JGL MANAGEMENT

Volume 8 Issue 3

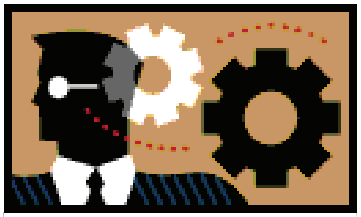
Fall/Winter 2011

End of 2011 Newsletter

Is a Single-Member Limited Liability Company (LLC) a good Choice of Entity for You?

Should you operate your business as a corporation, proprietorship, or single-member LLC? Let's talk about it. The single-member LLC provides corporate-level liability protection for the business owner along with taxation as a sole proprietorship. The LLC, like the corporation, is formed at the state level. Thus, state law makes the rules and can create the tipping point between making the LLC your choice of entity or not.

For federal income tax purposes, the single-member LLC is a disregarded entity, meaning that it is treated as its owner. And it is the disregarded entity status that makes the single-member LLC a sole proprietorship for federal income tax purposes.



LLC's are disregarded entities

Federal law currently taxes the single-member LLC as a proprietorship for both income and family employment tax purposes. As an example, say you set up a new single-member LLC to conduct what was previously your sole proprietorship business. As far as the IRS is concerned, nothing has changed; the IRS ignores the existence of your single-member LLC and continues to consider your business a sole proprietorship for federal tax purposes. Therefore, you continue reporting your business income and expenses on Schedule C, computing your self-employment tax on Schedule SE, and making quarterly estimated tax payments as usual. Let's switch gears.

Say you establish a new single-member LLC to take over your existing rental real estate operation. For federal tax purposes, the IRS ignores the new single-member LLC. You continue, as before, reporting the rental real estate income and expenses on Schedule E.

The second tax advantage to the single-member LLC is the ability to capture the proprietorship (Schedule C) tax breaks, such as hiring your spouse to create a business tax deduction for a Section 105 medical reimbursement plan that pays the family medical expenses (health insurance, co-pays, out-of-pocket, and more); hiring your children without payroll taxes because they are under age 18 and working for a parent; deducting interest paid on car loans and avoiding the cost of extra tax returns.

But, if you select the single-member LLC as your choice of entity, you pay self-employment taxes as a sole proprietor. For 2012, the self-employment tax is 15.3% on the first $110,100 of self-employment earnings and 2.9 percent on earnings above that. For example, with a switch from the single-member LLC to an S corporation, you might reduce your self-employment taxes, but that benefit would cost you the single-member LLC deductions for the Section 105 medical reimbursement plan.

Also, some states mistreat the single-member LLC and tax it not as a proprietorship, but as a corporation. Make sure you know how the state where you operate taxes a single-member LLC before you begin operations as an LLC. In some states, you can incur additional taxes ranging from a few dollars to over $10,000 simply because you are an LLC and not a proprietorship for state tax purposes. In fact, some jurisdictions tax the LLC as a straight-up corporation. Be alert. Taxes are imposed by the state where you have operations, not the state where you form the LLC.

Before giving you the legal advantages to the LLC, beware of the mythical aspects of limited liability. Remember, you are responsible for your tortious acts and malpractice, regardless of business entity.

Also note, the single-member LLC is easier to run on a daily basis than a one-owner corporation. With

Does your small business have employees?

If so, there are some changes affecting employees in 2012. Here's what...

Changes to W-2 reporting requirements: Starting in 2012, companies with 250 or more employees are required to report how much each employee's health care coverage costs on the employees' W-2 forms. If you have fewer than 250 employees, you are off the hook until at least 2014 (when 2013 W-2 forms are issued, although there's a good chance this will be delayed further.

Changes to 401(k) fee disclosure: Beginning in 2012, employers that sponsor 401(k) plans or similar retirement plans for their employees will have to disclose all the associated fees and expenses to the employees. The goal of the change is to make it easier for employees to understand the costs of various plans so they can make informed decisions about investing.

HSA rollovers will end: The deadline for your employees to transfer the balance of a Flexible Spending Account (FSA) or Health Reimbursement Arrangement (HRA) into a Health Spending Account (HSA) is December 31, 2011.

New federal regulations on health care: Some aspects of health care reform have been delayed, so keep an eye out for further guidelines from the feds on how employers will need to comply once they are implemented. Two areas to watch for:

Benefits and coverage: Under health care reform, all health plans must give participants a summary of their benefits and coverage.

Nondiscrimination rules will apply to any healthcare coverage that isn't "grandfathered" in. This will prevent companies from offering either former or current executives any coverage that average employees don't have access to as well. The Feds are expected to issue a deadline fairly soon as to when these rules will kick in.

Personal Exemptions in 2012

For tax year 2012, personal exemptions and standard deductions will rise and tax brackets will widen due to inflation. By law, the dollar amounts for a variety of tax provisions, affecting virtually every taxpayer, must be revised each year to keep pace with inflation.

New dollar amounts affecting the 2012 returns, filed by most taxpayers in early 2013, include the following:

The value of each personal and dependent exemption, available to most taxpayers, is $3,800, up $100 from 2011.

The new standard deduction is $11,900 for married couples filing a joint return, up $300, $5,950 for singles and married individuals filing separately, up $150, and $8,700 for heads of household, up $200.

Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions and state and local taxes.

Tax-bracket thresholds increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket is $70,700, up from $69,000 in 2011.

Credits, deductions, and related phase outs in 2012

Deductions that have changed for tax year 2012 amount to:

- For tax year 2012, the maximum earned income tax credit (EITC) for low- and moderate-income workers and working families rises to $5,891, up from $5,751 in 2011. The maximum income limit for the EITC rises to $50,270, up from $49,078 in 2011.The credit varies by family size, filing status and other factors, with the maximum credit going to joint filers with three or more qualifying children.
- The foreign earned income deduction rises to $95,100, an increase of $2,200 from the maximum deduction for tax year 2011.
- The modified adjusted gross income threshold at which the lifetime learning credit begins to phase out is $104,000 for joint filers, up from $102,000, and $52,000 for singles and heads of household, up from $51,000.
- For 2012, annual deductible amounts for Medical Savings Accounts (MSAs) increased from the tax year 2011 amounts; please see the table below.

The $2,500 maximum deduction for interest paid on student loans begins to phase out for a married taxpayers filing a joint returns at $125,000 and phases out completely at $155,000, an increase of $5,000 from the phase out limits for tax year 2011. For single taxpayers, the phase out ranges remain at the 2011 levels.

Estate and Gift Tax

For an estate of any decedent dying during calendar year 2012, the basic exclusion from estate tax amount is $5,120,000, up from $5,000,000 for calendar year 2011. Also, if the executor chooses to use the special use valuation method for qualified real property, the aggregate decrease in the value of the property resulting from the choice cannot exceed $1,040,000, up from $1,020,000 for 2011.

Leadership

It is said that leaders have a vision and a goal. It may be something that no one else sees or simply something that no one else wants to tackle. But what really makes leaders different is that they act by setting goals. They take the steps necessary to achieve their vision.

There are things that set leaders apart from other people. Some people are born with these characteristics. Others develop them as they improve as leaders. There are as many traits of a leader as there are lists. Here are the fundamental traits of a leader from one perspective:

- Has integrity. People have to believe that what you are pursuing is the right thing to do.
- Is a people person. Understands the differences that make people unique and is able to use those individual skills to achieve the goal.

Beyond the personal traits of a leader, there are specific skills to be mastered.

- A leader's communication skills must move people to work toward the goal the leader has chosen.
- Motivation - a leader has to be able to motivate everyone to contribute. Each of us has different "buttons". A leader knows how to push the right buttons to make them want to do their best to achieve the leader's goal.
- Planning - the leader has a plan to achieve the goal. He/she doesn't get too bogged down in the details, that's for managers.

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JGL Management Consulting was established in 1980 as a small business bookkeeping and tax preparation firm. Over the years we have built and developed skills that have expanded our firm into a full service company specializing in small business start-up, project and management consultation, payroll and IT systems management; all with an emphasis on taxation and finance.

Our clients range from individuals to multi-million dollar service companies, single store retail, multi-store chains, food service, manufacturers and film and video distribution. We have given seminars on many business subjects including bookkeeping, cash flow, business planning and values, goals dreams motivation.

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the corporation, you must document the issuance of stock, your shareholder decisions, and deal with annual meetings and corporate minutes (it's possible that your lawyer can provide you with a document where you can waive annual meetings and corporate minutes and still satisfy the corporate rules).

Your single-member LLC's disregarded entity status makes keeping your tax records easier, but easier tax records do nothing to help preserve your liability protection. Take precautions to ensure that the LLC is separate from you, the owner. Prudence dictates that your LLC should;

1. maintain separate books, records, and bank accounts;

2. avoid commingling assets with you personally;

3. conduct all business in the name of the LLC;

4. consider formal resolutions for important LLC decisions;

5. have stationery, business cards, and business checks in the LLC name;

6. hold itself out as a separate legal entity; and

7. document monies owed by the LLC to the owner (and vice versa) along with payments that reflect a fair rate of interest.

All but a few states now allow the one-owner single-member LLC. The impediment to the single-member LLC is in the professions where certain states do not allow the doctor, lawyer, accountant, engineer, architect, and similar professions to operate as an LLC or a PLLC (Professional Limited Liability Company).

Business Start-up planning is one of the most important steps in planning your business future. Call us if you need help deciphering.

Did you know?

We can Incorporate your business in 3 - 5 days

Or LLC if you prefer!

Social Security Announces Changes for 2012

Monthly Social Security and Supplemental Security Income (SSI) benefits for more than 60 million Americans will increase 3.6% in 2012—the first increase since 2009—the Social Security Administration has announced. The 3.6% cost-of-living adjustment (COLA) will begin with benefits that nearly 55 million Social Security beneficiaries receive in January 2012. Increased payments to more than 8 million SSI beneficiaries will begin on December 20, 2011.

Some other changes that take effect in January each year are based on the increase in average wages. Based on that increase, the maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to $110,100 from $106,800.

Of the estimated 161 million workers who will pay Social Security taxes in 2012, about 10 million will pay higher taxes as a result of the increase in the taxable amount. Information about Medicare changes for 2012 will be available at Medicare.gov.