



THIS MONTH:

- ◆ 4th Quarter Due Dates
- ◆ Are Retirement Plan Distributions Subject to Withholding?
- ◆ Keeping Access to Your Records
- ◆ Alternative Minimum Tax (AMT) In A Nutshell



4th Quarter 2011 Due Dates

October 1:

- *Businesses:* Deadline for establishing a new SIMPLE retirement plan

October 17:

- *Individuals:* 2010 Form 1040 due if on extension

November 1:

- *Employers:* File Form 941 for 3rd quarter 2011

During November:

- *Employers:* Request Form W-4s from employees whose withholding allowances will be different in 2012
- *Employers:* Request Form W-5 from each eligible employee who wants to receive advance payments of the Earned Income Credit during 2012

December 15:

- *Calendar-year C Corporations:* 4th installment of 2011 estimated tax due

Are Retirement Plan Distributions Subject To Withholding?

Distributions from an employer-sponsored retirement plan may or may not be subject to withholding. In some cases, withholding is mandatory and in others the recipient can elect out.

Eligible Rollover Distributions. In general, the payor of any designated distribution that is an eligible rollover distribution must withhold an amount equal to 20% of the distribution. The recipient may not elect out of the withholding requirement.

• **Exception:** *Eligible rollover distributions are not subject to withholding if expected distributions are less than \$200 for the year. Also, 20% withholding generally only applies to any previously untaxed amount. The most important exception by far is that no withholding is required if the plan directly rolls over (in a trustee-to-trustee transfer) the eligible rollover distribution amount to another qualified retirement plan or IRA.*

Periodic Payments. The payor of a periodic payment (one made at regular intervals for more than one year) that isn't an eligible rollover distribution must withhold from the payment as if it were a wage payment for the appropriate payroll period.

• **Exception:** *Generally, the plan administrator must withhold at the rate for a married individual with 3 withholding exemptions. However, recipients have the right to elect no withholding or elect to have a different amount withheld and revoke the election at any time.*

Nonperiodic Payments. A nonperiodic payment is a distribution that usually isn't made at regular intervals and isn't an eligible rollover distribution. Nonperiodic payments generally are subject to 10% withholding.

• **Exception:** *The recipient may elect no withholding or have a different amount withheld by filing a Form W-4P with the plan administrator.*

Reminder: Distributions from designated Roth accounts in 401(k), 403(b), or 457(b) plans have no withholding requirement because the distribution is not taxable. If a nonqualified distribution is made from such an account, withholding is required only from any distributed earnings that the recipient must include in gross income.

Keeping Access to Your Records

There are many situations where a business owner or taxpayer can find themselves without complete records. For example, you sell your business and later get audited by the IRS. You give your records to your accountant who passes away and his wife transfers the business to a third party. You have a falling out with your business partner or spouse. Or a hurricane or other disaster destroyed your records. While you may get some sympathy from the tax authorities, you're responsible for your records. In some cases, the solution is pretty simple:

- Don't let your accountant or attorney retain original documents unless it's just for a short period, for example to prepare your tax return.
- Get records back from your spouse or business partner before parting ways.
- Make an electronic backup of important records and store them in a safe place.
- If you're selling your business, keep whatever the new owner won't need and make copies of important documents given to the new owner.

The IRS advises taxpayers to take the necessary steps to safeguard their financial and tax records. Taxpayers should also check the following literature, available on the IRS web site at www.irs.gov

- FS-2006-7, *Reconstructing Your Records*
- Publication 552, *Recordkeeping for Individuals*
- Publication 583, *Starting a Business and Keeping Records*



Alternative Minimum Tax (AMT) in a Nutshell

The regular tax laws give special treatment to some types of income, allow special deductions for some types of expenses, and allow credits for certain taxpayers. Taxpayers who are not required to pay tax under the regular tax system may still be liable for tax under the AMT laws. According to the IRS, these laws create an “equity” in the system, requiring higher income individuals with certain deductions to pay tax. Without the AMT laws, the IRS says that these individuals would pay little or no tax, while those with lower income levels and no deductions would pay higher tax. AMT is triggered when a taxpayer has enough preference items and adjustments. Contact your local Padgett office to discuss this in more detail.

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PADGETT BUSINESS SERVICES® is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.

PENALTY NOTICE: As required by U.S. Treasury regulations, you are advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.