



# DONOVAN SULLIVAN & RYAN

June 2010

A Newsletter for our Clients and Friends

## DON'T PANIC IF YOU RECEIVE AN IRS NOTICE

Each year, the IRS sends millions of letters and notices to taxpayers to request payment of taxes, notify them of a change to their account, or to request additional information. Don't panic; most of these letters can be dealt with simply and painlessly.



Several of our clients have recently received notices from the IRS pertaining to their 2009 returns. Typically these notices indicate that the IRS has questions about some of the items claimed on the return and they will be in touch with more information. In some cases, a partial refund has been issued and, to make matters more confusing, the refund check arrived before the letter of explanation. Several of these cases have pertained to returns where our clients have claimed a refundable education credit. These credits appear to be triggering letters and partial refunds from the IRS.

Additionally, the letters must advise you of your rights and other information required by law. These letters can become overly lengthy and sometimes difficult to understand. If you are contacted it is important to call our office immediately and forward a copy of the letter or notice so it can be reviewed and handled accordingly.

Please do not procrastinate or hope the issue will go away. Most of these letters are computer generated and, after a certain period of time, another letter will automatically be generated. As you might expect, each succeeding letter will become more aggressive and less easy to deal with.

Most importantly, don't automatically pay an amount to the IRS without discussing it with us first. Quite often, you will not owe what is requested and it will be difficult to get your payment back. It is important that we review any IRS correspondence so we can deal with the issue promptly and correctly.

### WHAT IS THE NEW SMALL BUSINESS HEALTH CARE TAX CREDIT?

Are you a **small business** or **tax-exempt organization** that pays at least half the cost of single health insurance coverage for your employees? If so, you may qualify for a new tax credit. The new **small business health care tax credit** is effective now as part of the Affordable Care Act, which became law this year.

#### Who's eligible for the credit?

The credit is targeted to help employers with low and moderate income workers afford to offer employees health insurance coverage. Generally, employers that have fewer than 25 full-time equivalent (FTE) employees and pay wages averaging less than \$50,000 per employee per year may qualify for the credit. Because the eligibility formula is based in part on the number of FTEs, not the number of employees, employers that have more than 25 individual workers may also qualify if some of their workers are part-time.

#### How much is the tax credit?

For each year from 2010 through 2013, the maximum credit is 35 percent of premiums paid by eligible small businesses and 25 percent of premiums paid by eligible tax-exempt organizations. An enhanced version of the credit will be effective beginning in 2014.

#### How and when can I claim the credit?

Small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return filed in 2011. Tax-exempt employers can expect additional information in the coming months on how to claim the credit.

**Call our office to find out more about credit and see if you are eligible.**

***"More than accountants...business advisors"***



FROM THE  
PARTNERS  
PEN....

Dear Clients and Friends,

The official start of summer is just a few weeks away. Now is a good time to remind everyone that our office will be closed on Fridays during July and August. This gives our staff more time to relax and enjoy the summer. If you need to reach us during the week, you may do so on Monday–Thursday from 9 a.m. to 5 p.m.

Summer is the perfect time to analyze your tax situation. If you know that your income is going to change significantly this year, now is the time to adjust your estimated payments. I can help you with this and any other tax planning questions you may have.

Hope you have a safe and fun-filled summer!

Sincerely,

Mike Ryan



**Go Celtics!**

## WHICH TAX DOCUMENTS SHOULD YOU HOLD ONTO AND FOR HOW LONG?

Another tax season has come and gone and you are probably wondering which documents you should keep in case you are audited by the IRS. Generally, we keep tax records for two basic reasons: (1) in case the IRS or a state agency decides to question the information reported on our tax returns, and (2) to keep track of the tax basis of our capital assets so that the tax liability can be minimized when we actually dispose of them.



### Here's a Checklist Of The Documents You Should Retain:

- **Capital gains and losses.** Your gain is reduced by your basis - which is your cost (including all commissions) plus, in the case of mutual funds, any reinvested dividends and capital gains. You may have bought that stock years ago and you may have been reinvesting those mutual funds and capital gains over the last decade. Don't forget those stock splits. Keep all these records until after you sell the securities. If you're audited, you're going to have to prove your basis so you'll need to keep those records for at least three years after you file the return reporting their sales.
- **Expenses on your home.** Cost records for your house and any improvements should be kept until the home is sold. It's just good practice, even though most homeowners won't face any tax problems. Since profit of less than \$250,000 on your home (\$500,000 on a joint return) isn't subject to taxes under tax legislation enacted in 1997. If the profit is more than \$250,000 (\$500,000 on a joint return), or if you don't qualify for the full gain exclusion, then you're going to need those records for another three years after that return is filed. Most homeowners probably won't face that issue thanks to the 1997 tax law, but better safe than sorry.
- **Business records.** Non-residential real estate is now depreciated over 39 years. You could be audited on the depreciation up to three years after you file the return for the 39th year. That's a long time to hold onto receipts, but you may need to validate those numbers.
- **Employment, bank and brokerage statements.** Keep all your W-2s, 1099's, brokerage and bank statements to prove income until three years after you file or longer if you need to. Hold on to check, receipts, mileage logs, tax diaries and other documentation that substantiate your expenses.
- **Tax Returns.** Keep copies of your tax returns as well. If we have prepared your returns, no need to worry because we automatically keep copies. The bottom line is that you've got to be able to provide copies of these records until they can no longer affect your tax return, plus the three-year statute of limitations.
- **Social Security Records.** You will need to keep some records for Social Security purposes. Make sure that the statement you receive periodically from the Social Security Administration is accurate. If you find a discrepancy, you'll need your W-2s or copies of your Schedule C (if self employed) to prove the right amount. Hold on to W-2s and any Schedule C's until after you've validated the information with the SSA.

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