidable, is to owe underpayment penalties and interest. With a little education and good lines of communication, RPB professionals can help you avoid penalties and interest. Let's start with the education straight from the IRS:



What is Estimated Tax?

Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rent, gains from the sale of assets, prizes and awards. You also may have to pay estimated tax if the amount of income tax being withheld from your salary, pension, or other income is not enough.

Estimated tax is used to pay income tax and self-employment tax, as well as other taxes and amounts reported on your tax return. If you do not pay enough through withholding or estimated tax payments, you may be charged a penalty.

How to Pay Estimated Tax

If you are filing as a sole proprietor, partner, S corporation shareholder, and/or a self-employed individual, you should use Form 1040-ES, Estimated Tax for Individuals, to figure and pay your estimated tax. For additional information on filing for a sole proprietor, partners, and/or S corporation shareholder, refer to IRS Publication 505, Tax Withholding and Estimated Tax.

If you are filing as a corporation, you should use Form 1120-W, Estimated Tax for Corporations, to figure the estimated tax. You must deposit the payments. For additional information on filing for a corporation, refer to IRS Publication 542, Corporations.

Who Must Pay Estimated Tax

If you are filing as a sole proprietor, partner, S corporation shareholder, and/or a self-employed individual, you generally have to make estimated tax payments if you expect to owe tax of \$1,000 or more when you file your return.

If you are filing as a corporation, you generally have to make estimated tax payments for your corporation if you expect it to owe tax of \$500 or more when you file its return.

Who Does Not Have To Pay Estimated Tax

If you receive salaries and wages, you can avoid paying estimated tax by asking your employer to withhold more tax from your earnings. To do this, file a Form W-4 with your employer. There is a special line on Form W-4 for you to enter the additional amount you want your employer to withhold.

How To Figure Estimated Tax

To figure your estimated tax, you must figure your expected adjusted gross income, taxable income, taxes, deductions, and credits for the year.

When figuring your estimated tax for the current year, it may be helpful to use your income,

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Noteworthy Tax Credits Tied to Employment

By: Pat Hoffert phoffert@rpblp.com

As Federal and State Governments work hard to reduce unemployment rates and expand new jobs, we are seeing new tax incentives arising as part of this effort. A few noteworthy credits that may impact many small businesses for 2011 income taxes are summarized below:

Small Business Health Care Tax Credit (Federal)

Small employers that provide health care coverage to their employees, and that meet certain requirements ("qualified employers") are generally eligible for a federal income tax credit for health insurance premiums they pay for certain employees. In order to be a qualified employer, you must meet all of the following criteria:

- The employer must have fewer than 25 full-time equivalent employees (FTEs) for the tax year.
- The average annual wages of its employees for the year must be less than \$50,000 per FTE.
- The employer must pay the premiums under a "qualifying arrangement". The maximum credit is 35 percent for small businesses and 25 percent for small tax-exempt organizations.

New Hire Retention Credit (Federal)

This is a general business credit to encourage retention of new hires (retained workers). The employer may claim the credit for each retained worker. A retained worker is a qualified employee (as defined for purposes of the payroll tax exemption) who remains an employee for at least 52 consecutive weeks, and whose wages (as defined for income tax withholding purposes) for the last 26 weeks equal at least 80 percent of the wages for the first 26 weeks. The amount of the credit is the lesser of \$1,000 or 6.2 percent of wages (as defined for income tax withholding purposes) paid by the employer to the retained worker during the 52 consecutive week period.

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To suggest future topics, please contact
Pat Hoffert at phoffert@rpblp.com

Beginning of the Year Tax Tips


The following are some changes that may affect Wisconsin taxpayers.

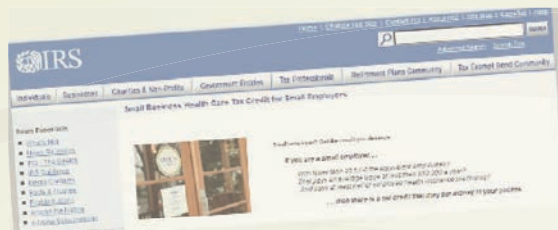
Health Care and Medical Deductions

- Health Savings Accounts are now an allowed deduction for Wisconsin.
- Wisconsin now follows the federal rules relating to health care benefits for children under age 27.
- The Medical Care Insurance subtraction for individuals with no employer and no self-employment income increased to 100 percent. For individuals who are employees and the employer pays a portion of the cost of medical care insurance, a subtraction for 25 percent of the amount paid for medical care insurance is an allowed subtraction.

Electronic Filing Update


A new online application is available on the Department of Revenue's website which allows individuals and their authorized representatives to view Form 1099-G, Certain Government Payments. Form 1099-G reports Wisconsin state income tax refund information that individuals use to complete their federal tax return.

