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Client Information Bulletin

April 2009

Avoiding Estimated Tax Penalties for 2009

First installment due date is looming

Once your 2008 tax return has been put to bed—the filing deadline is April 15, 2009, unless you have obtained a six-month filing extension—the last thing you probably want to think about is paying your 2009 taxes. Think again. If you are not careful, you could be assessed an "estimated tax" penalty by the IRS.

Basic premise: As a general rule, you are required to pay income tax during the year via payroll withholding or estimated tax installments. Failure to do so could result in an underpayment penalty, unless you qualify under a special exception or receive a waiver due to extenuating circumstances. In addition, no penalty will be assessed if your shortfall is less than $1,000 or you had no tax liability for the prior year.

Assuming you are paying estimated tax in installments, you must send in the required payment by the quarterly due dates. The regular due dates are April 15, June 15 and September 15 of the current year, and January 15 of the next year. However, if the due date falls on a Saturday, Sunday or legal holiday, it is moved to the next business day.

In other words, the first quarterly installment due date for the 2009 tax year is right around the corner—April 15, 2009. It is the same date as the due date for filing 2008 returns.

The estimated tax payment must be sent to the IRS with the appropriate tax form, or you can credit a 2008 refund toward your current tax liability. If you are an employee receiving wages, income tax withheld from your paycheck counts as estimated tax for this purpose.

Fortunately, the news is not all bad. Depending on your situation, you may take advantage of one of three generous exceptions in the tax law.

1. You are not liable for an estimated tax penalty if the amount paid for the current year equals at least 90% of your tax liability.

2. You are not liable for an estimated tax penalty if the amount paid for the current year equals at least 100% of the prior year's tax liability. The percentage is increased to 110% if your adjusted gross income (AGI) for the prior year was above $150,000.

3. You are not liable for an estimated tax penalty if the amount paid for the current year equals at least 90% of the tax that is due on your "annualized income."

The second exception is usually the easiest to satisfy. **Reason**: You know exactly how much you have to pay because you know the amount of your tax liability for the prior year.

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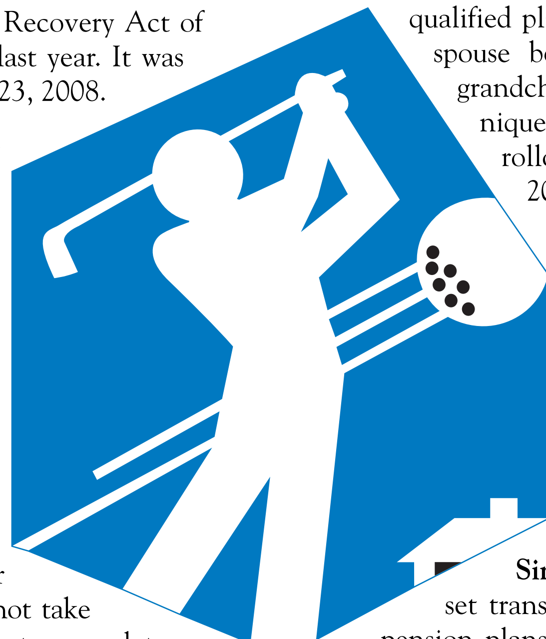
If you do not qualify for any exception, you still may be able to avoid the penalty by increasing the income tax being withheld from your salary. There is no requirement for withholding tax in equal amounts throughout the year. However, certain taxpayers, such as most retirees or self-employed individuals, are not able to make up a shortfall this way.

Other special rules may apply. Seek professional assistance if you have any questions or concerns about your tax liability.

Overview of the New 2008 Pension Law

Key provisions affecting retirement plans

The Worker, Retiree, and Employer Recovery Act of 2008 was passed by Congress late last year. It was promptly signed into law on December 23, 2008.



This new federal legislation includes several important changes affecting qualified retirement plans and IRAs, and clarifies provisions in the Pension Protection Act of 2006 (PPA). The following is a brief summary of several key provisions in the new pension law.

Required minimum distributions: As a general rule, you must begin taking a required minimum distribution (RMD) from your qualified retirement plans, including 401(k) plans and traditional IRAs, by April 1 of the year after the year in which you turn age 70½. If you do not take the RMD, you are liable for a penalty tax equal to 50% of the required amount.

The amount of the RMD is based on your life expectancy and, significantly, the value of your accounts on the last day of the previous year (e.g., December 31, 2007, for 2008 distributions). In light of the recent stock market volatility, the new law suspends the RMD rule, but only for the 2009 tax year. Despite public calls for retroactive tax relief, there is no such waiver for the 2008 tax year. Note that the rule for RMDs will be reinstated for the 2010 tax year.

