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## Tax & Business Issues Spring 2011

### Do Not Mix Your Business & Personal Bank Accounts!

Whether you are working on your business part-time, operating as a sole proprietor, or starting a business with a more formal structure (such as a partnership or corporation) ---- it's vital that you keep your business banking separate from your personal finances.

Keeping the two separate not only provides your business with credibility, it reduces your personal liability (a must if you are incorporating your business as a distinct and separate legal entity under its own name) and helps you to manage your taxes, bills, and other payments.

Below are some reasons why you might want to consider a business bank account and information about how to go about finding the right one for you. If you aren't convinced that you need to separate your business and personal banking, consider the following reasons:

- **It Keeps Your Books in Order and the Tax Man from Your Door** — From a recordkeeping and cash flow standpoint, co-mingling your finances can quickly become sticky, even for freelancers and part-time business owners. It is a risk most business owners or start-ups cannot afford to take!

For one thing, IRS recordkeeping requirements for income and tax deductions require that business and personal transactions be kept separate. While the IRS doesn't require that you maintain a separate bank account for your business, it does require accurate record keeping ---- and keeping things separate makes it a lot easier to provide a clear audit trail.

- **It is a Must that You Maintain a Separate Business Banking Account** — If your business is incorporated or you have intentions of incorporating, there is no choice in the matter since you are operating a separate tax-paying entity.
  - *Save on Accounting Costs* — Rifling through the line-by-line items in a year's worth of bank statements can also be a headache come tax

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time; if you use an accountant, it will cost you more in the long run if he or she has to rummage through your messy recordkeeping.

- *Streamline Your Tax Payments* — If you make or plan on making quarterly estimated tax payments to the IRS and your state treasury, it is always useful to have a set-aside business bank account where a percentage of each paycheck is deposited to ensure that your tax obligations are covered. This way, when it comes time for making payments, you are not scrambling with your personal finances to cover your taxes. This is particularly important for sole proprietors and independent contractors who operate under their own business names.

Even if you don't set up a formal business account, at least maintain a separate online bank account where tax payments can easily be transferred from one bank account to another.

- *Give Your Business a Professional Image* — Another reason, albeit superficial, why you should have a business bank account, is that when it comes to writing checks and paying bills, it will give your business more credibility and also save you plenty of headaches.

Even if your business is registered under a "doing business as" (DBA) name, such as "Creative Web Concepts," clients will still be using your personal name when making payments unless a bank account with your business name is set up for that purpose.

This can often catch-out accounting departments which have invoices in hand from "Creative Web Concepts" but must make checks payable to a separate individual. This can affect your ability to be paid accurately and on time. It can even attach a part-time/lack of professionalism tag to your business.

## Setting Up a Business Banking Account

Once you have decided that a business bank account is the way to go, how do you find the right bank and the right account? Choosing a bank for your business can be an overwhelming and frustrating process, but it can have a big impact on your success. Unlike personal checking accounts, a business banking account is fee-based. However, the benefits gained and the headaches avoided as your business grows will outweigh the costs. An additional benefit is that these fees are tax-deductible.

## Do You Have to File a Tax Return?

Not all individuals are required to file tax returns. If your income is less than the sum of your standard deduction and personal exemptions, you are generally not required to file a tax return. There are, however, circumstances where you may have to file anyway based on certain types of income or special circumstances.

Even if you are not required to file, it may be in your best interest to do so. The following are some of the instances in which you may want to file a tax return even though you are not required to do so.

- **Federal or State Income Tax Withheld** — You should file to get money back if federal or state income tax was withheld from your pay, if you made estimated tax payments, or if a prior year overpayment was applied to this year's tax return.

## Upcoming Events

For specific information and to register for any of the upcoming events, please visit our website at [www.capincrouse.com](http://www.capincrouse.com) today.

### Higher Education Roundtables

**Tuesday, March 22**  
**Dallas, TX**  
Dallas Theological Seminary

**Wednesday, March 23**  
**Pasadena, CA**  
Fuller Theological Seminary

**Thursday, March 24**  
**Costa Mesa, CA**  
Vanguard University

**Tuesday, March 29**  
**Atlanta, GA**  
CapinCrouse Office

**Tuesday, April 5**  
**Lombard, IL**  
Northern Baptist Theological Seminary

### Webcasts

**Thursday, March 24**  
**1:00 pm EST**  
Executive Compensation Update

**Thursday, April 28**  
**1:00pm EDT**  
Board Governance Update

**Thursday, May 26**  
**1:00pm EDT**  
12 Often Overlooked Things That All Exempt Organizations Should Know

**Thursday, June 23**  
**1:00pm EDT**  
Unrelated Business Activities: Setting up an Efficient System of Accountability for Your Organization

