

# tax report

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## Is Part-time Retirement in Your Future?

Retirement isn't what it used to be. Many people decide to continue working past traditional retirement age for financial reasons or simply because they enjoy working and don't want to exit the work world altogether. If you intend to ease into retirement slowly, keep these financial and tax issues in mind.

### Social Security

You may start collecting Social Security retirement benefits as early as age 62. However, your benefits will be permanently reduced if you begin receiving them before your full retirement age (which ranges from 66 to 67 for individuals born after 1942). Conversely, your monthly Social Security benefit will be increased for each month you delay the start of Social Security past your full retirement age, up until age 70.

Typically, the Social Security timing decision is driven by personal financial considerations and expectations concerning longevity. When continued earnings are part of the retirement picture, you also need to consider the Social Security earnings penalty. Before you reach full retirement age, Social Security reduces your benefit when you earn more than a certain amount. Basically, one dollar in benefits is withheld for every two dollars in earnings over \$14,160 (in 2010). For an individual reaching full retirement age in 2010, the reduction is one dollar for every three dollars

of earnings over \$37,680. There is no limit on earnings beginning the month you attain full retirement age.

### Employee Benefits

Reducing your work hours or working for a lower salary could affect your retirement benefits. Some plans require employees to work a certain number of hours in order to make plan contributions or receive allocations of employer contributions to their accounts.



If you are covered under a traditional pension plan, its benefit formula might give more weight to earnings during the last years of employment — so a lower salary could mean a lower pension benefit. You'll also want to investigate your plan's rules regarding

in-service distributions to employees.

Working part-time also could affect your eligibility for employer-sponsored health insurance. Remember that Medicare generally isn't available until age 65.

### Going into Business

If you start your own business, you'll have an opportunity to give your savings a boost by establishing a tax-favored retirement plan. Even a few additional years of saving could mean greater long-term financial security. After you reach age 70½, however, you have to begin taking annual required minimum distributions (RMDs) from the plan. ■

## Writing Off Bad Debts

You may be able to claim a bad debt deduction on your business tax return if a customer or client owes you money you can't collect. You must be able to show that the debt is partly or totally worthless. This may be the situation if you've taken reasonable steps to collect the debt and there is no longer any possibility you'll receive payment.

**Watch your timing.** You may not take a deduction for any portion of a bad debt after the year in which it becomes totally worthless.

**Cash-method taxpayers.** In general, you may not claim a bad debt deduction if you use the cash method of accounting for tax purposes. Unlike an accrual-basis taxpayer, a cash-basis taxpayer usually does not report income from a sale until payment is received. So, even though you've billed the customer, you typically won't have reported the related revenue on your return.

## short takes

### Deducting Year-end Bonuses

When certain requirements are met, a company that uses the accrual method of accounting may deduct year-end bonuses in the current tax year even though the bonuses are actually paid during the first 2½ months of the following tax year. In recent advice, the IRS Chief Counsel said the deduction must be delayed until the year of payment if a condition of receiving a bonus is that the recipient still be employed on the payment date. The reason: The liability does not become fixed until the contingency is satisfied.

### Required Pension Contributions for 2010

Employers that sponsor defined benefit pension plans will be required to make much larger contributions to their plans for 2010 due to funding shortfalls, according to a Mercer study of 874 private-sector plans. The study projects that, in aggregate, required net cash contributions to the plans will be 400% higher in 2010 than in 2009.

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## New Guidance for Depositing Plan Contributions

The U.S. Department of Labor (DOL) recently issued final “safe harbor” deposit deadline regulations for plans with fewer than 100 participants at the beginning of the plan year. The rules apply to welfare benefit and pension plans, including 401(k) plans, Salary

manner if they are deposited with the plan no later than the seventh business day following the date they are received by the employer. For amounts withheld from wages, it’s the seventh business day following the date the amount would otherwise have been payable to the participant in cash. The DOL will regard amounts as deposited if they are placed in an account of the plan. Allocation among the participants on that date is not necessary.

Generally, employers may meet their obligation to deposit participant contributions in a timely manner by transferring participant contributions into retirement plans by the earliest date on which these contributions can reasonably be segregated from the employer’s general assets.

