



Tax Alerts

2010 Second Quarter Tax Developments

During the second quarter of 2010, there were many important federal tax developments. Some of the more important federal tax developments are featured below. As always, please give our office a call or send us an email if you have any questions about these developments.

Tax legislation. Congress recessed for its Independence Day holiday without passing a tax extenders bill and a small business tax relief bill. The House approved versions of both bills earlier in 2010 but the bills stalled in the Senate over their price tags. The American Jobs and Closing Tax Loopholes Act (H.R. 4213) would extend over 40 temporary individual, business, charitable, energy, and infrastructure tax incentives that mostly expired at the end of 2009. The Small Business Jobs Tax Relief Act of 2010 (H.R. 5486) would, among other things, provide Code Sec. 6707A penalty relief to small businesses and increase the Code Sec. 195 deduction for qualified start-up expenses. Congress did, however, pass two smaller bills: the Homebuyer Assistance Improvement Act of 2010 (H.R. 5623) and the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (H.R. 3962). The homebuyer act extends the closing date deadline from June 30, 2010 to September 30, 2010 for homebuyers who signed sales contracts prior to May 1, 2010. The pension relief act includes a package of defined benefit pension funding relief measures. The homeowner act is offset, by among other things, by extension of the Code Sec. 6657 bad check penalty to electronic payments.

Health care reform. The IRS issued significant guidance on various provisions of the new health care reform package (the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010) enacted earlier this year. The IRS issued taxpayer-friendly guidance on the new extended exclusion from income for employer-provided health insurance for any employee's child who has not attained age 27 as of the end of the tax year. For most individuals, this is the calendar year. The IRS also issued temporary and proposed regulations implementing the new requirement that health insurance plans that provide coverage for children continue to make such coverage available until the child turns 26 years of age. The IRS also issued temporary and proposed regulations under which health insurance plans will be treated as grandfathered plans under the PPACA. Additionally, the IRS described notice requirements that grandfathered plans must give to participants and beneficiaries.

Small employer health insurance tax credit. The IRS and the Department of Health and Human Services (HHS) issued a key component of the new Code Sec. 45R small employer health insurance tax credit. The agencies released the average premium for the small group market in each of the 50 states for the 2010 tax year. The IRS also issued guidance clarifying eligibility for the Code Sec. 45R credit, premiums, coverage, state tax credits, and more.

Wrongful death payments. The IRS determined that a survivor could exclude from income a payment received for the wrongful death of another, including claims for emotional distress. The payment was intended to provide compensation for wrongful death and personal injury including the resulting claim for emotional distress.

HIRE Act payroll tax forgiveness. The IRS unveiled a revised Form 941, Employer's Quarterly Federal Tax Return, and its instructions to reflect payroll tax forgiveness under the Hiring Incentives to Restore Employment (HIRE) Act.

Indoor tanning tax. The IRS issued temporary and proposed regulations to implement the new 10 percent Code Sec. 5000B indoor tanning excise tax. The tax applies to amounts paid after June 30, 2010 for qualified indoor tanning services.

These are just some of the many federal tax developments during the second quarter of 2010. Please contact our office if you have any questions about these or any tax developments. ♦



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Child Tax Credit to reduce in 2010

To claim a child tax credit, your qualifying child must have been under the age of 17 at the close of the tax year. For example, for the 2010 tax year, your child must be **under** the age of 17 as of December 31, 2010.

You are generally entitled to a \$1,000 credit for each child under the age of 17 whom you claim as a dependent. This \$1,000 per child amount is effective every year through 2010. After 2010, unless Congress extends it, the credit is scheduled to fall to \$500. The *American Recovery and Reinvestment Act of 2009 (ARRA)* enhanced the child tax credit for 2009 and 2010 for lower and moderate income taxpayers. If the total amount of a taxpayer's allowable child tax credit exceeds the taxpayer's total tax liability (regular and alternative minimum), the taxpayer is eligible for a refundable child credit equal to 15 percent of the taxpayer's earned income in excess of \$3,000, up to the per child credit amount.

The *Emergency Economic Stabilization Act of 2008* tied the child tax to the child's dependency exemption. A qualifying child for purposes of the child tax credit must also be the taxpayer's dependent. This restored the pre-2005 rule, under which the child credit was explicitly tied to the child's dependency exemption.

To recap, generally, a qualifying child for the credit is someone who meets the following criteria:

- Under age 17 at the end of 2010
- Is your son, daughter, adopted child, stepchild or eligible foster child, brother, sister, stepbrother, stepsister, or a descendant of any of these individuals
- Is a U.S. citizen, U.S. national or resident of the U.S.
- Did not provide over half of his or her own support
- Must have lived with you for more than half of 2010 (there are some exceptions to this criteria)

The child tax credit reduces the tax on income dollar-for-dollar and, therefore, is considerably more valuable than a tax deduction. For those lower income taxpayers without enough tax liability to cover the \$1,000 per child credit, a portion of the credit is refundable. Higher income taxpayers, however, may find themselves excluded from the benefit of the credit because of an adjusted gross income (AGI) cap placed on taxpayers eligible for the credit.

Married taxpayers who file jointly and who have an annual modified adjusted gross income of more than \$110,000 lose \$50 of the credit for every \$1,000 above \$110,000. Likewise, single taxpayers with an annual modified adjusted gross income of more than \$75,000 lose \$50 of the credit for every \$1,000 above \$75,000. Nevertheless, if you are eligible for the child tax credit, you may take it against either the regular tax or any alternative minimum tax that you may owe. ♦

Reporting Gambling Winnings

You may know when to hold 'em and when to fold 'em, but do you know how and when to report 'em? Whether you are playing cards or the slots, it is important to know the rules about reporting gambling winnings and losses.

Here are some things the IRS wants you to know about reporting what Lady Luck has sent your way.

- All gambling winnings are fully taxable. Even if your total losses exceed your total winnings, the gross winnings must be reported as taxable income.
- Gambling income includes, winnings from lotteries, raffles, casinos, etc, **and** the fair market value of prizes.
- A payer is required to issue a Form W-2G for certain gambling winnings or winnings subject to federal income tax withholding.
- You may be required to pay an estimated tax on the gambling winnings.
- You must report your gambling winnings on page one of Form 1040.
- If you itemize your deductions, you can deduct gambling losses, but only up to the amount of your winnings.
- To deduct your losses, you must be able to provide receipts, tickets, statements or other records that show the amount of both winnings and losses. ♦

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Quickbooks Corner

Payment of Payroll Liabilities

Do not pay your payroll liabilities from the "Write Checks" window. If you use this window, you will get a warning but will be able to write the check. However when you print the 941, it will not reflect any payments that you made using the "Write Checks" window. Use the "Pay Liabilities" window to create checks for all tax liabilities. Using this window will ensure that the payments are reflected accurately on the 941 report and that your liability accounts are properly reduced. ♦