### Financial Seminars for Churches

**Tuesday, May 17**  
**Brea, CA**  
ECCU

**Wednesday, May 18**  
**Sun Valley, CA**  
Grace Community Church of the Valley

**Thursday, May 19**  
**San Diego, CA**  
The Rock Church

**Thursday, May 19**  
**Lombard, IL**  
Lindner Conference Center

- **Making Work Pay Credit** — You may qualify for the making work pay credit if you had earned income from work. The maximum credit for a married couple filing a joint return is \$800; it is \$400 for other taxpayers.
- **Earned Income Tax Credit (EITC)** — You may qualify for EITC if you worked but did not earn a lot of money. EITC is a refundable tax credit, which means you could qualify for a tax refund even if you had no withholding.
- **Additional Child Tax Credit** — This refundable credit may be available to you if you have at least one qualifying child and the credit exceeded your tax liability for the year.
- **American Opportunity Credit** — Up to 40% of this credit, which applies to the first four years of post-secondary education, is refundable, and the maximum credit per student is \$2,500.
- **First-Time Homebuyer Credit** — The credit is a maximum of \$8,000, or \$4,000 if your filing status is married filing separately. To qualify for the credit, taxpayers must have bought — or entered into a binding contract to buy — a principal residence located in the United States on or before April 30, 2010. If you entered into a binding contract by April 30, 2010, you must have closed on the home on or before September 30, 2010. If you bought a home as your principal residence in 2010, you may be able to qualify, and claim the credit even if you already owned a home. In this case, the maximum credit for long-time residents is \$6,500, or \$3,250 if your filing status is married filing separately.
- **Health Coverage Tax Credit** — Certain individuals, who are receiving Trade Adjustment Assistance, Reemployment Trade Adjustment Assistance, or pension benefit payments from the Pension Benefit Guaranty Corporation, may be eligible for a Health Coverage Tax Credit worth 80 percent of monthly health insurance premiums when they file their 2010 tax returns.

If you have questions related to whether you must file or whether you should file, please give our Tax Department a call.

## Are You Supporting Your Parents?

If you are helping support your parents, you may qualify to claim a tax benefit if you are providing over half of your parents' support. But you may be having difficulty showing over half of the support for both parents, thus failing to qualify for the dependency exemptions (and for the beneficial head of household filing status if you are a single taxpayer).

You may overcome this problem by designating the support to only one of your parents. This may allow you to claim at least one parent as your dependent and, if you are unmarried, permit you to file as head of household.

To qualify for the head of household filing status, an unmarried taxpayer must maintain a household that constitutes one or both of his or her parents' principal abode, and at least one of the parents must be the taxpayer's dependent, i.e., must individually have gross taxable income for the year of less than the personal exemption amount (\$3,650 for 2010) and receive over half of his or her support from the taxpayer. The taxpayer himself need not reside in the household he or she maintains for the parents. The home could even be a retirement home or facility.

## We Can Help!

The staff at CapinCrouse LLP works with hundreds of churches and not-for-profit organizations. This experience base allows us to quickly identify areas for improvement in many organizations. If your organization desires to improve its efficiency, please contact your Capin Crouse representative or one of our offices to discuss how we may help you.

## About CapinCrouse LLP

With more than 700 not-for-profit organizations and 1,500 tax clients, CapinCrouse is the country's leading accounting and advisory firm primarily serving the Christian not-for-profit community.

Since 1972, CapinCrouse has been serving not-for-profit entities including megachurches, institutions of higher education and secondary schools, and international missions agencies by providing a full range of audit, review, tax, and advisory services.

CapinCrouse is dedicated to helping our clients operate with financial integrity so that they can dedicate themselves to fulfilling their mission.

To accomplish this, the taxpayer must be able to provide proof that the support is for one of the parents only. Otherwise, the support will be designated as a “fund” equally allocated to both, making it harder to qualify as providing over half the support for either one. The IRS suggests a notation on a check as an acceptable designation procedure. It says, “Notations by the maker on support checks purporting to allocate funds to particular household members made payable to an individual having custody of a claimed dependent will be regarded as evidence of actual support.”

Although having no effect on filing status, when several people together provide over 50% of support, all who provide more than 10% of the support can agree about which of them will claim the dependent. Of course, the agreeing parties must also otherwise qualify to claim the dependent. Each person who is relinquishing the dependent exemption must complete an IRS form for attachment to the return of the taxpayer claiming the dependent.

Please contact one of our offices if you are supporting both parents and would like to discuss how the foregoing might apply to your specific situation.

## Important Facts about Dependents and Exemptions

Some tax rules affect every person who may have to file a federal income tax return; these rules include dependents and exemptions. Here are some important facts you need to know that are related to dependents and to claiming exemptions on your tax return.

