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TABLE OF CONTENTS

General

1. FICA and self-employment taxes
2. Personal exemption
3. Social security cost of living increase
4. Standard deduction
5. Maximum earnings without losing social security benefits
6. Federal income tax rates - 2009
7. Capital gains and qualified dividends
8. Alternative minimum tax rates
9. Children's earnings
10. Long-term care insurance
11. Estimated tax payments
12. Estate, gift and generation skipping tax
13. Gift tax exclusion
14. Phase-outs
15. Retirement plan limits
16. IRS interest rates on underpayments of tax
17. Eligibility for making traditional (not ROTH) IRA contributions
18. ROTH IRA's
19. Nanny tax
20. Georgia 529 college savings plan
21. Section 179 deduction and bonus depreciation
22. Uniform lifetime table
23. Tax credit for purchasers of new homes

Information that pertains primarily to the operation of a business

24. Standard mileage rates
25. Automobile depreciation
26. 1099 and W-2 reminders
27. Backup withholding
28. Federal unemployment taxes
29. Georgia withholding deposit rules
30. Federal payroll tax deposit requirements
31. Cash payments of \$10,000 or more
32. Credit card charges
33. Personal property tax returns

1. FICA AND SELF-EMPLOYMENT TAXES

	<u>2009 and 2010</u>
Social security wage base maximum taxed at 6.2%	\$106,800.00
Medicare wage base maximum taxed at 1.45%	No limit

For example:

	<u>2009 and 2010</u>
Amount of wages	\$106,800.00
Social security at 6.2%	6,621.60
Medicare at 1.45%	<u>1,548.60</u>
Total on 7.65% wages"	8,170.20
Employer matching	<u>8,170.20</u>
Total tax	<u>\$ 16,340.40</u>

For wages in excess of the above amounts, the employee and employer share is each 1.45% (total of 2.9% on an unlimited amount of wages).

The tax rate for self-employed individuals is computed the same way; however, an income tax deduction may be claimed for one half of the self-employment tax.

The payment of \$1,700 or more to a household employee age 18 or over in 2009 or 2010 will require the payment of federal employment taxes.

	<u>2009</u>	<u>2010</u>
2. <u>PERSONAL EXEMPTION</u>	\$3,650	\$3,650
3. <u>SOCIAL SECURITY COST OF LIVING INCREASE</u>	5.8%	0%
4. <u>STANDARD DEDUCTION</u>		
Married filing jointly	\$11,400	\$11,400
Head of household	8,350	8,400
Single	5,700	5,700
Married filing separately	5,700	5,700

The standard deduction that may be taken by someone who is claimed as a dependent on another taxpayer's return in 2009 and 2010 is the greater of \$950 or the amount of his or her "earned" income (up to \$5,700) plus \$300.

The additional standard deduction for married individuals (whether filing jointly or separately) who are age 65 and over, or who are blind is \$1,100 in 2009 and 2010. The additional standard deduction for single individuals who are age 65 and over, or who are blind is \$1,400 in 2009 and 2010.

5. MAXIMUM EARNINGS WITHOUT LOSING SOCIAL SECURITY BENEFITS

	<u>2009</u>	<u>2010</u>	<u>Benefits Lost</u>
Under normal retirement age (NRA)	\$14,160	\$14,160	\$1 for each \$2 over threshold
NRA and over	\$37,680	\$37,680	\$1 for each \$3 over threshold

If normal retirement age will be reached in 2010, \$1 of benefits will be withheld for every \$3 of earnings over \$37,680, but the reduction applies only for months prior to attaining normal retirement age. There is no reduction for earnings starting with the month in which normal retirement age is reached (65 and 10 months for those born in 1942 and 66 for retirees born between 1943-1954, for example). Maximum social security benefits in 2009 and 2010 are \$2,323/month and \$2,346/month. For more answers to your social security questions go to www.socialsecurity.gov.

