

Be sure you have a CURRENT I-9 form on all employees! All employees, citizens and noncitizens working in the United States must complete a Form I-9 to document that they are eligible to work in the United

## A Letter From the Partners...

Times are tough, budgets are tight, and businesses are working diligently to keep their balance and not go down that slippery slope of decline ... but it has been difficult. As hard as we're all working to maintain balance, the various government agencies are working just as hard to find ways to raise revenue. What we are seeing is a renewed trend in the rise of audits. When we think "audit", we think of the Internal Revenue Service, and they certainly are making their presence known these days.

For the last several years, the Internal Revenue Service tried to improve on the impression most people had of them by calling themselves "the new kinder, gentler" IRS. That moniker is fast retreating as we watch a renewed invasion of audits. While not all of the audits are of the completely invasive variety, expect to hear of and see more of them. Audits can be expensive, time consuming and stressful as we watch and work toward a successful outcome. Successful audits result from having good records, receipts, mileage logs, contracts and other important paperwork to prove our claims of income and deductions.

The Federal government isn't the only governmental agency trying to raise revenues. It is no surprise that state and

local governments are also increasing their efforts to raise revenues. For example, state unemployment audits can be just as invasive as an IRS audit, and are on the rise as well. While the end result of an unemployment audit might not be as costly in the amount of taxes due, they are still time consuming, harder to navigate with their own set of rules, and frustrating to resolve.



While the government is trying to provide benefits to taxpayers on the one hand, they are in the position of having to raise revenue to pay for those benefits on the other. As convoluted as this may seem, realizing that big changes are about to happen will

help you to begin to position yourself appropriately. Remember that it is all about compliance.

We at Gray, Pilgrim and Associates will keep you posted on those benefits that apply to your particular situation and help you maneuver through the compliance issues. Knowing the rules will allow you to make better decisions and position yourself better to reduce stress and save some money down the road.

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# 1099 Time!

It's that time of year again for those 1099 forms! Anyone who you have paid \$600 or more in the tax year must receive a 1099 form from your business. In order to issue them a 1099 you must have a W-9 on file for the supplier. If you don't already have this you will want to do so before the end of the year. We have found that you contacting them rather than us is not only cost efficient but effective. Since you pay their bill, they respond better to you.

You will want to gather this information from businesses or individuals whom you have paid for any of the following: contractors, repairs and maintenance work, those paid for rent (office and equipment), janitorial services, laboratories, uniforms, interest expenses, computer expenses (maintenance and repairs), and professional expenses (legal, accounting, consulting, etc.)

Also, you will want to be ready next year because for 2011, you will be required to issue a 1099 to EVERY SUPPLIER with

whom you have paid \$600. That includes your office supply company. Do you buy coffee or give gift cards from Starbucks? You need to issue them one as well. If you get your business vehicle repaired and it cost \$600 or more, you have to issue them a 1099 also. Start now and it will make it easy. Getting their information before you pay is the best method to gain compliance.

## EFTPS

The Electronic Federal Tax Payment System (EFTPS) is a free service offered by the U.S. Department of the Treasury. This system is a fast and secure set up which allows you to make online payments for all federal taxes. EFTPS is available by phone or online 24 hours a day 7 days a week. Payments can be scheduled up to 120 days in advance for businesses or up to 365 days in advance for individual payments.

It's easy to enroll! Just go to [www.eftps.gov](http://www.eftps.gov) and select "enrollment". You will need to have your Taxpayer Identification Number (EIN if you're enrolling as a business or your SSN if enrolling as an individual), your bank account number and routing number, and the name and address as shown on your IRS tax documents. Once you've entered all your information you will receive your PIN in the mail in about seven business days. You can then go online and navigate around the website to make the necessary payments.

After successful enrollment you can make payments for:

- 941 Employers Federal Tax Return,
- 945 Annual Return of Withheld Federal Income Tax
- 720 Quarterly Federal Excise Tax Return

You can also:

- Create a tax filing 941, 945, and CT-1
- Electronically file 941 tax forms
- Fill out and print 945 forms
- Check filing history

For more information you may contact EFTPS Agency Customer Service 1-877-333-8292  
IRS Filing Information 1-800-829-4933

# Small Business Jobs Act

President Obama signed the Small Business Jobs Act of 2010. There are many provisions but here are a few highlights.

Section 179, Accelerated Depreciation, is increased for 2010 and 2011 to \$500,000 as long as the total investment doesn't exceed \$2,000,000. Whatever equipment purchases are made, you may expense up to \$500,000 all in one year rather than waiting for five or seven years to recover your cost.