- **Exemptions reduce your taxable income** — There are two types of exemptions: personal exemptions (one for the filer or two if married taxpayers are filing jointly) and exemptions for dependents claimed on a tax return. For each exemption claimed on the tax return for 2010, a \$3,650 deduction is allowed. For example, a married couple filing jointly with two dependent children would be allowed 4 exemptions for a total deduction equaling \$14,600 (4 times \$3,650).
- **A spouse is never considered a dependent** — This is because, when filing a joint return, a couple is allowed to claim two exemptions, one for each of them. If filing a separate return, a taxpayer may claim the exemption for a spouse only if the spouse had no gross income, is not filing a joint return, and was not the dependent of another taxpayer. (This exception for separate returns usually does not apply if you live in a community property state such as California, Texas, Washington and others.)
- **Exemptions for dependents** — Generally, an exemption can be claimed for each of a taxpayer's dependents. A dependent is a taxpayer's qualifying child or qualifying relative. It is possible for a non-relative to qualify as a dependent if the person lived with the taxpayer all year as a member of the taxpayer's household and other tests are met. The Social Security number (SSN) of any dependent claimed as an exemption must appear on the tax return. Without the SSN, the IRS will disallow the dependent exemption.
- **Child of divorced or separated parents** — The exemption for a child can be claimed by only one of the parents. If more than one parent claims the child as a qualifying child and the parents don't file a joint return together, the child is treated as the qualifying child of: (a) the parent with whom the child resided for the longer period of time during the tax year, or (b) if the child resides with both parents for the same amount of time during the tax year, the parent with the higher adjusted gross income. However, a child is treated as the qualifying child of the noncustodial

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Atlanta  
**678.518.5301**

Chicago  
**630.682.9797**

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**214.624.5077**

Denver  
**720.283.7326**

Indianapolis  
**317.885.2620**

Los Angeles  
**714.671.9300**

Orlando  
**407.883.4671**

San Diego  
**858.638.7220**

parent if the custodial parent releases a claim to the exemption using IRS Form 8332.

This is frequently a bone of contention between divorced and separated parents. It is important to understand that the law governing who has the right to claim a child's exemption is federal tax law, and the IRS will not accept a state court's allocation of exemptions. For example, a state divorce court cannot award physical custody to one parent and then specify that the other parent can claim the child for tax purposes.

- **Dependents may still be required to file their own tax returns** — Even if an individual is claimed as a dependent on someone else's tax return, the individual claimed as the dependent may still be required to file their own tax return depending on a number of factors, including the amount of unearned, earned or gross income, marital status, any special taxes owed, and any advance Earned Income Tax Credit payments received.
- **The dependent of another may not claim an exemption** — If someone else - such as a parent - claims an individual as a dependent, then the individual may not claim his or her personal exemption on his or her own tax return.
- **Some people cannot be claimed as dependents** — Generally, you may not claim a married person as a dependent if he or she is filing a joint return with a spouse. Also, to claim someone as a dependent, that person must be a U.S. citizen, U.S. resident alien, U.S. national, or resident of Canada or Mexico for some part of the year. There is an exception to this rule for certain adopted children. Call this office for information related to the exceptions.

For more information on exemptions, dependents, and whether you or your dependent needs to file a tax return, please give our Tax Department a call.

## Child and Dependent Care Credit

If you paid someone to care for a child under age 13, or a qualifying spouse or dependent to allow you to work or look for work, you may be able to reduce your tax by claiming the Child and Dependent Care Credit on your federal income tax return. To qualify, your spouse, children over the age of 13, and other dependents must be physically or mentally incapable of self-care.

The good news is that increased child care benefits provided as part of the Bush era tax cuts have been extended through 2012. That means, instead of the credit percentage dropping to 30%, the higher 35% credit will continue for two more years. In addition, the maximum expenses qualifying for dependent care credit will remain at \$3,000 (\$6,000 for two or more qualifiers) instead of dropping to \$2,400 (\$4,800 for two or more qualifiers) as previously scheduled. The credit is a percentage of the amount of work-related child and dependent care expenses paid to a care provider.

To claim the credit for child and dependent care expenses, the following conditions must be met:

- The care must have been provided so you — and your spouse if you are married filing jointly — could work or look for work.
- You — and your spouse if you are married filing jointly — must have earned income from wages, salaries, tips, other taxable employee compensation or net earnings from self-employment. One spouse may be considered as having earned income if he or she were a full-time student or physically or mentally unable to care for themselves.

