

TO ALL BUSINESS CLIENTS

Both the IRS and the California Franchise Tax Board have new reporting requirements which go into effect for 2011 and 2012. Below are some of the most significant changes:

INTERNAL REVENUE SERVICE CHANGES

Sales of stock and securities – If you sold stock through a broker, the broker will issue a 1099-B, detailing the sales price and cost basis. Reporting requirements have changed significantly and now the detail of each sales transaction (original cost basis, sales price, and gain or loss) must be listed on a separate line of a new form included in the tax return. Please look for these 1099-B forms by February 15, 2012 for 2011 activity.

2012 Change: Merchant charges, 1099-K – For those in business, landlords, or sell merchandise online you will receive a new form 1099-K. This form reports by month credit card or other merchant payments (PayPal for example) and your receipts for such payments if in excess of \$20,000 and 200 transactions per year. Businesses will be required to separately state income received on merchant cards and third-party payments, including amounts reported on the new Form 1099-K. To comply with reporting requirements for 2012 be prepared to supply your “merchant statements” to us so we can compare to the 1099-K’s that your business receives.

Foreign accounts –The reporting requirements for assets held overseas are increasing and the penalties for failure to report them are becoming increasingly harsh. Not all foreign holdings must be reported. If, for example you hold stock in a foreign company through a U.S. broker, those holdings do not have to be separately reported. However, if you hold any other types of foreign assets, including bank and security accounts or real property and have income from those you must report on your tax return.

Credit for retained workers – Any worker who qualified the employer for the payroll tax holiday under the HIRE Act may also qualify the employer for a credit of up to

\$1,000 if that worker is retained as an employee for at least 52 weeks. A retained worker is “retained” if that worker’s wages during the last 26 weeks of the 52-consecutive-week period equal at least 80% of the worker’s wages during the first 26 weeks.

Small employer health insurance credit – The Health Care Act provides a credit for small employers that provide health coverage for their employees. Generally, the credit is available for employers with no more than 25 full-time equivalent (FTE) employees and average annual wages no greater than \$50,000 per year. The credit is claimed on the employer’s annual income tax return, and is part of the general business credit. The credit may be as high as 50% of premiums paid but is phased down by the sum of formulas based on the number of FTE employees in excess of ten and the average annual wages in excess of \$25,000. **The credit is not available for wages paid to individuals who are treated as owners, such as sole proprietors, partners, 2% shareholders in S corporations, and 5% owners of any other business within the meaning of the Internal Revenue Code. Disqualified individuals also include the following: child or descendant of a child, sibling or step-sibling, parent or ancestor of a parent, stepparent, niece or nephew, aunt or uncle, or son-in-law, daughter-in-law, mother-in-law, father-in-law, brother-in-law or sister-in-law.**

CALIFORNIA CHANGES

California property manager withholding – The California Franchise Tax Board’s definition of a withholding agent is anyone who collects or sends money to a nonresident property owner. The property manager is required to withhold at 7% on payments to nonresident property owners that will be greater than \$1,500 in the calendar year unless withholding agent received authorization for waived or reduced withholding from the FTB.

State board of equalization – Use Tax Purchases – The BOE will automatically deregister taxpayers that have filed zero returns for three consecutive years. The BOE began mailing deregistration notices in October 2011.

NOLs – Net operating losses are suspended again for the 2011 taxable year for corporations and LLCs taxed as corporations with preapportioned net income of \$300,000 or more.

Sincerely,

Robert C. Davis, C.P.A.

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