



## Peterson Tax & Bookkeeping Service

*Small Business Specialist*

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# Peterson Tax Letter

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### In This Issue:

- American Recovery and Reinvestment Act of 2009
- 2009 Standard Mileage Rates
- Retirement Plans for Small Employers
- America's Recovery Capital (ARC) Loan Program for Small Businesses
- Minnesota Ends Reciprocity with Wisconsin

### Useful Links:

*Internal Revenue Service*  
*Minnesota Department of Revenue*  
[www.petersontaxinc.com](http://www.petersontaxinc.com)

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## The American Recovery and Reinvestment Act of 2009 (ARRA) Provides Tax Incentives for Businesses

### Reduction of Estimated Tax Payments

Normally, small businesses have to pay 110 percent of their previous year's taxes in estimated taxes. The Recovery Act permits **qualifying** small businesses to reduce their estimated payments to 90 percent of the previous year's taxes.

### Extension of Bonus Depreciation Deductions Through 2009

Bonus depreciation is extended through 2009, allowing businesses to take a larger tax deduction within the first year of a property's purchase (covered in our October newsletter).

**Section 179 Expensing** During 2009, small businesses can elect to expense up to \$250,000 of the cost of qualifying property under section 179. The \$250,000 amount provided under the new law is reduced if the cost of all section 179 property placed in service by the taxpayer during the tax year exceeds \$800,000. (Covered in October newsletter.)

### COBRA: Health Insurance Continuation Subsidy

Under the new law, employees who were involuntarily terminated after Aug. 31, 2008 and before Jan. 1, 2010, and who elect COBRA health continuation coverage, are entitled to receive a 65 percent subsidy on their COBRA premiums. For periods of COBRA coverage beginning after Feb. 16, 2009, the involuntarily terminated employee must be treated as having paid the required COBRA premium if the individual pays 35 percent of the premium amount. The employer (or, in some cases, multiemployer health plan or insurer) may recover the other 65 percent by taking the subsidy amount as a credit on their quarterly employment tax return.

## 2009 Standard Mileage Rates

*The standard mileage rate for the cost of operating your car is:*

- 55 cents a mile for business miles
- 24 cents a mile for medical miles
- 24 cents a mile for a deductible move
- 14 cents a mile for charitable miles

Any Year-End Tax Questions?

Call Us

612-866-2530



Check our website for copies of prior newsletters

### Increased Exclusion Amount for Commuter Transit Benefits and Transit Passes

The new law increased to \$230 the monthly tax exclusion for employer-provided commuter transportation and transit pass benefits, effective from March through the end of 2009. Employers can generally deduct these qualified transportation fringe benefits as a business expense. These benefits are also excluded from an employee's wages for income tax and payroll tax purposes. Because of this exclusion from employee wages, the employer can reduce the amount paid in employment taxes.

### Retirement Plans for Small Employers

A new web-based [IRS Retirement Plan Navigator](#) is available to help small business owners determine which plan best suits their needs and how to keep in compliance with the plan. A [Plan Comparison Table](#) within the Navigator provides a thumbnail comparison of the various plans' set-up rules, contribution limits, and operation requirements. The Navigator also provides information on how to correct a plan if a mistake is found.

### Employer's Annual and Quarterly Returns

Eligible small employers may file Form 944, *Employer's Annual Federal Return*, to report and pay employment taxes on an **annual** basis instead of filing and paying via Form 941, *Employer's Quarterly Federal Return*. An eligible small employer is one with an estimated annual employment tax liability (social security, Medicare, and withheld income tax) of \$1,000 or less for the entire calendar year. To use this form, employers must be notified by the IRS that they are eligible to do so.

**There may be an opportunity** for small business owners and/or relatives to collect five weeks of unemployment benefits if they have been paying state unemployment taxes. For more information check the [MN Unemployment Insurance website](#), or phone 651-296-3644.

### America's Recovery Capital (ARC) Loan Program

One of ARRA's business provisions authorizes the Small Business Administration (SBA) to implement a temporary loan program providing financial relief to **viable** small businesses currently experiencing financial hardship, but who with this assistance should be able to keep their doors open and get their cash flow back on track. The best candidates for ARC loans are small businesses that were profitable in the past, but are currently struggling, yet are current on their loan payments or just beginning to miss payments.

## Minnesota Ends Reciprocity Agreement with Wisconsin.

**Minnesota employers who employ Wisconsin residents:** On January 1, 2010, you must begin withholding Minnesota income taxes on personal service income of Wisconsin residents working in Minnesota. Use the Federal Employee's Withholding Allowance Certificate, [Form W-4](#), to determine the amount of Minnesota income tax to withhold from your employees' paychecks.

If you no longer have a withholding obligation for Wisconsin, you should **inactivate your Wisconsin withholding tax account effective 12-31-2009.**

**Wisconsin employers who employ Minnesota residents:** On January 1, 2010, you must begin withholding Wisconsin income taxes on personal service income of Minnesota residents working in Wisconsin. Ask these employees to complete a Wisconsin Withholding Exemption Certificate, [Form WT 4](#), to determine the amount of Wisconsin income tax to withhold from employee paychecks.

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- Examples of financial hardships include declining sales or revenues, or difficulties in paying the operating expenses of the business.
- ARC loans are **deferred-payment** loans of up to \$35,000, to be used for **principal and interest** payments on **existing, qualifying** debt/loans.
- ARC loans are 100% guaranteed by SBA and generally have no SBA or lender fees associated with them.
- There are no interest charges to the borrower. The SBA pays the monthly interest at the rate of Prime plus 2% to the lender on behalf of the borrower.
- Loan proceeds are disbursed up to six months followed by 12 months with no repayment of the ARC loan principal. After the 12-month deferral period, the borrower pays back only the principal over a period of five years.
- The only eligible purpose for use of ARC loan proceeds is to make periodic payments of principal and interest on qualifying small business loans. Small business loans/debts qualifying and eligible for assistance with ARC loans include:
  - Secured & unsecured conventional loans (mortgages, term and revolving lines of credit)
  - Capital leases
  - Notes payable to vendors/suppliers/utilities
  - Community Development Company (CDC) Loan Program (504) first mortgage loans
  - Credit card obligations for business purposes
- ARC loans may be used to pay home equity lines of credit and credit card obligations if the debt is for business purposes. Documentation requirements for home equity and credit card debt are stringent.
- ARC loans normally cannot be used to make payments on another SBA-guaranteed loan. They are **not** made to new businesses or to establish a business line of credit.
- ARC loans are available through SBA-approved lenders so long as funding is available, or through Sept. 30, 2010, whichever comes first. For more information on the ARC loans program and eligibility requirements go to [www.sba.gov](http://www.sba.gov), or contact your local bank or lender. [ARC Loan FAQs for Borrowers](#).

*All SBA programs and services are provided on a nondiscriminatory basis*