6. FEDERAL INCOME TAX RATES - 2009

Tax Rate	Married Filing Jointly	Single	Head of Household	Married Filing Separately	Estates & Trusts
10%	\$ 0 – 16,700	\$ 0 – 8,350	\$ 0 – 11,950	\$ 0 – 8,350	–
15%	\$ 16,701 – 67,900	\$ 8,351 – 33,950	\$ 11,951 – 45,500	\$ 8,351 – 33,950	\$ 0 – 2,300
25%	\$ 67,901 – 137,050	\$ 33,951 – 82,250	\$ 45,501 – 117,450	\$ 33,951 – 68,525	\$2,301 – 5,350
28%	\$137,051 – 208,850	\$ 82,251 – 171,550	\$117,451 – 190,200	\$ 68,526 – 104,425	\$5,351 – 8,200
33%	\$208,851 – 372,950	\$171,551 – 372,950	\$190,201 – 372,950	\$104,426 – 186,475	\$8,201 – 11,150
35%	Over \$372,950	Over \$372,950	Over \$372,950	Over \$186,475	Over \$11,150

CORPORATE TAX RATES

<u>Taxable Income</u>	<u>Pay</u> +	<u>% on excess</u>	<u>of the amount over</u>
Up to \$50,000	\$ 0	15%	\$ 0
\$50,001-\$75,000	7,500	25%	50,000
\$75,001-\$100,000	13,750	34%	75,000
\$100,001-\$335,000	22,250	39%*	100,000
\$335,001-\$10 million	113,900	34%	335,000
\$10 million-\$15 million	3,400,000	35%**	10,000,000
\$15 million-\$18,333,333	5,150,000	38%***	15,000,000
Over \$18,333,333	0	35%	0

* Includes additional 5% "recapture" tax under 1986 law.

** Personal service corporations pay a flat rate of 35%.

*** Includes additional 3% "recapture" tax under 1993 law.

7. CAPITAL GAINS AND QUALIFIED DIVIDENDS

Net Long-Term Capital Gains are taxed in 2009 and 2010 at a maximum 15% rate if held more than 12 months, with the EXCEPTION that for 2009 and 2010 there is NO capital gains tax for taxpayers in the 10% or 15% tax brackets. This covers married couples with taxable income (including capital gains) up to \$67,900 and single individuals with taxable income (including capital gains) up to \$33,950.

Exceptions! Long-term capital gains on the sale of collectibles (e.g., artworks, jewelry) are taxed at a maximum tax rate of 28%. Also, long-term gain on the sale of depreciable real estate (e.g., depreciable buildings) representing depreciation previously taken, will be taxed at a maximum rate of 25%.

"Qualified" dividends (those received from a domestic corporation or a qualified foreign corporation) are also taxed at 15% in 2009 and 2010, and the same rules permitting no tax for taxpayers in the 10% and 15% tax brackets also apply. For taxpayers who own a C corporation, it is generally possible to pay dividends from the corporation and realize a federal tax of only 15%.

8. ALTERNATIVE MINIMUM TAX RATES

The rates for the alternative minimum tax for 2009 are:

Alternative minimum taxable income (AMTI) of \$175,000 or less (\$87,500 for married filing separately)	26%
Amount of AMTI in excess of \$175,000 (\$87,500 for married filing separately)	28%

Generally, the alternative minimum tax rate on capital gains and dividends drops to the applicable capital gains or dividend rates.

The alternative minimum taxable income exemption amount in 2009 is \$70,950 for married persons filing a joint return (\$46,700 for single persons and heads of households). The exemption is phased-out by 25% of AMTI of married persons exceeding \$150,000 (\$112,500 for single persons and heads of households), causing the exemption amount to be completely phased-out when

AMT is \$433,800 or more (\$299,300 for single persons and heads of households).

9. CHILDREN'S EARNINGS

Children subject to "Kiddie Tax" who do not have earned income from jobs can earn up to \$1,900 in 2009 and \$1,900 in 2010 without being taxed at the parents' federal tax rates.

10. LONG-TERM CARE INSURANCE

Premiums paid for a qualified long-term care insurance contract are a deductible medical expense, but the deductible amount of the premium is limited by the age of the individual at the close of the tax year. The maximum deductible amounts (per person) for 2009 and 2010 are as follows:

	<u>2009</u>	<u>2010</u>
Age 40 and less	\$ 320	\$ 330
Age 41 – 50	600	620
Age 51 – 60	1,190	1,230
Age 61 – 70	3,180	3,290
Age 71 and older	3,950	4,110

11. ESTIMATED TAX PAYMENTS

To avoid a penalty for underpaying taxes in 2009 and later years, taxpayers with adjusted gross income of up to \$150,000 (\$75,000 for married individuals filing separately) are required generally to pay at least 100% of the prior year tax liability or 90% of their current year tax liability via withholding and estimated taxes.

