



# UPDATE

Kathy Tushaus, Editor

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## BURDENSOME FORM 1099 RULES ARE REPEALED

Margaret McDeed

Dwight Darby & Company, P.A.

Certified Public Accountants

611 S. Magnolia Avenue

Tampa, FL 33606

Tel: 813-251-2411

Fax: 813-251-1338

E-Mail: [cpa@dwightdarby.com](mailto:cpa@dwightdarby.com)

[www.dwightdarby.com](http://www.dwightdarby.com)

Bradley C. Tushaus

Managing Partner

John B. Brannan

Audit Partner

Kathy Tushaus

Audit Partner

Dawn Lopez

Audit Partner

Wayne Bond

Senior Member

President Obama has signed a law that repeals two sets of Form 1099 rules that had everyone up in arms.

### These Longstanding Form 1099 Rules Remain in Force:

For many years, businesses and most not-for-profit organizations have been required to report various types of payments to the IRS and to recipient taxpayers. For example, when a business pays \$600 or more during a calendar year to an unincorporated independent contractor for services rendered, the business must file a Form 1099-MISC with the IRS to report the total amount paid in that year. The business must also send a copy of the Form 1099-MISC to the payee. Most payments to corporations are exempt from any Form 1099 reporting requirements. There are a few exceptions; for instance, payments of \$600 or more in a calendar year to a corporate law firm must be reported on a Form 1099-MISC for the year.

Other types of payments over \$600 that businesses must report to the IRS and payees on Forms 1099 include:

- ◆ Commissions, fees, and other forms of compensation paid to a single unincorporated payee
- ◆ Interest, rents, royalties, annuities, and other income items paid to a single unincorporated payee

For 2011, if a payer fails to file a proper Form 1099, the IRS can assess a penalty of \$100 or more per failure.

### These Form 1099 Rules Were Repealed:

- ◆ **Payments to Corporations** - Starting in 2012, if a business paid a corporation \$600 or more in a calendar year, it generally would have been required to file a Form 1099 and issue a statement to the payee.
- ◆ **Payments for Property** - Starting in 2012, if a business paid \$600 or more in a calendar year to any payee as "amounts in consideration for property," it would have been required to file a Form 1099 and issue a payee statement. The term "property" means equipment, merchandise, raw materials, and other items.
- ◆ **Payments of Gross Proceeds** - Starting in 2012, if a business paid \$600 or more in "gross proceeds" to any payee in a calendar year, it generally would have been required to file a Form 1099 and issue a statement to the payee. This provision was intended to force the reporting of business expenditures at unincorporated businesses for things like meals, repairs of business vehicles and seminars.
- ◆ **Payments by Rental Property Owners** - Starting this year, owning rental property would have generally been considered a "business" for purposes of the Form 1099 reporting rules. Therefore, property owners would have generally been required to file Form 1099s and issue payee statements for any unincorporated service providers that were paid \$600 or more during 2011 (for jobs including yard care, maintenance, and accounting). Starting in 2012, rental property owners would have been required to comply with the other burdensome Form 1099 changes explained earlier.

## TEAM WORK - 6 STEPS TO MAXIMIZE THE POWER OF A TEAM

Christina Winters

Throughout our personal and business life, we are forced to work with others. In college and high school, I always dreaded the "team" projects. I came across an article that summed up many good points on effective teamwork and being able to capture the greatest potential, either on a team engagement at work, or the simple fact of making family life the most effective.

**Rules apply to everyone.** No matter if you are the youngest or oldest, if you have been with the company for ten years or just a few months, everyone needs to follow the same set of pre-determined rules. "Do as I say, not as I do", does not apply.

**Each member deserves to be treated with kindness and respect.** The golden rule is always applicable. Name calling, eye rolling, negative comments, and seemingly harmless jokes that reveal your true feelings only hurt the team. My husband calls me out when I give him the eye roll or jokingly hint something to him. This might let out our feelings, but the actual effectiveness of getting things accomplished is none.

**Importance of open/straight talk.** Every member should feel that they can voice their concerns, opinions, and ideas without any ridicule. Team leaders can encourage this by openly stating what is working and what is not, and their own hopes and fears for the team and the engagement.

**Knowledge of the team's mission.** Every member should be aware of the team's mission, goals and how they fit into the mix. These should be re-evaluated and addressed regularly as they may be constantly changing. Also, these goals should be obtainable and realistic.

**Each member is accountable for their contributions.** Whether good or bad, large or small, each member is accountable for their efforts and contributions.

