New Rules for §179 Expensing in 2010 and 2011

Amounts, eligible property and the revocation have been extended

The Small Business Jobs Act of 2010 included many changes to the §179 expensing rules. The new rules are effective for tax years beginning in 2010 and 2011. First, the maximum amount of §179 has been increased from $250,000 to $500,000. The expense amount begins to phase out when property placed into service exceeds $2,000,000.

The new law has expanded the definition of §179 property to include qualified real property. Qualified real property is qualified leasehold improvements, qualified restaurant property and qualified retail improvement property. Businesses can take up to $250,000 of §179 expense on these assets. The amount of §179 taken on the qualified real property reduces the $500,000 maximum that can be used on other eligible property.

Finally, the new law has extended the time period under which a business can revoke the §179 election. Using an amended return, businesses can now revoke the §179 expense on assets placed in service before 2012. The employee would generally have to forfeit any amounts not used by the end of the plan year.

The 0% capital gains rate is set to expire at the end of 2010. If you are in the 10% or 15% income tax brackets, consider selling capital assets that have been held more than a year and have substantially increased in value. After 2010, the long-term capital gains rates will be 10% and 20% (8% and 18% for assets held over five years).

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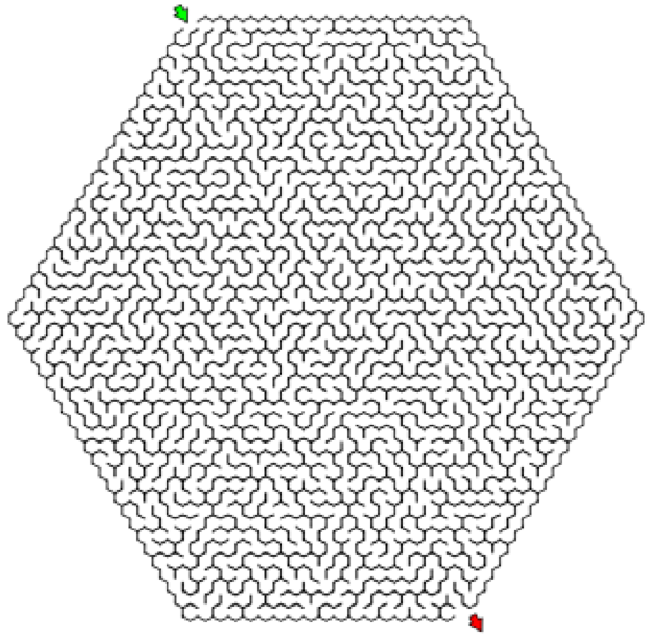

Coverdell Education Savings Account (ESA)

Time to roll it over into a 529 plan?

Section 529 plans may only be used to pay for qualified higher education (post-secondary) expenses. On the other hand, Coverdell ESAs may be used to pay for qualified higher education expenses or qualified elementary and secondary education expenses (K-12). However, unless a new law extends this provision, Coverdell ESAs can no longer be used for K-12 expenses after 2010.

After 2010, it may be wise to roll your Coverdell ESA into a 529 plan. A distribution from a Coverdell ESA that is used for qualified education expenses is nontaxable. A contribution to a 529 plan is considered a qualified education expense if the contribution is on behalf of the designated beneficiary of the Coverdell ESA. In general, the distribution must be "rolled over" by December 31 of the same year.

Ultimately, you can contribute more to a 529 plan. The annual contribution limit for Coverdell ESAs is currently $2,000/year. After 2010, this limit is set to drop to $500/year. On the other hand, 529 plans have no annual contribution limits.* In addition, you can often deduct contributions to 529 plans on your state income tax return. Also, it is generally easier to change beneficiaries for 529 plans, and funds in Coverdell ESAs must be spent by the time the beneficiary turns 30 or the earnings become taxable and subject to a 10-percent penalty.

Don't forget to take your required minimum distribution (RMD) for 2010. RMDs were waived for 2009 only.

UP *to-the* MINUTE
TIMELY TAX TIPS
FALL 2010

Giving Gifts — What's taxable?

When you give cash or property to an individual, the gift is not taxable to that individual. However, if you give away too much, you may have to report the gift and pay gift tax.

The IRS allows you to give each individual up to $13,000 during the year without requiring you to report the gift or file a gift tax return. In addition, certain gifts do not count toward the $13,000 annual exclusion, such as amounts paid directly to qualifying educational institutions for tuition or medical expenses (including health insurance) paid directly to the person or the medical organization.

If you give more than $13,000 to one individual during the year, you must file a gift tax return to report the taxable gift. Your gift will be taxable to the extent the amount given exceeds $13,000. However, you can give up to $1 million in taxable gifts during your lifetime before you are required to pay any gift tax.

To Convert or Not to Convert?

That is the question

In 2010, you are now allowed to convert your traditional IRA to a Roth IRA regardless of your adjusted gross income. This is done without penalty and the payment of taxes can be postponed until 2012 and 2013. However, a Roth IRA conversion is not for everyone.