An individual with adjusted gross income in excess of \$150,000 (\$75,000 for a married individual filing separately) in 2009 and thereafter can generally avoid the estimated tax penalty by paying 110 percent of the amount of tax shown on the prior year's tax return.

For tax years beginning in 2009, "qualified individuals" can base their estimated tax payments on 90% of the prior year's liability. An individual is qualified if 1) the adjusted gross income on the preceding year's return is less than \$500,000 (\$250,000 if married filing separately), and 2) the individual certifies that more than 50% of the gross income on the return is from a business employing less than 500 employees.

For State of Georgia purposes, underpayment penalties can be avoided by paying 100% of the prior year tax or 70% of the current year tax.

12. ESTATE, GIFT AND GENERATION SKIPPING TAX

Estate and generation skipping tax rates are lowered annually through January 1, 2010 when the estate and generation skipping taxes (GST) are eliminated. However, the estate tax repeal is one of many "sunset" provisions; so the tax will return January 1, 2011.

Also, although estate and generation skipping taxes are reduced then eliminated in 2010, the gift tax is not repealed but will be lowered to the top individual income tax rate in 2010.

<u>Year</u>	<u>Estate/GST Exemption</u>	<u>Estate and GST Maximum Tax Rate</u>	<u>Gift Tax Exemption</u>	<u>Gift Tax Maximum Rate</u>
2007	2 million	45%	1 million	45%
2008	2 million	45%	1 million	45%
2009	3.5 million	45%	1 million	45%
2010	Tax repealed	0%	1 million	35%
2011	1 million/1.06 million	55% + 5%	1 million	55% + 5%

Along with the repeal are new rules for calculating basis of property acquired from a decedent after 2009. Property will pass at the lower of its fair market value at date of death or the decedent's basis, rather than being "stepped up" to its fair market value as it generally passes now. However, each estate will receive 1.3 million of basis to allocate to its assets (never to exceed the asset's

fair market value) or 3 million of basis to be allocated to assets passing to the surviving spouse. Additionally, the \$250,000 exclusion of gain from the sale of a principal residence by an individual will be extended to estates and heirs.

13. GIFT TAX EXCLUSION

The gift tax exclusion is \$13,000 for 2009 and 2010.

14. PHASE-OUTS

— Itemized deduction limit

The law disallows itemized deductions in an amount equal to 3% of a taxpayer's adjusted gross income over \$166,800 in 2009 (\$83,400 for married individuals filing separately). The limitation does not apply for tax years beginning in 2010. Certain deductions (medical expenses, casualty losses and investment interest) are exempt when calculating the limit. In no event, however, will the deduction be reduced by more than 80% of total itemized deductions. For 2009, after the phase-out is computed, it is reduced by two-thirds.

— Exemption phase-out

The law also phases out the tax benefits of the personal exemption (worth \$3,650 each in 2009) as the taxpayer's adjusted gross income exceeds a threshold amount. The limitation does not apply for tax years beginning in 2010. The phaseout ranges for 2009 are:

Single	\$166,800-\$289,300
Married - Jointly	\$250,200-\$372,700
Married - Separately	\$125,100-\$186,350
Head of Household	\$208,500-\$331,000

The exemption amount for each of a taxpayer's exemptions is phased-out by 2% for each \$2,500 (or fraction thereof) by which the taxpayer's AGI exceeds the applicable threshold amount. (The phaseout rate is 2% for each \$1,250 of AGI beyond the threshold for married persons filing separately.) For 2009, after the phase-out is computed, it is reduced by two-thirds.

15. RETIREMENT PLAN LIMITS

	<u>2009</u>	<u>2010</u>
Maximum deferred compensation contribution to 401(k) plans	\$ 16,500	\$ 16,500
Maximum earnings used to determine retirement benefits	245,000	245,000
Maximum addition to defined contribution plan	49,000	49,000
Maximum SIMPLE IRA contribution	11,500	11,500
Income limit for definition of "highly compensated"	110,000	110,000

Additional "catch-up" contributions may be made by anyone who is 50 years old or turns 50 during the year. The additional contribution plus elective deferrals cannot exceed compensation, and provided it does not, the maximum additional contribution for 2009 and 2010 to Simple Plans & Simple IRA's is \$2,500, and to 401(k) and all other employer plans is \$5,500 for 2009 and 2010.