Nonspouse rollovers: Prior to the PPA, only a surviving spouse was able to roll over proceeds tax-free from a qualified plan to a traditional IRA. A nonspouse beneficiary—such as a child or grandchild—could not use this technique. But the PPA permitted tax-free rollovers for plan distributions after 2006 as long as they were made directly from one trustee to another.

It was not clear at the outset if the administrators of qualified plans were required to provide this option to nonspouse beneficiaries. Under the new law, the option is mandatory, effective for distributions after 2009.

Single-employer plans: The PPA set transitional funding requirements for pension plans, but some employers may have difficulty meeting the targets under current economic conditions. For instance, the target percentage for 2009 is 94%. The PPA requires employers who do not meet these targets to subsequently provide 100% funding. Under the new law, this rule is relaxed so that the employer can limit subsequent funding to the target percentage.

Multi-employer plans: The new law also liberalizes several special PPA funding rules for multi-employer plans in "endangered" or "critical" status. For example, effective for plan years beginning after September 30, 2008, and before October 1, 2009, the current funding status of multi-employer plans may be frozen, based on the prior year's status.

Also, the rehabilitation period is extended from 10 years to 13 years for plans in endangered or critical status in 2008 or 2009 (from 15 years to 18 years for plans in "seriously endangered" condition).

Finally, the new pension law contains a slew of technical corrections to the PPA. Consult with your professional tax advisers for its application to your company retirement plans and your personal situation.

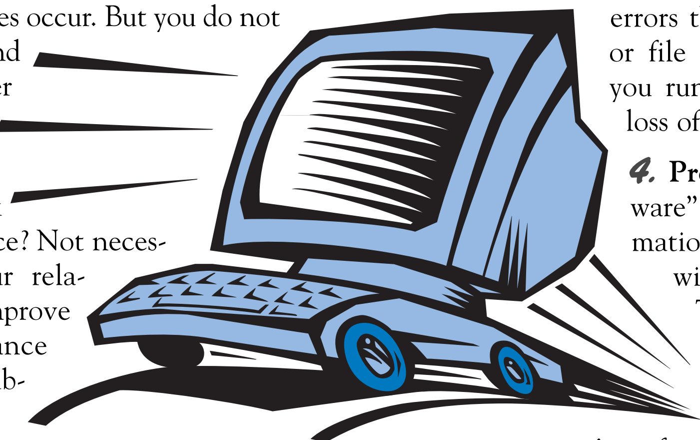
Give Us A Call!

Do you have any questions or comments about this newsletter or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.

Four Ways to Speed Up Computers

Steps that may improve overall performance

It is a common complaint among computer users: Your personal computer—even one that was purchased a short time ago—is running much slower than it did when you first bought it. Programs are sometimes unresponsive, and other glitches occur. But you do not want to run out and buy another computer for your home or office.



Are you simply stuck with poor performance? Not necessarily. Here are four relatively easy ways to improve computer performance without incurring substantial costs.

1. **Free up more disk space.** By using the Disk Cleanup utility tool, you can improve your computer's overall performance. This tool identifies files you can generally delete without any significant repercussions. For instance, Disk Cleanup may be used to remove the following:

- Temporary Internet and Windows files,
- Downloaded program files (e.g., Java applets),
- Files sent to the recycle bin,
- Optional Windows components you do not use and
- Installed programs you no longer use.

Note that temporary Internet files usually occupy the most space because the browser caches every page for later identification.

2. **Use the Disk Defragmenter.** Fragmentation, which occurs as a matter of course, slows down the overall operation of your computer. That is because the computer must search the hard disk to reassemble the files. The Disk Defragmenter consolidates files and file folders so that each one only occupies a single space on the hard disk. As a result, reading and writing to the disk speeds up.

Use the Disk Defragmenter on a regular basis, perhaps monthly. There are other times when it might be helpful. For instance, you might employ this tool when you add a large number of files, your free disk space totals 15% or less, or you install new programs or a new version of Windows.

3. **Identify repairs that are needed.** You can easily check the integrity of the files stored on your hard disk by running the Error Checking utility. This utility tool scans the hard disk for bad sectors and system errors that may have misplaced certain files or file folders. PC experts recommend that you run this utility regularly to help avoid loss of data.