What Are the Advantages?

The Roth IRA has several valuable tax advantages:

- Income tax free growth;
- Income-tax-free distributions (provided the account has been in existence at least five years);
- No RMD (required minimum distributions) at age 70½;
- Spousal rollover (same benefits to the surviving spouse);
- After the death of a spouse the non-spouse beneficiaries of the Roth IRA will continue to receive income tax free growth and distributions, though subject to a required distribution schedule based on their life expectancy

What Are the Disadvantages?

1. Income taxes must be paid on the entire amount being converted.

Conversion of a Traditional IRA account into a Roth IRA account is a voluntary acceleration of taxation. The amount of the conversion would be added to all other income. This may increase the taxable portion of Social Security benefits or limit itemized deductions and other tax return items.

2. The amount of income taxes is uncertain.

For conversions in 2010 there are two alternatives, either pay tax on the 100 percent of the converted amount on your 2010 return, or spread the tax liability over 2011 and 2012 tax returns. Unfortunately, the tax rates in 2011 may revert back to the old higher rates if no additional legislation is passed to extend the current tax rates. Taxpayers have available to them the "re-characterization before October 15, 2011" option, which allows the client to undo the conversion. There is the chance that the Roth IRA loses money due to poor investment performance. This means the taxpayer paid income taxes on the full amount at the time of conversion and then ended up with less money in the account after re-characterizing it back to a Traditional IRA.

3. Investment returns are not guaranteed regardless of what type of IRA it is.

Roth IRA will not earn more on the pre-tax basis than a Traditional IRA. Your investment risk is not minimized or eliminated. Again, there is the risk income taxes are paid upfront and the hope is that the investment grows.

Please consult your financial advisor and accountant to determine whether conversion of your traditional IRA makes both financial and tax sense to you.

Under the Small Business Jobs Act of 2010, for 2010 only, self-employed health insurance premiums (for the business owners and their family members) can be used to reduce net earnings from self-employment for purposes of calculating the self-employment tax.
Under current law, business owners are not permitted to deduct the cost of health insurance for themselves and their family members for purposes of calculating self-employment tax.

Nonbusiness Energy Credit

Qualifying home improvements must be made in 2010

If you want to make energy-efficient home improvements to your principal residence and qualify for a nonbusiness energy credit, you have until December 31, 2010.

The credit equals 30 percent of the amount paid for:

- Qualified energy efficiency improvements (i.e., insulation, windows, doors, etc.); and
- Residential energy property costs (i.e., central air conditioners, natural gas furnaces, tankless water heaters, biomass fuel stoves, etc.).

For purposes of this credit, costs are treated as paid when the original installation of the item is completed. Thus, you cannot simply purchase the item before year-end; it must be installed on or before December 31, 2010, to qualify for the credit.

The credit is limited to a total of $1,500 for tax years 2009 and 2010. Thus, if you already claimed a $1,500 credit in 2009, you are not eligible for a credit in 2010.

Using EFTPS for Making Tax Deposits

Treasury Department to stop accepting deposit coupons

Many businesses currently use Form 8109, Federal Tax Deposit Coupon, to deposit their payroll tax withholdings and estimated tax payments. After December 31, 2010, the Treasury Department will no longer accept deposit coupons. However, some small businesses may be able to simply pay the tax due with the return itself. For example, businesses with less than $2,500 in quarterly payroll tax withholding can make their payment with Form 941, Employer's Quarterly Federal Tax Return. Businesses allowed to file Form 944, Employer's Annual Federal Tax Return, are allowed to pay the tax with the form if the liability is less than $1,000.

Enrolling in the EFTPS program is easy, and can be more convenient. The system allows employers and other depositors to have the funds directly taken from their checking account, and payments can be set up 120 days prior to the due date.

If you want to get reimbursed from a health flexible spending arrangement (FSA) or a health reimbursement arrangement (HRA) for over-the-counter drugs, you must do so on or before December 31, 2010. After 2010, you can only get reimbursed for prescription drugs and insulin.

Bush Tax Cuts, Current and Expiration Levels

TAX RATE	2010 LEVEL	2011 REVERSION
Individual Income Tax Rates	10% 15% 25% 28% 33% 35%	15% 28% 31% 36% 39.6%
Capital Gains Tax Rate	0% and 15%	10% and 20%
Dividend Tax Rate	5% and 15%	Ordinary Income Rates
Marriage Penalty Deduction	15% tax bracket for married couples is 200% of the 15% bracket for single taxpayers	15% tax bracket for married couples will be less than 200% of that for singles, resulting in higher taxes
Child Tax Credit	$1,000	$500
Itemized Deduction & Personal Exemption Limits	No Phaseout -- full deductions and exemptions available	Deductions and exemptions phased out for upper-income taxpayers
Estate Tax	Repealed for 2010	Reinstated at a 55% rate and a $1,000,000 per taxpayer exemption