16. IRS INTEREST RATES ON UNDERPAYMENTS OF TAX

January 1 - March 31, 2009	5%
April 1, 2009 - March 31, 2010	4%

17. ELIGIBILITY FOR MAKING TRADITIONAL (NOT ROTH) IRA CONTRIBUTIONS

If neither you nor your spouse is covered under a retirement plan, you can always make a deductible IRA contribution of up to \$5,000 for 2010 and 2009. In addition, individuals who are at least 50 by year end can make an additional catch up contribution. The catch up addition is \$1,000 for 2009 and 2010.

If you are covered under a retirement plan, amounts may not be deductible, depending on your income level:

If you are Covered by an Employer Retirement Plan:
Reduced Deduction if Modified AGI

<u>Filing Status</u>	<u>2009</u>	<u>2010</u>
Single/Head of Household	\$55,000 - \$ 65,000	\$56,000 - \$ 66,000
Married-jointly	89,000 - 109,000	89,000 - 109,000
Married-separately	0 - 10,000	0 - 10,000

If you are Not Covered by an Employer Retirement Plan, but Your Spouse Is:
Reduced Deduction if Modified AGI

<u>Filing Status</u>	<u>2009</u>	<u>2010</u>
Married-jointly	\$166,000 - \$176,000	\$167,000 - \$177,000
Married-separately	0 - 10,000	0 - 10,000

18. ROTH IRA'S

The \$5,000 maximum 2010 and 2009 contribution that can be made to a Roth IRA is the same as for a traditional IRA but is phased-out for 2010 for single taxpayers with modified adjusted gross income (MAGI) between \$105,000 and \$120,000 and for joint filers with MAGI between \$167,000 and \$177,000. For 2009 the phaseout ranges for single individuals and joint filers range from \$105,000 to \$120,000 (single) and \$166,000 to \$176,000 (joint), and for married filing separately with MAGI between \$0 and \$10,000.

In order to receive the tax-free advantages of a Roth, a five-year holding period must be satisfied as well as meeting one of the following four requirements. The distribution must be made: (1) after the individual attains 59½; (2) to a beneficiary on or after the individual's death; (3) because of disability; or (4) to pay for certain first-time home buying expenses.

During 2010, traditional IRA's can be converted to ROTHs, regardless of a taxpayer's adjusted gross income. Historically, such conversions could not be made if adjusted gross income exceeded \$100,000. If you convert your traditional IRA to a Roth IRA in 2010, you can elect to report half the income from the conversion in 2011 and the other half in 2012.

The question of whether or not to make the conversion depends on many factors, including your income tax rate, the length of time you can invest the funds without withdrawals and how you will pay the income taxes due on the conversion. Even if you decide to convert, whether it makes sense to use the special 2010 deferral rule depends on your income situation. It may also depend on where you think income tax rates are headed. If you expect rates to be lower in 2010 than in 2011 and/or 2012, deferring the tax hit may not be a good idea.

19. NANNY TAX

The amount paid by an employer for domestic services in the employer's home will not be considered FICA wages if less than \$1,700 for 2009 and 2010.

20. GEORGIA 529 COLLEGE SAVINGS PLAN

Georgia's 529 College Savings Plan Contributions, now known as Path2College 529 Contributions, are deductible up to \$2,000 on behalf of any beneficiary for Georgia income tax purposes regardless of the taxpayer's annual income. In order to claim the deduction (generally worth \$120 in tax savings) it is not necessary to itemize deductions. In addition, grandparents and others can make contributions since the beneficiary does not need to be a dependent in order to claim the deduction. The plan is managed by TIAA-CREF Tuition Financing, Inc.

21. SECTION 179 DEDUCTION AND BONUS DEPRECIATION

All businesses are allowed to expense up to \$133,000 in 2009 and \$134,000 in 2010 of the full cost of what would otherwise be depreciable personal property; however this amount begins to phase-out when total personal property acquisitions exceed \$800,000 in 2009 and \$530,000 in 2010. This Section 179 deduction also applies to up to \$25,000 paid for vehicles having a gross loaded

weight of more than 6,000 pounds (many SUV's weigh enough to qualify).