**Each member should feel rewarded for their contributions and celebrate success as a team.** Team leaders should acknowledge even the smallest of successes. Goals and team accomplishments should truly be celebrated. Never underestimate the power of the smallest reward; for example, a M&M and a high five with a 2-year old works magic!

## GETTING A BIG TAX REFUND? CONSIDER ADJUSTING WITHHOLDING

Dave Bove

Does this sound familiar, you've done your taxes and you're excited about getting a \$3,000 refund. Thoughts then fill your head about a big-screen television, a small shopping spree or a vacation.

Those temptations are one reason why it is a good idea to consider changing your withholding so that you don't get such a big refund.

People tend to view a big lump-sum as a bonus and spend it on something fun or a vacation. Taxpayers are more prone to spend a big check on purchases they may not have made had they received the money in smaller amounts throughout the year.

A more disciplined approach would be to put the refund in the bank or pay down a credit card or other debt. Nevertheless, you still have lost the use of, and potential to earn interest on, the money all year long.

Of the 82 million tax returns the IRS had received by March 25, nearly 70 million were due refunds. The average refund being just under \$3,000.

If you consistently get a sizeable refund, you can hold on to more of your money by adjusting the withholding tax allowance on a Form W-4. The more exemptions claimed, the less money is withheld from your paycheck. You want to be careful not to take too many exemptions, which could cause you to end up owing money at the end of the year. Ideally, you would claim the number of exemptions to break even or as close as you can get.

When is a refund too large? Consider that the average refund is \$3,000 and the average personal income is just over \$40,000. That means the average worker is loaning out 7.5% of his or her pay, interest free to the government. If you think you can use that \$250 per month in your paycheck, rather than waiting for a tax refund, then consider changing your withholding.

There are also other reasons to review your withholding. These are life changes that affect tax liability, such as marriage, divorce, birth of a child or adoption, purchase or sale of a home and retirement.

There are calculators available to help you figure out how much you should be withholding. One is available at [paycheckcity.com](http://paycheckcity.com). You will need a pay stub and your most recent income tax return to help answer some of the questions. Or, give us a call and we will help you with the Form W-4 and figuring your proper exemptions to claim.

## YOU FILED YOUR 2010 TAX RETURN... NOW WHAT?

**Susan Ghaly**

So, you've filed your tax return and if you are one of the lucky ones with a refund this year, chances are you've already spent it. You are ready to forget completely all about 2010. But, before you do, here are some tips worth considering.

No matter what kind of taxpayer you are (individual or business), you may have received an envelope full of documents back from us. There are several documents within that package that need a few moments of your time. Occasionally, you will find a document relating to the next tax year within the package. For individuals, for example, those documents often take the form of charitable contributions or real estate tax payments made in the early part of the current tax year. If you have any such documents, be sure to place them in a 2011 tax file.

Virtually every taxpayer will receive back assorted documents that we used in the preparation of your 2010 tax return, including typically Form W2s, Form 1099s, brokerage statements, memory sticks, and itemized deduction information. You should file all documents in a safe and secure location. Please refer to Dwight Darby's "Records Retention Schedule" on our website, [www.dwightdarby.com](http://www.dwightdarby.com) for information on how long to retain the various documents.

Business owners may find one or two pages of adjusting journal entries. These entries should be posted to your company books with an effective date of the last day of the year; i.e., 12/31/10 for calendar-year taxpayers.

We cannot stress enough how important it is to properly post those journal entries. It is important not only from our perspective and to make our lives easier next year, but also for your benefit, as well. If your business is ever selected for an audit, it is imperative that all of your company records support your tax return. After posting these entries, make sure that net income or loss on the books agrees with the book income reported on the tax return. Also, after posting the adjusting journal entries, be sure to close out the prior year to prevent inadvertently posting 2011 transactions to 2010. Contact us for assistance with this process.

Finally, now that we are well into 2011, it may be a good time to remember your New Year's resolution of being more organized. It is not too late to make good on that. Begin now to update those schedules and worksheets that you know will be needed again in December. Taking a few minutes on a regular basis, whether (daily or weekly) to do this, will be of great benefit for the next year end.

## THE THOROUGHBRED

**Pam Mattox**

The thoroughbred is a horse breed developed in England around the 17th century. Three stallions of Arabian, Barb and Turkoman breeding were imported into England and bred to native mares in England. All of today's thoroughbred bloodlines can be traced back to these three stallions. In 1730, the first thoroughbreds were imported into North America. Thoroughbreds are most commonly used for racing, but are also used for dressage, show jumping, fox hunting and pleasure.