A word of caution: Determining the “earliest date” is not always a simple matter. Thus, small plan sponsors that can take advantage of the seven-day safe harbor should strongly consider doing so. ■



Reduction Simplified Employee Pension Plans (SAR-SEPs), and Savings Incentive Match Plan (SIMPLE) IRAs.

### What the Regulations Say

The final regulations say that participant contributions and loan repayments will be treated as being made in a timely

## Tax Breaks for Long-term Care Insurance

Smart financial planning should factor in the possibility of an accident or illness and the costs associated with aging, such as long-term care. Buying a long-term care insurance policy helps you to maintain control of your assets. It also improves your chances of getting the health care you want.

You’ll typically pay lower premiums for a policy if you buy it when you are young and healthy. The size of the daily benefit amount you select and the length of time you are willing to wait to receive benefits will also have a big impact on the cost of the policy.

### Deductions for Premiums

The tax code offers several breaks when you buy a qualified long-term care policy. To be qualified, a policy must be guaranteed renewable and cannot have any cash value. The cost of the policy premiums is treated as a medical expense for itemized deduction purposes. The table lists the age-based caps

for premiums. If premiums exceed these caps, you are permitted to count only the capped amount as a medical expense. Any premiums paid for non-qualified long-term care insurance are regarded as nondeductible personal expenses. Self-employed individuals may deduct premiums for qualified long-term care insurance even if they don’t itemize deductions on their tax returns.

Age on 12/31/10	Capped Amount
40 or under	\$330
41-50	\$620
51-60	\$1,230
61-70	\$3,290
Over 70	\$4,110

### Tax-free Benefits

Benefits received under a qualified policy are generally federal income-tax free (and also generally free of state income taxes) since they are considered insurance reimbursements for medical expenses. This tax-free treatment applies to benefits up to \$290 a day for 2010. ■



## For the Record

After the end of a filing season, taxpayers often ask how long they should retain their tax records. Here are some general guidelines.

### At Least Three Years

Retain your personal tax records, including documents that support income and deductions on your return, for a *minimum* of three years. Why three years? In general, the IRS has three years after a return is filed (or three years after the filing deadline if a return is filed early) to assess tax for the year.

### Six Years — To Be Safe

It's safer to keep your tax records for at least six years after filing your return. The IRS has six years to initiate an audit if there is a substantial understatement of income and no fraud exists.

### Investment Records

After you sell an investment, you should still retain the records indicating when you originally purchased it and the price. Keep the purchase records with the other items supporting the tax return on which you reported the sale.

### Permanent File

You should keep copies of your tax returns permanently. ■

## Some Work, Some Play

Summer is just around the corner. You have a two-week business trip scheduled — and your business meetings will be held only an hour from the beach. You plan to stay a few extra days so you can rest and relax. Assuming your trip is primarily for business, what expenses will you be allowed to deduct?

**U.S. travel.** You may deduct the entire cost of getting to and from your destination (e.g., plane or train fare or auto expenses if you drive). This holds true even though you are going to tack a mini vacation onto the end of your trip. International travel rules are different.

### Transportation.

Amounts you spend on business-related taxi, subway, or bus fare, as well as car rental fees for the business portion of your trip, are deductible.

**Meals.** You generally may deduct 50% of your reasonable meal expenses for the business portion of your trip, even expenses for meals that are not business connected. However, the cost of meals on your vacation days won't be deductible.

**Lodging.** Similarly, hotel charges for the time spent on business will be deductible. You won't be able to deduct lodging expenses related to your personal vacation days.

**Miscellaneous.** Business-related phone calls and various other miscellaneous expenses also may be deductible, so be sure to keep good records. But, if you have to put Spot in the kennel while you're away, you can't deduct the cost. That's a personal expense.



Another caution: If your family accompanies you on the trip, you won't be able to deduct their expenses unless they are employed by your business and their travel serves a bona fide business purpose. On the other hand, if you travel together by car, you may deduct the entire driving cost because it would be the same if you traveled alone. And, if you share a room, you may base your business deduction on the single occupancy rate. ■