There are a number of individuals who will no longer receive a paper Form 1099-G in the mail. You may receive notification from the Wisconsin Department of Revenue, that you are one of these individuals. If you would like a copy of your form, you visit <https://ww2.revenue.wi.gov/1099GInquiry/request.html>. For authentication, you will be asked to provide your last name, social security number/individual tax identification number (ITIN) and zip code. 



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Effective for taxable years that begin on or after January 1, 2011, a business may claim a deduction from Wisconsin income based on the increase in the number of full-time employees employed in Wisconsin during the taxable year. The deduction is equal to \$2,000 per eligible employee for businesses with gross receipts greater than \$5 million and \$4,000 per eligible employee for businesses with gross receipts of \$5 million or less. Use schedule JC to claim the deduction. The increase in full-time jobs is determined from unemployment insurance records.

If you think your business or non-profit entity may be eligible for one or more of these credits, please contact your RPB representative to help with the determination and calculation of the credit. More information on each credit can be found on the IRS website, www.irs.gov or on the Wisconsin Department of Workforce Development (DWD) website, dwd.wisconsin.gov. 


Get Quick Answers Online

Have you ever wondered about a financial matter but weren't sure how to do a quick fact check? Although your contacts at RPB are always happy to help you with your questions, we know that sometimes you just need a simple way to quickly test an idea. For that reason, we have placed a number of handy financial calculators on the RPB.biz website.




You can use these calculators to:

- Estimate the 1040 or 1040 EZ tax burden for yourself or your children
- Begin the process of Estate Tax Planning
- Consider if you (or your business) should buy or lease an automobile
- Calculate a number of important business financial projections such as breakeven analysis, financial ratios, cash flow and working capital needs
- And more!

To use these calculators, visit our website at RPB.biz and click on the **Financial Tools** link located on the right side of the page. Then, just select the calculator you need and input your data. Each calculator even has definitions of the terms it uses, so you can be sure you are entering the correct information. 

News & Notes

Reilly, Penner & Benton LLP is pleased to welcome Dave Bradford in the newly created position of Operations Director. Bradford, a former Physician Assistant, has a medical degree from UW-Madison and an MBA from UW-Milwaukee. His previous positions include serving as COO of a nonprofit as well as functioning as administrator, operations director, COO and CEO within Milwaukee-area medial groups and health insurance companies. The newly created Operations Director position consolidates administrative duties including Human Resources, employee benefits, scheduling, performance appraisal, campus outreach, staff recruitment, and employee communication. 



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Why Nonprofits Need an Employee Expense Policy

By: Dave Brophrey dbrophrey@rpblp.com

Does your nonprofit have an employee expense reimbursement policy? Called an “Accountable Plan,” an employee expense reimbursement policy can ensure your organization is in compliance with IRS requirements and simplify tax preparation for both your organization and its employees. This is because if your organization does not have an accountable plan, you should be including reimbursed expenses on your employees’ W-2 forms and your employees should be filing form 2106 with their tax return to account for the money.

If your organization does not have an accountable plan, here are some tips that can ensure your plan is set up properly.

1. Put your plan in writing. This seems obvious, but many organizations do not document their plan. It is difficult to prove the existence of your plan to the IRS if it is not written down.
2. Specify that all reimbursements must be business-related and reasonable. The IRS does not want to see any freelancing or ad-hoc reimbursements and expects expense reimbursements to be “reasonable.” You will have to decide what is reasonable based upon your typical business activities.
3. Ask for proper documentation. To satisfy IRS requirements, be sure you require employees to submit receipts, especially for expenses over \$75.

The following information should be included in the documentation:

- The amount of the expense
- The date
- The place
- The business reason for the expense
- The people involved in the expense. (For example, list the people that were fed or entertained as a result of the expense.)

In addition, you should require employees to document reimbursed mileage in writing.

Every organization should have an accountable plan. If you have any questions about your organization’s plan please contact us for guidance related to your specific organization and tax situation. ☺

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deductions, and credits for prior year as a starting point. Use your prior year’s federal tax return as a guide. You will need to estimate the amount of income you expect to earn for the year. You want to estimate your income as accurately as you can to avoid penalties.

You must make adjustments both for changes in your own situation and for recent changes in the tax law.

When To Pay Estimated Taxes

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific payment due date. In most cases those due dates are April 15th, June 15th, September 15th, and January 15th. If you do not pay enough tax by the due date of each of the payment periods, you may be charged a penalty even if you are due a refund when you file your income tax return.

Underpayment of Estimated Tax

If you did not pay enough tax throughout the year, either through withholding or by making estimated tax payments, you may have to pay a penalty for underpayment of estimated tax. Generally, most taxpayers will avoid this penalty if they owe less than \$1,000 in tax after subtracting their withholdings and credits, or if they paid at least 90% of the tax for the current year, or 100% of the tax shown on the return for the prior year, whichever is smaller.

Hopefully, this helps to clear up some confusion around estimated taxes. Your RPB professional can help you with these calculations. All of the forms and publications referenced above can be found on our website, www.rpb.biz or on the IRS website, www.irs.gov. ☺

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