

January, 2010

Dear Business Client:

Due to inaction by Congress, many business credits or tax breaks expired as of the end of 2009. There is a general expectancy that many of them will be retroactively reinstated, so we will not list them here. However, the following are tax matters affecting businesses for 2009 and 2010.

Penalties for Failure to File: The IRS has become very aggressive in levying penalties on businesses which fail to timely file reports such as 1099s, payroll reports, and tax returns themselves. We urge clients to take the tax filing (and extension) deadlines seriously as it has become exceedingly difficult to have penalties abated.

Equipment Expense Deductions: The maximum amount of equipment purchases qualifying for the Section 179 deduction election is \$250,000 for 2009, but will drop to \$134,000 in 2010 if no retroactive tax law change is passed. It is scheduled to drop to \$25,000 for 2011. There is also a first-year bonus depreciation allowance, equal to 50%, which applies to qualified property placed in service in 2009 - but is not permitted for Vermont.

Domestic Production Activities Deduction: You may be able to deduct up to 6% (9% for 2010) of your qualified production activities income. Only certain types of income qualify and the rules and calculations are rather complex. Some businesses will receive a modest deduction, but with a significant amount of work involved.

Social Security Taxes: The wage base is capped at \$106,800 for 2009 and 2010. There is no wage cap for Medicare taxes.

Standard Mileage Rate: 55¢ for 2009, but drops to 50¢ per mile in 2010.

Pensions: 401(k) type elective deferral is \$16,500 for both 2009 and 2010, with catch-up contributions for those age 50 or over at \$5,500. The maximum SIMPLE deferral is \$11,500 for 2009 and 2010, with a catch-up contribution of \$2,500.

Use Tax: If you purchased assets or supplies out-of-state, on-line, or through mail order, without paying sales tax, you must self-assess the State sales tax (known as Use Tax) and remit it to your State's Tax Department.

Independent Contractors: Each independent contractor who earned \$600 or more in 2009 should be sent a timely filed 1099-MISC form (before February 28, 2010). This rule applies to all non-incorporated contractors and all attorneys, incorporated or not.

The above explanations are very general in nature. Please contact us if you wish to discuss them in more detail, or visit our website at www.herrickltd.com.

Our standard engagement letter is enclosed along with our checklist. Please answer the questions on the checklist, sign the letter, and return both to us. We cannot begin your tax returns until we have received the signed engagement letter.

As always, we look forward to working with you.

Sincerely,

Herrick, Ltd. CPAs