4. **Protect against spyware.** Dreaded "spyware" programs can collect personal information about you without permission or without your even knowing about it. This may include Web sites you have visited and confidential user names and passwords. To compound the problem, spyware can affect your computer's performance.

There are a number of free antispyware programs available through the marketplace as downloads. Do the research required to find the best fit for your particular system.

These are several steps you might take on your own with relative ease. However, if you require further assistance, consult with an expert in the field. In some cases, replacing an old computer system may end up being the best option.

Marketing Your Business Online

Does your small business have a Web site? That should be one of the main aspects of your marketing plan if you intend to expand and grow your company or professional practice.

If you do not currently have a Web site on the Internet, you might be tempted to slap one together quickly. But this is far too important to rush. Your Web site should be graphically stimulating and informative without being ostentatious. You will want to maintain your professionalism while capturing the interest of casual browsers. **Key point**: Provide all the information needed to give an overall view of your business.

Of course, there are several technological issues to consider. For instance, you do not want to create a Web site that takes what seems like an eternity to load. Frustrated viewers will likely move on. Enlist the services of a qualified Web site programmer to handle the details.

Locking In Deductions for Moving Expenses

Two-part test to qualify on your tax return

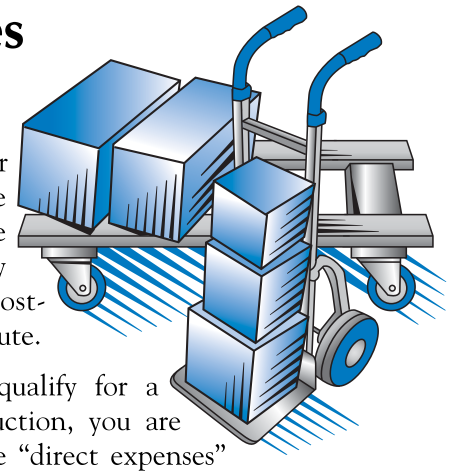
Are you pulling up stakes at your principal residence? If you are moving to a different location because you found a new job or you are being transferred by your current employer, you may qualify for a moving expense deduction on your tax return. On the other hand, if you are making the move strictly for personal reasons, you are completely out of luck—you cannot deduct any of these expenses.

Even if a move is job-related, you must pass a two-part "time and distance" test to secure the deduction. Here is a brief summary.

1. **The time test**: If you are an employee, you must work full-time for at least 39 weeks during the first 12 months after arriving in the general area of the new job. But you do not necessarily have to work for the same employer during that time period. If you are self-employed, you must work full-time for at least 39 weeks during the first 12 months and a total of at least 78 weeks during the first 24 months after arriving in the general area.

The full-time work requirement may be waived in the case of death, disability, involuntary separation from work (other than termination for willful misconduct) or transfer to another location for the benefit of the employer.

2. **The distance test**: Your new job location must be at least 50 miles farther from your old home than your old home was from your old job location. The distance between these two points is generally measured by the most-commonly traveled route.



Assuming that you qualify for a moving expense deduction, you are entitled to deduct the "direct expenses" of making the move. This includes the cost of transferring household goods and personal effects, such as furniture, appliances and pots and pans. If you travel to the new location by car, you can deduct your actual expenses—such as gas, oil, repairs and so on—or take a flat rate deduction of 24 cents per mile (plus tolls and parking fees) for 2009. And if you need lodging along the way, the cost is also deductible.

However, you cannot deduct any "indirect expenses," including the cost of meals, pre-move house-hunting expenses, temporary living quarters and attorney fees and real estate commissions related to the move.

What happens if you are transferred by your company and you are reimbursed for your moving expenses? In that case, there are no tax consequences if the reimbursement covers only direct expenses that would be deductible as moving expenses. Otherwise, any extra reimbursements are treated as taxable compensation.

Facts and Figures

Timely points of particular interest

➡**Medicare Premiums**—The cost of Medicare Part B premiums increases for some retirees in 2009. The basic Part B premium remains at $96.40, but upper-income individuals must pay a higher amount, based on their adjusted gross income (AGI) for 2007. For example, a single filer with an AGI of $200,000 must pay $250.50 monthly. **Good news**: This is the final year of a three-year phase-in of increases.

➡**Payroll Tax Reversal**—Frequently, the IRS claims that workers have been misclassified as independent contractors rather than employees. **About face**: In a new case, the IRS argued that an industrial pipe fitting expert owed self-employment tax. But the Tax Court noted that the expert supervised workers, did not own any of the equipment and did not have a roster of other clients. **Result**: He was classified as an employee.