- The payments for care cannot be paid to your spouse, someone you can claim as your dependent on your return, or your child who will not be age 19 or older by the end of the year even if he or she is not your dependent. The care provider(s) must be identified on your tax return.
- Your filing status must be single, married filing jointly, head of household, or qualifying widow(er) with a dependent child.
- The care must have been provided for one or more qualifying persons.
- The qualifying person generally must have lived with you for more than half of 2010. There are certain exceptions for the birth or death of a qualifying person, or a child of divorced or separated parents.
- If you pay someone to come to your home and care for your dependent or spouse, you may be a household employer. If you are a household employer, you may have to withhold and pay social security and Medicare tax and pay federal unemployment tax.

There may be some additional limitations on the amount of credit that can be claimed. If you received dependent care benefits from your employer or the care was provided in your home, other rules will apply. Please contact our Tax Department for additional details.

## Are You Making a Move?

If your home or business address has changed, make sure that you update this information with the IRS to ensure that you receive any refunds or correspondence from them. Since the IRS meets its notice requirements by sending notices to your last known address, it is not an excuse that you did not receive the correspondence if you have not provided the new information.

Although no one likes to receive mail from the IRS, other than a refund check, it is important that you timely receive their correspondence and respond promptly. Otherwise, the IRS will automatically escalate the inquiry, making it far more difficult to deal with. If additional tax will be owed as a result of an inquiry, penalties and interest will continue to accrue.

## Due Date Reminders

### **February 28, 2011. All businesses.**

File an information return (Form 1099) with IRS for certain payments you made during 2010. There are different versions of Form 1099 for different types of payments. Use a separate Form 1096 to summarize and transmit each separate version. For a 30-day extension of time to file, use Form 8809. The due date for electronic filers is Mar. 31, 2011.

### **February 28, 2011. All employers.**

File Form W-3 along with Copy A of all the Form W-2s you issued for 2010. The due date for electronic filers is Mar. 31, 2011.

### **March 15, 2011. C corporations and S corporations.**

File a 2010 calendar year income tax return (Form 1120 or Form 1120S ) and pay any tax still due. If you want an automatic 6-month extension, file Form 7004 and deposit what you estimate you owe.

### **March 15, 2011. S elections.**

File Form 2553 to choose to be treated as an S corporation, beginning with

calendar year 2011. If Form 2553 is filed late, S treatment will begin with calendar year 2012 (unless IRS determines there was reasonable cause for failure to file on time).

**March 31, 2011. Electronic filers of information returns.**

File information returns listed under Feb. 28 (e.g., Form 1099s, Form W-2s, etc.), which is the due date for non-electronic filers.

**April 18, 2011. Individuals.**

File an income tax return for 2010 (Form 1040, Form 1040A, or Form 1040EZ), and pay any tax due. Taxpayers who can't make payments should request (on Form 9465) an agreement to pay in installments. If you want an automatic 6-month extension to file, file Form 4868 and estimate your tax or pay by credit card. Then file Form 1040 or Form 1040A by Oct. 17.

If you paid cash wages of \$1,700 or more in 2010 to a household employee you must file Schedule H with your income tax return (Form 1040) and report any employment taxes and withheld income taxes for those employees.

Contributions to an IRA for 2010 must be made by this date.

If you aren't paying your 2011 income tax through withholding (or won't pay in enough tax during the year that way), pay the first installment of your 2011 estimated tax by this date. Use Form 1040-ES or pay by credit card or by EFTPS.

**April 18, 2011. Partnerships.**

File a 2010 calendar year return (Form 1065) and provide each partner with a copy of Schedule K-1. If you want an automatic 5-month extension to file the return and provide Schedule K-1 or a substitute Schedule K-1, file Form 7004. Then file Form 1065 by Sept. 15.

**April 18, 2011. Corporations.**

Deposit the first installment of estimated income tax for 2011.

**May 15, 2011. Income Tax Exempt Organizations**

File a 2010 calendar year information return (Form 990) and if there is unrelated business income, an income tax return (Form 990T ) and pay any tax still due.

**June 15, 2011. Individuals.**

If you are a U.S. citizen or resident alien living and working (or on military duty) outside the U.S. and Puerto Rico, file your 2010 Form 1040 and pay any tax, interest and penalties due. Otherwise, see April 18, above. However, if you are a participant in a combat zone you may be able to further extend the filing deadline.

Make the second installment payment of your 2011 estimated tax, if you aren't paying your income tax for the year through withholding (or won't pay in enough tax that way). Use Form 1040-ES or pay by credit card or by EFTPS.

**June 15, 2011. Corporations.**

Deposit the second installment of estimated income tax for 2011.

**August 1, 2011. All employers.**

If you maintain an employee benefit plan, such as a pension, profit-sharing, or stock bonus plan, file Form 5500 or Form 5500-EZ for calendar year 2010. If you use a fiscal year as your plan year, file the form by the last day of the seventh month after the plan year ends.