



WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION

Certified Public Accountants & Consultants

EXCEEDING EXPECTATIONS SINCE 1926

July 2010 TAX ALERTS

Internal Revenue Service (IRS) Begins Accepting Applications for the Qualifying Therapeutic Discovery Project Program

On June 18, 2010, the IRS announced that small firms may now begin applying for certification for tax credits or grants available under the Qualifying Therapeutic Discovery Project Program created by the Affordable Care Act. These credits or grants are available for projects that show significant potential to produce new cost-saving therapies, create US jobs, and increase US competitiveness. The Form 8942, Application for Certification of Qualified Investments Eligible for Credits and Grants Under the Qualifying Therapeutic Discovery Project Program, and its instructions are now available on the IRS website. Companies may submit applications for certification now. Applications must be post-marked no later than July 21, 2010.

"This new tax credit was designed to promote medical research that could improve health and save lives. I encourage companies that are involved in this groundbreaking type of work to apply," IRS Commissioner Doug Shulman said.

The Qualifying Therapeutic Discovery Project Program is targeted at projects that show potential to produce new therapies, reduce long-term health care costs, or significantly advance the goal of curing cancer within the next 30 years. The credit or grant covers up to 50% of the cost of qualifying biomedical research, up to a maximum credit of \$5 million per firm and \$1 billion overall, and is only available to firms with no more than 250 employees. Credits and grants are available for investments made in 2009 and 2010.

As part of the review process for research projects, the Department of Health and Human Services (HHS) will evaluate each project for its potential to produce new therapies, reduce long-term health care costs, or cure cancer within 30 years. Only projects that show a reasonable potential to meet these goals will be certified as eligible for the credit or grant. The IRS will issue certifications by the end of October, based on the determinations made by HHS.

Contact us at:
solutions@windes.com

www.windes.com

Congress Passes Legislation to Extend the Closing Date for the Homebuyer Credit

On June 30, Congress passed H.R. 5623, the Homebuyer Assistance Improvement Act of 2010. The Act provides first-time homebuyer credit relief to taxpayers who could not meet a key June 30, 2010, closing date.

Under prior law, both the regular Code 36 first-time homebuyer credit of \$8,000 and the reduced credit of \$6,500 for long-term residents generally expired for homes purchased after April 30, 2010. However, if a written binding contract to purchase a principal residence was entered into before May 1, 2010, the credit could be claimed if the purchase closed before July 1, 2010.

The new Act amends the closing date to provide that if a written binding contract to purchase a principal residence was entered into before May 1, 2010, the credit may be claimed if the purchase is closed before October 1, 2010. Thus, this extension allows homebuyers who signed a contract no later than the April 30 deadline to complete their closing by the end of September. The three-month extension of the closing date provides tax relief for those who could not close on time because of backlogs at lenders and federal programs involved in homebuyer loans. The three-month extension will give time for all the new mortgages to be processed and not punish those homeowners who have been delayed through no fault of their own.

Fixing Erroneous Underpayment Penalty Notices Issued by the California Franchise Tax Board (FTB)

According to a recent conversation with the FTB, the FTB stated that they have erroneously assessed underpayment penalties for some taxpayers with adjusted gross income of at least \$1 million who did not pay 90% of their tax during 2009, a new requirement effective for years beginning on or after January 1, 2009.

Although these taxpayers may not use the prior-year safe harbor, they are not subject to the underpayment penalty if, in the prior year, the taxpayer:

- had a liability of \$500 or less (\$250 for married filing separately); and
- made all payments in the prior year through withholding.

According to the FTB, if the penalty should not have been assessed because the taxpayer meets these two tests, the taxpayer should contact the FTB immediately to request abatement.

This article is reproduced with permission from Spidell Publishing, Inc.

Contact us at:
solutions@windes.com

www.windes.com

Small Business and Extenders Bills Deferred Until After the July 4 Recess

Two important pieces of tax legislation were left unfinished as Congress headed into the Independence Day recess, the small business bill and the extenders package.

Small business bill. The House passed H.R. 5297, the Small Business Jobs and Credit Act of 2010, which includes a tax title called the Small Business Jobs Tax Relief Act of 2010. This bill includes:

- a 100% exclusion of gain under [Code Sec. 1202](#) from the sale of certain small business stock acquired at original issue and held for more than five years;
- a rewrite and liberalization of the [Code Sec. 6707A](#) penalty for failure to disclose certain reportable transactions (including listed transactions);
- an exception to the “at-risk” rules for nonrecourse loans that are guaranteed by the Small Business Administration (SBA);
- liberalized dollar limits for business startup deductions under [Code Sec. 195](#); and
- new and more restrictive rules for grantor retained annuity trusts (GRATs).

Before the recess, the Senate was considering a substitute amendment to the House-passed version of H.R. 5297. The substitute amendment would significantly expand the House-passed bill and include the following as well:

- a five-year net operating loss carryback for eligible small businesses for tax years beginning in 2010;
- expanded Section 179 deductions and first-year bonus depreciation deductions for 2010;
- allowing a self-employed taxpayer to deduct health insurance costs in computing net earnings from self-employment for self-employment taxes; and
- a change that would permit 401(k), 403(b), and governmental 457(b) plan participants to roll their pre-tax account balances into a Roth account.

When the Senate takes up the bill again after the Independence Day recess (beginning July 12), it may consider amendments, such as one to remove cell phones from the listed property category.

Extenders package. HR 4213, the American Jobs, Closing Tax Loopholes and Preventing Outsourcing Act of 2010, was passed by the House in May, right before the Memorial Day weekend. The House-passed bill retroactively reinstates and extends for one year a host of important tax breaks for businesses and individuals. It also includes many revenue raisers, such as eventually treating three-quarters of carried interest as ordinary income, a crackdown on using certain S corporations as a way to minimize Medicare and Social Security taxes, and a major assault on “foreign tax loopholes.”

Windes & McLaughry is a recognized leader in the field of accounting, assurance, tax, and business consulting services. Our goal is to exceed your expectations by providing timely, high quality, and personalized service that is directed at improving your bottom-line results. Quality and value-added solutions from your accounting firm are essential steps toward success in today’s marketplace. You can depend on Windes & McLaughry to deliver exceptional client service in each engagement. For over eighty years, we have gone beyond traditional services to provide proactive solutions and the highest level of capabilities and experience.

Windes & McLaughry’s team approach allows you to benefit from a breadth of technical expertise and extensive resources. We service a broad range of clients, from high net-worth individuals to privately held businesses to publicly traded companies. We act as business advisors, working with you to set strategies, maximize efficiencies, minimize taxes, and take your business to the next level.



Contact us at:
solutions@windes.com

111 West Ocean Blvd.
Twenty-Second Floor
Long Beach, CA 90802
Phone: (562) 435-1191
Fax: (562) 436-6186

18201 Von Karman
Suite 1060
Irvine, CA 92612
Phone: (949) 271-2600
Fax: (949) 660-5681

21515 Hawthorne Blvd.
Suite 840
Torrance, CA 90503
Phone: (310) 316-8130

www.windes.com