My husband, Don, and I raise thoroughbreds for racing. We have a few mares, which we breed to stallions in Ocala or Kentucky. This year we have welcomed two beautiful colts into the world. The most recent was born on April 22, 2011. It is special to watch these creatures from birth to their racing careers. Each horse has a unique personality, which results in a nickname. The foal born April 22 has been nicknamed "Snipper" because he is solid black, except for a snip of white in his forehead that goes down his nose. The other is "Rocket" because since he was born he has loved to run around.

The thoroughbred is a magnificent creature. They are known for their beauty and athletic abilities. It is our hope that these two new foals will grow up to be stars on the racetrack and then retire to pasture for a pleasure horse. And, who knows, with a bunch of luck, they could end up in the biggest race of all, the Kentucky Derby.



**Snipper and his mama, Sister Soup**

## **WE NEED A FLAT TAX MORE THAN EVER**

**Bill Dennison**

Every year around this time, Americans come face-to-face with our complex tax code. IRS Commissioner, Douglas Shulman, recently stated that, "I find the tax code complex, so I use a preparer." A whopping 89% of Americans also use a tax preparer. The Internal Revenue Code includes 3.8 million words. That's over 11,000 single-spaced typed pages.

Let's scrap the entire tax system and replace it with one that is simple, low and fairer. The best and most practical solution is to implement a flat tax. Unlike the other tax reform proposals, this can easily be done without repealing any constitutional amendments.

With a Republican-controlled House of Representatives, the flat tax is gaining momentum again. Rep. Burgess (R-Texas) has introduced the Freedom Flat Tax Act to implement an optional flat-rate tax system. It would phase in the flat tax over a three-year period, with a 19% rate for the first two years and a 17% rate for the subsequent years. Unlike many other flat tax proposals, the Freedom Flat Tax Act would allow individuals and businesses to choose if and when they opt into the system. These Americans would be able to file their taxes in just a few short minutes. A flat tax is a simple tax system that treats every American the same. It's a huge improvement from the current tax code.

The flat tax is far from radical. Over two dozen countries have already adopted a single-rate flat tax system. Nearly all of these nations have tax rates below 20%. Nearly all of these nations have experienced economic growth and lower employment rates after implementing a flat tax. Russia is one of the prime examples of the success of the flat tax. In 2001, Russia replaced its progressive tax code with a single flat rate of 13% for all. The results have been outstanding. When people find their taxes to be low and sensible, they are willing to produce and invest more. In just the first year of implementation, Russia's GDP grew a dramatic 5%. Between 2001 and 2004, the Hoover Institute found that tax revenue actually rose by 79.7%. The flat tax would treat people the same, while eliminating special interests from the tax code. Even Albert Einstein said that, "the hardest thing in the world to understand is the income tax." The flat tax only requires one simple calculation: income, minus personal deduction, times tax rate. It's a simple idea that works.

## **PRIVATE COMPANIES NEED MODIFIED STANDARDS, NOT SEPARATE RULES**

**John Brannan**

Private companies have long argued that U.S. Generally Accepted Accounting Principles (GAAP) are too expensive to apply and that the results are often of marginal benefit to end users. So the American Institute of Certified Public Accountants and the Financial Accounting Foundation (FAF) created a "Blue Ribbon Panel" to analyze how existing U.S. accounting standards could be leveraged to help improve the usability of private company financial statements.

There are approximately 28 million private companies in the United States. In contrast, there are approximately 14,000 public companies that have reporting requirements with the U.S. Securities and Exchange Commission (SEC). Although private companies may not need to prepare GAAP financial statements for the SEC, they might need them for lenders, bonding companies, regulators and others.

The Blue Ribbon Panel issued a report earlier this year, which includes the following recommendations:

- ◆ The panel concluded there are "urgent and growing systemic issues that need to be addressed in the current system of U.S. accounting standard setting."
- ◆ However, the panel did not recommend a wholesale departure for private companies from U.S. GAAP. In the near term, the report stated, "the system should focus on making exceptions and modifications to U.S. GAAP for private companies that better respond to the needs of the private company sector."
- ◆ A new board should be created that would be overseen by the FAF. The board would be tasked with developing exceptions and modifications to U.S. GAAP to better suit the needs of private companies.

A framework should be developed that the newly formed board could use to determine whether a specific exception or modification to U.S. GAAP is appropriate. The framework would take into account costs, complexity of the revisions, and the overall impact on the relevance and accuracy of a private company's financial statement.

