

## This Month's Topics

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### Check Your Withholdings!

Earlier this year, the Making Work Pay Credit was approved to stimulate the purchasing power of working Americans by putting more of your paycheck into your pockets.

Income tax withholding tables have been lowered to accommodate this, but as a result, some of you will see a lower tax refund amount or an increase in tax owed when filing your 2009 return. Because of this, the following people should check their withholdings:



- Families which include a member who has more than one job, or have both spouses working,
- Any recipient of the \$250 Economic Recovery Payment, and
- Anyone who received more than \$2,400 in unemployment benefits in 2009 (only the excess is taxable).

For assistance with calculating additional withholdings, please consult with your local Padgett office.

### Taxpayer Advocate Service

The Taxpayer Advocate Service is an independent organization within the IRS that assists taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

Taxpayers may be eligible for assistance if:

- They are experiencing economic harm or significant cost (including fees for professional representation);
- They have experienced a delay of more than 30 days to resolve a tax issue; or
- They have not received a response or resolution to their problem by the date promised by the IRS.

The service is free, confidential, tailored to meet taxpayers' needs, and available for businesses as well as individuals. There is at least one local taxpayer advocate in each state, the District of Columbia and Puerto Rico.

Taxpayers can contact the Taxpayer Advocate Service by calling 1-877 777-4778 (toll free) to determine whether they are eligible for assistance. They can also call or write to their local taxpayer advocate, whose phone number and address are listed in the local telephone directory and in Publication 1546, *The Taxpayer Advocate Service of the IRS--How to Get Help With Unresolved Tax Problems*, which is available on the IRS Web site at [www.irs.gov/advocate/index.html](http://www.irs.gov/advocate/index.html).

### Employee Discounts

Offering employee discounts for your products is a benefit which is appreciated by your employees, while not costing the company a lot of money. When handled correctly, the employee gets a tax-free perk, and your company is rewarded residually by having your employees use their products. In general, the plan should:

- Be offered only to current employees
- Be indiscriminate regarding owners, officers, or highly compensated employees

Offer a discount which is not greater than the gross profit margin for the product (or a discount of not more than 20 percent for services).

### Bartering Income

Transactions involving the exchange of property or services instead of cash are called barter exchanges. The fair market value (FMV) of the property or services received in an exchange is taxable income to the recipient.

For example, an auto mechanic repairs a landlord's car in return for 6 months rent-free use of an apartment. The landlord reports the FMV of the auto repair as rental income and the mechanic reports the fair market rental value of the apartment as self-employment income.

*Caution: due to increased bartering activity via the Internet, the IRS has recently signaled its intent to pursue tracking barter exchanges.*

### More Taxpayers Can Use Cash Method of Accounting



Generally, if you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, you must take inventories into account at the beginning and end of your tax year.

However, if your average annual gross receipts for the 3 prior tax years are \$1 million or less and you are an eligible taxpayer who adopts or changes to the cash method of accounting, you will not be required to account for inventories.

If your business has been in existence for less than three years, average gross receipts are determined over the tax years it has been in existence (including annualized amounts for short years). For this purpose, gross receipts are defined as all amounts from the trade or business required to be recognized under your current method of accounting. These amounts include total sales (net of returns and allowances), all amounts received from services, interest, dividends, and rents. You do not have to include taxes that are legally imposed on the purchaser and are merely collected and remitted on their behalf.

If you are not required to account for inventories and do not want to do so, you must treat inventory in the same manner as cost of materials and supplies that are not incidental. Under this rule, inventory costs for raw materials purchased for resale are deductible in the year the finished goods or merchandise are sold (or, if later, the year you paid for the raw materials or merchandise).

If you want to change to the cash method of accounting, you must file Form 3115, *Application for Change in Accounting Method*. You may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment, which is taken into account over a period not to exceed 4 years.

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Padgett Business Services is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.

**PENALTY NOTICE:** As required by U.S. Treasury regulations, you are advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.