

# Mierendorf Monitor

West Michigan Tax News and Tips for December 2011



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## MICHIGAN UNCLAIMED PROPERTY FILING

Many of our clients have recently received a mailing from the Michigan Department of Treasury. The Department is providing entities that have not previously reported or have underreported unclaimed property in the past with an opportunity to voluntarily comply with the requirements of the Michigan Uniform

Unclaimed Property Act by offering a voluntary disclosure program.

This program will waive all penalty and interest on property voluntarily remitted pursuant to your enrollment in this program.

If you are certain you do not have unclaimed property to report and remit, complete and

return the "Attestation of Compliance with Unclaimed Property Reporting, Form 4305" by January 31, 2012.

You may download the form from our website at [www.miercpa.com](http://www.miercpa.com).

If you have any further questions please do not hesitate to call us. We are here to help! 616-784-4445.

## Mierendorf News & Tips

### Compliance with Michigan Tax Use

The State of Michigan is also seeking increased compliance with the collection and remittance of use tax. This is a privilege tax on the consumer, and is charged for the use, storage, or consumption of tangible personal property or a taxable service in Michigan.

Use tax is also imposed on taxpayers who buy

products from out-of-state vendors, or buy items for resale but use the items personally or within the business.

The example we see most frequently is the credit card purchase of a computer; no tax is charged by the seller because it is shipped out of state in most cases. However, the purchaser must remit use tax to the State of Michigan on this purchase.

We recommend that all businesses register for use tax and file monthly returns. You should enter zeroes on the use tax lines if you have no liability.

Please contact our office if you are unsure of your status or need assistance completing your returns. 616-784-4445 or [cpas@miercpa.com](mailto:cpas@miercpa.com)



## BONUS DEPRECIATION AND CODE SECTION 179 EXPENSING

A special depreciation allowance is available for property placed in service before the end of 2011. Taxpayers may deduct 100% of the cost of qualified property this year; the bonus depreciation deduction will drop to 50% in 2012 unless it is extended by Congress. There is no limit on the overall amount of bonus depreciation that may be claimed, but the purchase must be new (original use must begin with the taxpayer.) Buildings do not qualify for this deduction.

If used equipment is purchased, the Section 179 deduction may be used. The dollar limit for fiscal years beginning in 2011 is \$500,000 of purchases, and the deduction is reduced dollar for dollar if total equipment purchases exceed \$2 million. Certain types of leasehold improvement qualify for the Section 179 expensing election. Contact our office for assistance in determining the best depreciation strategy.

## PAYROLL TAXES

Employees have enjoyed a two percent reduction in the Social Security withholding tax during 2011. Congress has recently defeated a bill that would extend this reduction, so the withholding rate is scheduled to return to 6.2% for 2012.

The rate of Federal unemployment taxes (FUTA) changed in mid-year. The tax is calculated on the first \$7,000 of each employee's wages. The rate was 0.8% on wages earned before July 1, 2011; the new rate is 0.6% on wages earned after July 1. For example, if Joe Smith earned \$5,000 prior to July 1, and another \$7,000 after July 1, the FUTA tax for 2011 would be calculated as follows:

\$5,000 times 0.8%	\$40.00
\$2,000 times 0.6%	12.00

(Remember that the overall taxable limit is still \$7,000!)

Michigan employers are subject to an additional 0.9% surtax for FUTA in 2011, due to the status of our State's borrowings for unemployment. This will add another \$63.00 to the above computation. Some software programs are not automatically calculating this surtax, so be sure to calculate your annual liability before the January FUTA deposit is due.

## ACCUMULATED EARNINGS TAX

This is a little known tax that may apply to C corporations with "excess retained earnings." "Excess retained earnings" are defined as earnings in excess of reasonable business requirements, such as a new building, equipment, or a business acquisition.

Since the calculation is done on an annual basis at year end time, you may also have retained significant cash to meet your next payroll and to pay vendors. The IRS has the ability to tax retained earnings in excess of \$250,000 at a 15% corporate rate. If your business fits this description, be sure to document your cash needs in your annual minutes.

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The much disliked Michigan Business Tax will expire on December 31, 2011 for most taxpayers, and be replaced by the new Corporate Income Tax. The new tax will only apply to regular corporations. It will not apply to S corporations, partnerships, or sole proprietors. It will not apply to LLCs, unless the LLC has elected to be taxed as a regular

corporation. The tax is 6% of net income, with some adjustments and credits against the tax. There are some opportunities for tax planning in this environment. One strategy is to reduce the taxable gross receipts of your business by purchasing equipment in 2011 rather than 2012, or purchasing inventory in December that you would have

delayed buying until January. The gross receipts tax is 0.8%, but it would be a permanent tax savings.

Fiscal year taxpayers will be filing a final MBT return for the period ending on December 31, 2011, and a CIT return for the period from January 1, 2012 to the end of their fiscal year.

**SUBCHAPTER S CORPORATIONS**

S corporations may become a more attractive entity for Michigan taxpayers with the new CIT. Keep in mind that the income from an S corporation passes through to the shareholders, and is taxed on the individual return. S corporations can have only one class of stock (although it may have voting and non-voting shares), and there may be no more than 100 shareholders. The shareholders may only be US citizens, estates, certain types of trusts, and certain exempt organizations (not partnerships or other S corporations.)

One of the attractions of the S corporation is the ability to pay the owner both a salary and a distribution of earnings. Keep in mind that the IRS is looking at S corporations and the relationship between earnings and distributions (translation: more wages, less distributions). Please contact us if you think that an S corporation might be the answer for your business. 616-784-4445

**Announcing Inpayroll, LLC**

We are excited to officially launch Inpayroll, LLC on January 1, 2012. As an experienced payroll provider, our commitment has always been to offer our clients the high-quality services they need to manage their business payrolls. With our professional and relational payroll service, your business will receive all the capabilities and services provided by the national payroll companies, but with the added benefit of prompt, personal service whenever you need it.

*We would be honored to be a part of your social network*

