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2009 BUSINESS AND PAYROLL UPDATE

READ CAREFULLY! IF YOU HAVE ANY QUESTIONS, PLEASE CALL.

SOCIAL SECURITY RATES

The social security rate for 2010 will remain at 6.2% for employees and 12.4% for self-employed individuals on earnings up to \$106,800. In addition, the Medicare hospital insurance portion of the FICA Tax remains at 1.45% for employees and 2.9% for self-employed individuals on all earnings (there is no limit). Thus, the total FICA rate will remain at 7.65% for employees and 15.30% for self-employed individuals up to \$106,800 with an additional 1.45% tax (2.9% for self-employed individuals) on earnings over \$106,800.

ENERGY CREDITS

Energy credits of \$1,000 or \$2,000 are available to those in the construction and manufacturing industries. Energy-saving improvements to commercial real estate can be expensed in 2009, capped at \$1.80 per square foot of space for buildings achieving 50% energy savings.

QUALIFIED PRODUCTION ACTIVITIES INCOME DEDUCTION (Section 199)

In 2009, under Code Section 199, taxpayers may deduct up to 6% of their domestic manufacturing income based on the lesser of qualified production activities (manufacturing) income and taxable income. The deduction is also limited to 50% of the W-2 wages allocated to domestic production receipts paid during the year. Examples of industries that qualify include manufacturing, production, extraction, construction, architects and engineering. Only the sales and expenses related to the activities listed above qualify for the deduction. In 2010, the deduction is increased to 9% of the domestic manufacturing income.

"S" CORPORATION HEALTH INSURANCE FOR SHAREHOLDERS

If you happen to have elected "S" Corporation status, the amounts paid by the Corporation for health insurance premiums on behalf of a more than 2% shareholder must be added to federal gross wages on the W-2 for that individual.

SELF-EMPLOYED SPOUSAL HEALTH INSURANCE

Self-employed individuals - whether in partnerships, limited liability companies, "S" Corporations, or sole proprietorships - who hire their spouses as employees, can deduct their medical benefits as legitimate business expenses.

FEDERAL TAX DEPOSITS

If your aggregate employment taxes have reached the "threshold amount" of \$200,000 for the year 2009, you are required to make payments through Electronic Fund Transfer (EFT). If you are currently using the EFT system and later go below the threshold amount, you must continue to deposit your taxes using this method.

PENNSYLVANIA MINIMUM WAGE AND NEW HIRE REPORTING

The minimum wage in Pennsylvania was increased to \$7.15 on July 1, 2008. Remember that it is still mandatory to report to Pennsylvania all new employees within 20 days of hiring. An information packet with blank forms was mailed to all employers in December, 1997. For further information, you may call the Pennsylvania Bureau of Research and Statistics (1-888-724-4737).

REPORTING PAYMENTS MADE TO ATTORNEYS

There is no threshold amount below which reporting [under section 6045(f)] is not required. Payments made to any company (including corporations) engaged in providing legal services are reportable on Form 1099-MISC.

MILEAGE RATES

The official per-mile rate for business use of a car is 55 cents.

SECTION 179 EXPENSE AND VEHICLE DEPRECIATION

The Section 179 expensing provision is \$250,000 in 2009 and decreases to \$134,000 in 2010, with phase out thresholds beginning at \$800,000 and \$530,000 in 2009 and 2010, respectively. For SUVs (rated between 6,000 and 14,000 pounds gross vehicle weight) placed in service in 2009 or 2010, the expensing amount is limited to \$25,000. The 2009 depreciation deduction limit on passenger automobiles is \$2,960 and \$3,160 for light trucks and vans. The 2009 depreciation deduction limit for "qualified property" passenger automobiles is \$10,960 and \$11,160 for light trucks and vans. The vehicle must be used more than 50% for business.

BONUS DEPRECIATION

The bonus depreciation provision has made a comeback. For property placed in service after December 31, 2007, in tax years ending after that date, an additional depreciation deduction in the placed in service year equal to 50% of the adjusted basis of "qualified property" will be allowed.

RETIREMENT PLAN CONTRIBUTIONS

The start of the \$10,000 (for singles) and \$20,000 (for MFJ) phase out for tax-deductible contributions to regular IRAs by "active participants" in employer-sponsored plans is \$55,000 AGI for singles and \$89,000 AGI for couples. Also, taxpayers 50 and over can make "catch-up" contributions to IRAs, 401(k)s and SIMPLEs (see chart below).

Retirement Plan Contribution Limits						
Year	401(k)s	401(k)s for Taxpayers 50 & over	IRAs *	IRAs * for Taxpayers 50 & over	SIMPLEs	SIMPLEs for Taxpayers 50 & over
2009	\$16,500	\$22,000	\$5,000	\$6,000	\$11,500	\$14,000
2010	Indexed to inflation		Indexed to inflation		Indexed to inflation	
*Traditional and Roth IRAs						

The amount of contributions or benefits that can be provided for taxpayers as participants under a qualified plan is limited, based on the type of plan. This year, the amount of contributions and benefits that can be provided under both **defined contribution and defined benefit plans** is \$49,000. The compensation used to determine contributions to qualified plans is \$245,000.

LOCAL SERVICES TAX

If your business is located in a jurisdiction in which the *Emergency and Municipal Services Tax*, now called the *Local Services Tax*, exceeds \$10.00 annually, you should have received information regarding the method of withholding and payment of this tax. If you have any questions about this, please contact Berkheimer Associates at (814) 455-2710 or (866) 533-5219.

Sincerely,

DeMarco Wachter & Co.

Any federal tax advice contained herein is not intended or written to be used, and cannot be used by you or any other person, for the purpose of avoiding any penalties that may be imposed by the Internal Revenue Code. This disclosure is made in accordance with the rules of Treasury Department Circular 230 governing standards of practice before the Internal Revenue Service. Any written statement contained herein relating to any Federal tax transaction(s) or matter(s) may not be used by any person without the express prior written permission in each instance of a partner of this firm to support the promotion or marketing of or to recommend any Federal tax transaction(s) or matter(s) addressed herein.