The FAF is considering the panel's recommendations. It is likely that the foundation will release a final recommendation that will be available for public comment. It is possible that the FAF will finalize the changes to private company reporting later this year. We will keep you informed of the progress made concerning this financial reporting issue.

## **LESSEES WILL SEE NOTABLE FINANCIAL REPORTING CHANGES**

**Dawn Lopez**

Currently many assets and liabilities related to lease contracts that are classified as "operating" leases are not included on a lessee's balance sheet. The Financial Accounting Standards Board's (FASB) proposed changes would eliminate the concept of "operating" leases and ensure that all assets and liabilities arising from any lease contracts are recognized on the balance sheet.

The company would recognize a "right-of-use" asset that would be displayed separately on the balance sheet within property, plant and equipment. A corresponding lease liability representing the obligation to make lease payments would be recognized and carried at amortized cost. The value of both the asset and the liability at inception would be based on the present value of expected payments over the lease term.

The timing of expense recognition, and its location on the income statement, would also change. Currently, under our existing standards, operating lease payments are typically reflected as rental expense. Under this proposal, a lessee would record interest expense on the obligation and amortization of the right-of-use assets.

Keep in mind the following implications:

- ◆ Balance sheets will be grossed up for the asset and liability
- ◆ The timing of expense recognition will change and be front-end loaded (expense will exceed the cash payment in early years)
- ◆ Lease payments will be treated as financing cash outflows on your Statement of Cash Flows
- ◆ Some frequently used financial ratios prepared with GAAP data will be affected negatively (for example, debt to equity)

The effective date is still to be determined, but would be no earlier than 2012. We will keep you informed as FASB finalizes the proposed standard.

## **SMALL BUSINESS HEALTH CARE TAX CREDIT**

**Erica Usry**

The Small Business Health Care Tax Credit was available to employers for the first time this tax season and will continue to be available in future years. The credit was signed into law by President Obama on March 23, 2010 as part of the Patient Protection and Affordable Care Act. The intention of this credit is to encourage employers to either continue or begin providing health insurance coverage to their employees. It was designed particularly to benefit employers with low and moderate level income workers. You may qualify for the Small Business Health Care Tax Credit, if you:

- ◆ Cover at least 50% of health care cost for your employees
- ◆ Have less than 25 full-time equivalent employees
- ◆ Pay average annual wages to your employees of less than \$50,000

The credit is currently equal to 35% of the premiums paid (25% for tax-exempt organizations), but it is limited to the state average for health insurance premiums in order not to incentivize high-cost programs. There is also a phase-out, if your employees average annual wages are between \$25,000 and \$50,000, and also, if your full-time equivalent employees are between 10 and 25. Here are some other benefits of the credit:

- ◆ It can be claimed for 6 years
- ◆ It can be carried forward up to 20 years
- ◆ It is refundable credit for tax-exempt organizations

In 2014, the credit will increase to 50% of premiums paid (35% for tax-exempt organizations), but there will be new restrictions, including a stipulation that the employer must participate in a state insurance exchange.

Be sure to inform us, if you think your company is eligible for the credit.

## **SOCIAL SECURITY GOES PAPERLESS, SAVES MONEY**

**Carol Shepherd**

The Social Security Administration (SSA) is saying goodbye to the paper check. Beginning in May 2011, anyone who signs up for Social Security benefits will have to choose an option for receiving their payments electronically, either as a direct deposit or a Direct Express card. If you are currently getting your Social Security checks by mail, you will need to switch to an electronic payment method by March 1, 2013.

The move is aimed at saving approximately \$120 million a year that the SSA currently spends on paper checks. The SSA also estimates that it will save 12 million pounds of paper in the next five years.



## **CLOSING ENTRIES**

### **SPEAKING ENGAGEMENTS**

In May, Dawn Lopez, Partner, and Pam Mattox, Manager, spoke at the Florida Independent School Business Officers Association Conference in Orlando. Their presentation included understanding and preparing cash flows and key ratios, tuition income vs. expenses and how to generate other sources of income to cover operating costs.

### **WELCOME OUR NEWEST STAFF ACCOUNTANT**

In May, Cherilyn Herzhauser joined our Firm as our newest Staff Accountant. Cherilyn is a graduate of USF and has, so far, passed two parts of the CPA exam. She has 6 years of experience in private accounting with an expertise in condominium, homeowner and co-op associations. We are glad to have her as a part of our team!

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**This newsletter is published for our clients and other interested persons. Since this information may be of a technical nature, no final decision should be made without first consulting our office.**

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**Dwight Darby & Company  
611 S. Magnolia Avenue  
Tampa, Florida 33606-2744**