22. Uniform Lifetime Table

To calculate minimum required distributions from IRAs and retirement plans, use the following formula for each account:

$$\frac{\text{Account Balance as of December 31 of the prior year (adjusted, if necessary, for any rollovers or transfer in process on 12/31 of the prior year)}}{\text{Factor from New Uniform Lifetime Table* (use the divisor that corresponds to the age the account owner attained in the MRD year)}}$$

Example:

Account balance as of December 31 of the prior year: **\$100,000**

IRA owner's attained age in MRD year: **72**

MRD Divisor = $\$100,000 / 25.6 = \$3,906.25$

Uniform Lifetime Table			
Age of Account Owner	Divisor	Age of Account Owner	Divisor
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115 and older	1.9

*The Uniform Lifetime Table can be used by all IRA owners, unless their sole beneficiary for the entire year is their spouse who is more than 10 years younger. In that case, the regular Joint Life Expectancy Table is used, which could reduce the MRD even further. Note: If you are taking MRDs from an inherited IRA, the formula, example, and table above are not applicable.

23. TAX CREDIT FOR PURCHASERS OF NEW HOMES

A homebuyer credit is available to qualified individuals who purchase a principal residence during the period April 9, 2008 through June 30, 2010. The credit is equal to the lesser of 10% of the purchase price of the home or 1) \$8,000 for homes purchased after 2008, 2) \$7,500 for homes purchased after April 18, 2008 and before January 1, 2009, or 3) \$6,500 for a home purchased after November 6, 2009 by an individual who has owned and used the same principal residence for any period of 5 consecutive years during the 8 year period ending on the purchase date. For married filing separately taxpayers the credit is halved (\$4,000, \$3,750, or \$3,250).

For purchases made after April 8, 2008 and before November 7, 2009, the phase-out begins when the taxpayer's modified adjusted gross income (AGI) exceeds \$75,000 (or \$150,000 for joint filers) and is completely phased-out when modified AGI exceeds \$95,000 or \$170,000 for joint filers.

For purchases made after November 6, 2009 and before May 1, 2010, the phase-out begins when the taxpayer's modified AGI exceeds \$125,000 (or \$225,000 for joint filers) and is completely phased-out when modified AGI exceeds \$145,000 or \$245,000 for joint filers.

24. STANDARD MILEAGE RATES

The standard mileage rate for cars used in business is 55 cents for 2009 and 50 cents for 2010. The rate for charitable use remains at 14 cents. The rate for medical and moving expenses is 24 cents for 2009 and 16.5 cents for 2010.

25. AUTOMOBILE DEPRECIATION

For a vehicle acquired during 2009, depreciation deductions are generally limited to the following amounts (trucks, vans and electric vehicles carry a higher amount):

	<u>Autos</u>	<u>Trucks & Vans</u>
Year 1	\$10,960*	\$11,060*
Year 2	\$4,800	\$4,900
Year 3	\$2,850	\$2,950
Year 4 and thereafter until cost is recovered	\$1,775	\$1,775

If the business use percentage is less than 100% (which is often the case), your deductions are even smaller. You must multiply the above numbers by the business percentage.

* Applies unless taxpayer elects out of bonus depreciation; otherwise, the deduction is \$2,960 for autos and \$3,060 for trucks and vans.

26. 1099 AND W-2 REMINDERS

If you operate a trade or business (including the ownership of rental property) and make payments of \$600 or more for rent or for services to any non-corporate entity, remember to report the payments to the payee in January. In addition, 1099's must be filed on all interest and dividend payments in excess of \$10. Also remember that income reflected on W-2's must be grossed up to include the personal usage of vehicles and that FICA tax must be withheld.

Payers must insert on the Form 1099 the phone number of someone who can answer questions about what is on the form.

The 1099's and W-2's must be sent to the IRS by March 1st. Penalties for non-filers are \$50 each for failure to file with the IRS and to provide a copy to the payee (total penalty of \$100).

27. BACKUP WITHHOLDING

Aside from the requirement to file form 1099's, a requirement also exists to withhold taxes from individuals to whom 1099's will be provided unless such individuals complete form W-9's indicating their taxpayer identification numbers and the fact that they are not subject to backup withholding.

