

THIS MONTH:

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Should I Panic if I Receive an IRS Notice?

NO!!! Each year, the IRS sends millions of letters and notices to taxpayers for a variety of reasons. Many can be dealt with simply and painlessly. Here are some tips:

1. Notices may request payment of taxes, notify you of changes to your account, or request additional information. The notice will likely cover a specific issue about your account or tax return and provide specific instructions on what you are asked to do to satisfy the inquiry.
2. If you receive a correction notice, you should review the correspondence and compare it with the information on your return. If you agree with the correction, then usually no reply is necessary unless a payment is due or the notice directs otherwise.
3. If you do not agree with the correction the IRS made, it is important that you respond as requested. You should send a written explanation of why you disagree and include any documents and information you want the IRS to consider, along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the upper left-hand corner of the notice. Allow at least 30 days for a response.
4. Most correspondence can be handled without calling or visiting an IRS office. However, if you have questions, call the telephone number in the upper right-hand corner of the notice. Have a copy of your tax return and the correspondence available when you call to help them respond to your inquiry.

Record Keeping

After you file your taxes, you will have many records that may help document items on your tax return. You will need these documents should the IRS select your return for examination. Generally, this means you must keep records that support items shown on your return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund or the IRS can assess additional tax. Returns filed before the due date are treated as being filed on the due date.

	IF you...	THEN the period is...
1	Owe additional tax and (2), (3), and (4) do not apply to you	3 years
2	Do not report income that you should and it is more than 25% of the gross income shown on your return	6 years
3	File a fraudulent return	No limit
4	Do not file a return	No limit
5	File a claim for credit or refund after you filed your return	The later of 3 years or 2 years after tax was paid.
6	File a claim for a loss from worthless securities	7 years

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Repeal of 1099 Reporting

President Obama signed into law on April 14th a bill to repeal expanded Form 1099 information reporting requirements for certain business payments and rental property expense payments. It repeals the following:

1. The requirement to report payments to companies for merchandise purchased in the aggregate of \$600 or more (originally effective for 2012),
2. The requirement for rental property owners to report expense payments in the aggregate of \$600 or more (originally effective for 2011), and
3. The requirement to report payments for services and merchandise to corporations

(other than attorneys and certain health care providers) in the aggregate of \$600 or more (originally effective for 2012).

The repeals under the new law are retroactive, thus reinstating the status quo for Form 1099 reporting as established prior to enactment of the **2010 Patient Protection and Affordable Care Act** and the **2010 Small Business Jobs Act**. In general, only businesses must report payments to service providers in the aggregate of \$600 or more, and the current exception for not reporting payments made to corporations (except attorneys and certain healthcare providers) remains intact. Furthermore, rental property owners must report payments to service providers if their activities rise to the level of a trade or business.

Recent Hires Leaving?

Whenever there is an economic downturn, some newly hired employees may be over qualified for the job which they were hired. This means that you might get a great deal when it comes to their salary. The problem is, once the market rebounds, they may start looking for another new job, one that better suits their skill set. What should you do?

First, consider their value in their current position. A CPA is probably not the best fit for an HR department. Unless you can move that person to a position for which they are properly qualified, it may not be worth it to bend over backwards to keep them.

On the other hand, it might be worthwhile to sweeten the pot if you can find a way to use the employee's strengths. Employer loyalty, job satisfaction, the ability for upward mobility or options for working from home may be just what that employee you would like to keep might want.

Forms W-2 Health Care Reporting for Smaller Employers

In March, the IRS issued interim guidance concerning the Patient Protection and Affordable Care Act of 2010. It states:

1. Reporting of aggregate cost of employer sponsored health plans is now optional for employers filing fewer than 250 Forms W-2 in the previous tax year. This is effective for 2012 W-2s and remains in effect until further guidance is issued.
2. Employers filing 250 or more Forms W-2 for 2011 must include the cost of employer-sponsored health coverage on the forms for the tax year 2012.

For more information, read IRS Notice 2011-28 at or ask your Padgett office.

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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.