There is also a 50% Bonus Depreciation that has been extended for 2010 as well. With the Section 179 levels, this isn't as big of a benefit as it had been previously.

Qualified real property expensing is up to \$250,000 for certain qualified real property improvements. This is the first time for this deduction. Rather than waiting for 15 to 39 years to recover your cost, you now may receive a deduction in year one.

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*As with all tax planning, it may not always make sense to take all available deductions when you look at the total tax picture, so good planning should occur first.*

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Section 179 depreciation is also available for business autos up to \$8,000.

For 2010 only, you will receive a deduction for

your self-employed health insurance from your self-employment tax computation. Currently it is deducted from your total income, but you receive no tax break from the self-employment tax.

As with all tax planning, it may not

always make sense to take all available deductions when you look at the total tax picture, so good planning should occur first.

Alternative Minimum Tax (AMT). This is a "back door" tax computation. You pay the higher of the regular tax or the AMT. Previously, the AMT exemption was \$45,000 for married couples filing jointly, \$33,750 for single filers. For 2009 the exemptions were \$70,950 and \$46,700. Barring a "patch" from Congress, the AMT exemptions will return to the higher levels for 2010 and 2011. This is an expensive tax, so we hope that a "new patch" will be put into place. Something worth watching for.

## Year End Bonuses

Many times we give year end bonuses to our staff members. We want them to feel as if they received a nice check; so many times we opt to give it to them without taxes taken out. We sometimes call it a "uniform allowance." While it makes us both happy, it is incorrect to do it in this manner. More and more of these are being picked up in audits and you end up paying more in taxes, interest and penalties in the long run.

The correct way to do this is to generate a payroll check with payroll deductions. Auditors know what happens in businesses and they look

specifically for these items.

Save yourself some time and money and do it correctly from the beginning.

Should you want to give a staff member a nice round amount, you can always "gross up" the paycheck so that they get the actual amount as their net pay. We will be happy to help you with this.

Just remember that you should be deducting taxes on any and all bonus checks. It is one of the more abused scenarios and one of the more reviewed items in federal and state

audits. Doing it correctly from the beginning is easier and cheaper in the long run.





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**Here at Gray Pilgrim we like to make life simple. That's why we offer different options to pay your bill. We accept major credit cards, ACH, and of course, cash or check.**



# Meal Deductions

There are certain rules that apply to deducting meals as a part of your business expenses. Meals may only be deducted if they are directly related with your business. There must be a valid business purpose to the meal for it to be an allowable deduction. We have tried to outline what is acceptable and what is not. If there is ever any question, please feel free to contact our office and we will assist you with the matter.

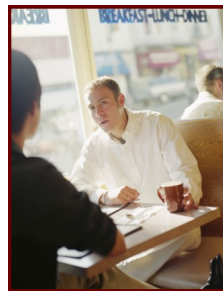
## 50% Deductible:

- Meals expenses for any business meetings involving office meetings and partner meetings, employees, stockholders, agents, and directors. If there is NO business purpose to the meal it is non tax deductible.
- Meals during business travel are generally deductible. If a portion of the trip can be considered personal then a portion of the meals expense should be considered personal and not deductible.
- Meals at a convention, seminar, or any type of meeting, even if the cost for meals is not separately stated from the cost of the event. If not separated, it must be calculated by the taxpayer based on a reasonable amount or per diem rates for that location.

- Meals with people who are clients, customers, and vendors as long as there is a business purpose to the meal or a benefit to the business will result.
- Meal expenses by an employee during a business trip and reimbursed to that employee are still only deductible at 50%, even though the employee was reimbursed 100% for the cost of meals.

## 100% Deductible:

- Meal expenses for a company picnic or holiday party
- Office snacks—coffee, drinks, water, donuts, and similar items provided to employees
- Food made available to the public for free
- Providing meals to more than half the employees for the convenience of the employer in order to keep them working late, weekends, or being on call.



- If the meal expense is included as compensation to the employee and included on the W-2, then it is fully deductible to the employer.
- If a firm bills actual meal expenses to the client when invoicing and is reimbursed by the client, the actual meal expense for that engagement are fully deductible. However, if the expense is included in the invoice but is not separately stated, then those meal expenses are only 50% deductible.
- Meals and food that are a part of a charity sporting event are fully deductible. The event must be organized for the primary purpose of benefiting the 501C(3) organization, must give 100% of its proceeds to the organization, and must use volunteers to carry out the event.

You must provide receipt or other invoices for any of the above mentioned expenses in order to backup the write-offs.

Also, be sure you set up two General Ledger accounts for Meals and Entertainment. One for 50% and the other for 100% deductions.