We recommend that all businesses obtain a properly completed form W-9 from all non-employees with whom they conduct business unless they are obviously incorporated entities. (The normal reporting requirements do not apply to incorporated entities.)

When in doubt ask for the W-9. It will protect you from the requirement to withhold and will also serve as the basis for preparing 1099's at year-end. (It shows name, address and ID number).

If you request but do not receive the W-9 within 30 days, or receive an incomplete W-9, commence withholding taxes at a rate of 28%. Report these amounts annually on Form 945, and deposit taxes using a federal tax deposit coupon.

Failure to comply with these rules may result in liability for taxes not withheld plus penalties.

28. FEDERAL UNEMPLOYMENT TAXES

Employers are required to make quarterly deposits of federal unemployment taxes (FUTA) if the accumulated tax exceeds \$500.

29. GEORGIA WITHHOLDING DEPOSIT RULES

Deposits of Georgia withholding taxes must be made monthly by the 15th day of the following month, if taxes withheld amount to more than \$200 per month. The State of Georgia has withholding remittance schedules similar but not identical to those of the Internal Revenue Service (described below). The state requirements can be found at:

<http://www.etax.dor.ga.gov/inctax/withholding/hb43taxchanges.aspx>.

30. FEDERAL PAYROLL TAX DEPOSIT REQUIREMENTS

If an employer incurs an employment tax liability of \$50,000 or more for the year ended June 30 it is a "semi-weekly" depositor, and must always deposit taxes by either a Wednesday or a Friday. Taxes must be deposited on or before Wednesday if the payroll was dated on the previous Wednesday, Thursday or Friday. Taxes must be deposited on or before Friday if the payroll was dated on the previous Saturday, Sunday, Monday or Tuesday. If an employer has less than \$50,000 in annual tax liabilities or is a new employer without any prior experience, taxes for each month must be deposited by the 15th day of the following month. If at any time within a deposit period accumulated employment taxes reach \$100,000 or more, they must be deposited on the next banking day and thereafter deposited semi-weekly. The penalties for failure to make a required deposit on time are: 2% of underpayment if 5 days or less late, 5% of underpayment if 6 to 15 days late and 10% of underpayment if 16 or more days late. However, a penalty of 15% is imposed if the payment is not made within 10 days of the date of the first delinquency notice to the taxpayer. There is also a 10% penalty if amounts are subject to electronic deposit requirements, but are mailed directly to the IRS or mailed with the tax return.

Employers who owe less than \$2,500 per quarter are not required to make tax deposits. Instead they pay when they file their quarterly returns. If you have any questions concerning tax deposits that are not explained here, please call us.

31. CASH PAYMENTS OF \$10,000 OR MORE

One matter that we mention every year in this newsletter is that the receipt of cash, cashiers checks, bank drafts, travelers checks and money orders from a single source in the amount of \$10,000 or more requires that a Form 8300 be filed with the IRS. Criminal penalties can apply for failure to file the form or for aiding others in attempting to circumvent the filing of the form. The rule also applies if cumulative amounts exceed \$10,000 in "related transactions".

32. CREDIT CARD CHARGES

If you operate a business, charges to credit cards before year-end can be deducted in the year charged, even if you don't pay the bill until a later year. This applies to general-use charge cards (Visa, MasterCard, American Express, etc.), not store cards.

33. PERSONAL PROPERTY TAX RETURNS

Each Georgia county and many out of state counties require the filing of an annual Business Personal Property Tax Return in order to calculate property taxes due on business assets including inventory. No tax is due with the filing of the return; each county bills businesses during the summer based on its respective millage rate and the amounts shown on the returns as filed. The filing dates for the returns vary. Gwinnett returns, for example, are due March 1st each year while Cobb and Fulton are due April 1st.

If you operate a new or existing business that owns personal property and did not file a personal property tax return in 2009 please contact us to discuss this requirement further.

If you have any questions about how these rules apply to your particular situation, please don't hesitate to call.

Note that this newsletter presents in general form information that needs to be tailored to your circumstances. We try conscientiously to convey accurate and current information, but in an environment of continuous change, such information must not be construed as rendering legal, accounting or other professional services and no liability can be assumed in connection with its use. You will need professional help to apply this information to your best advantage, so please call us with any questions you have.