# Jennifer A. Jones, CPA, Ltd.

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## 2010 Cost-of-Living Limits

IRA Contribution Limit $5,000

IRA 50 & Over Catch-up Contribution $1,000

401(k) Deferral Limit $16,500

401(k) 50 & Over Catch-up Contribution $5,500

SIMPLE Deferral limit $11,500

SIMPLE 50 & Over Catch-up Contribution $2,500

Annual Compensation limit $245,000

Defined Contribution IRC Sec 415 limit $49,000

Compensation limit for SEP eligibility $550

IRC Section 179 $250,000

Estate Tax Exclusion Unlimited subject to New Carryover Basis Rules

Social Security Wage Base $106,800

2009 & Prior Years' Limits

## 2010 Standard Mileage Rates:

Business mileage rate **$0.50**

Medical & Moving mileage rate **$0.165**

Charitable mileage rate **$0.14/mile**


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**Have a Question?**

If you have a subject or question that you would like covered in a newsletter, please email us at jenny@jajonescpa.com

**Small Business Jobs Act of 2010:** In a bid to help stave off a dreaded double-dip recession, the Small Business Jobs Act of 2010 retroactively resuscitates bonus depreciation, boosts Code Sec. 179 expensing to an extraordinarily high level, and for the first time ever make certain real estate assets eligible for expensing. In short, for those enterprises confident enough to expand, now is an excellent time to buy machinery and equipment (and make expensing eligible qualified real estate purchases). However, these tax breaks may not be around after this year due to ever-present concerns about expanding budget deficits. Businesses may be able to lock in accelerated deductions by buying qualifying assets this year and placing them in service before year-end. For more details on the provisions of the tax changes provided by this Act, click on title.

**2010 Year-end Tax Planning:** At this time there is a great deal of uncertainty over which income tax rates will apply for 2011. Unless Congress acts, under the EGTRRA sunset rules, virtually everyone will be subject to higher tax rates starting next year, but few expect that this "doomsday scenario" will become reality. Congress may leave the current income tax rate structure unchanged for everyone for 2011, or it may increase tax rates for "higher income individuals." This uncertain state of affairs leaves many in a quandary about year-end income tax planning moves. Typical year-end advice is to defer income to the next year, however, for 2010 and 20111, this may not be the best course of action. This article, considers when it would be wise to consider reducing AGI for 2010, for example, by deferring income till next year.

**IRS Makes Health Insurance Reporting Optional for 2011:** IRS has announced that employers won't have to report the aggregate cost of employer-sponsored group health plan coverage on Forms W-2 issued for 2011. Reporting for 2011 will be optional, and employers taking advantage of the reprieve will not be treated as having failed to meet the Code Sec. 6051 wage and tax statement reporting requirements or be subject to any penalties. IRS anticipates issuing guidance on this reporting requirement before the end of this year.

**Small Firm Health Care Credit** Beginning in 2010, if you employ fewer that 25 full-time equivalent employees (FTE) with average annual wages of less than $50,000, and you contribute at least 50% towards the cost of your employees' health insurance, you may qualify for a tax credit. Through 2013, the credit is up to 35% (25% for tax-exempt eligible small employers) of the lesser of your actual cost of health insurance or the amount of contributions you would have made during the tax year if each employee had enrolled in coverage based on a benchmark premium.

The full credit is available if you have 10 or fewer FTEs with average annual wages below $25,000. The credit is reduced if you have more than 10 FTEs (but less than 25 FTEs) and/or you pay average annual wages greater than $25,000, but less than $50,000.

For tax years beginning after 2013, the maximum credit increases to 50%, but only if you purchase health insurance through a state-sponsored health insurance Exchange, and it is only available for two consecutive years thereafter. Click here to see a draft of Form 8941.

**Tax Year 2011 and 2012 Form 1099 Filing Requirements:** Attempts to repeal the expanded reporting requirements so far have failed. In fact, these reporting requirements have now been extended to all landlords effective for 2011. So, during 2011 and 2012, rental property owners and businesses need to implement procedures to obtain a completed Form W-9 from all vendors. Effective for payments made after 2010 for landlords, and 2011 for businesses, the new law requires landlords and businesses that pay $600 or more during the year to ***corporate*** and non-corporate providers of ***goods*** and services to file an information report with each provider and the IRS. The IRS will look for opportunities to minimize this burden and avoid duplicative reporting. Specifically, the IRS plans to use its "administrative authority to exempt from this new requirement business transactions conducted using payment cards such as credit and debit cards. These transactions will already be covered by reporting requirements on payment card processors, so there is no need for businesses to report them as well. So, whenever a business uses a credit or debit card, there may be no new burden under the new law." News Release IR-2010-68

**Estate Tax Planning and the 2010 Modified Carryover Basis Rules:** For 2010, there is a one-year repeal of the federal estate and the generation skipping tax, and a reduction in the gift tax. Also for 2010, there is a new system that provides that for the first $1.3 million of assets, with an additional $3 million available for a spouse, there will be a step-up in basis to the fair market value on the date of death on an asset by asset basis, and any assets in excess of the $1.3 million will have what is called a "carryover basis." For those assets subject to the carryover basis rule, the heir will receive those assets subject to the basis being set at the lower of the fair market value at the date of death or the decedent's original cost basis, similar to the carryover basis rules that apply to gifts.

Although it hasn't happened yet, it is possible that Congress will reinstate the estate tax law retroactively to January 1, 2010, and remove the carryover basis rule. With no action from Congress to date, and the end of the year quickly approaching, it appears that the reinstatement of the estate tax and its related step-up in basis rules is less and less likely to happen for 2010, and the 2011 reinstatement will occur, resetting the exemption to $1,000,000.

Two actions to take now: 1) have an estate attorney review your will and trust documents to see if the language is appropriate for the current and potential tax situations, and 2) collect and record the ownership and tax basis information of all assets owned, e.g. residences, stocks, bonds, investments, artwork, and collectibles.

**Even though there may not be any estates tax or an Estate Tax Return due for decedents dying in 2010, there are certain filing requirements for estates exceeding $1.3 million, and information must be included in the decedent's final income tax return. To help you understand these rules and the implications of the Modified Carryover Rules, click here.**

**Roth IRA Conversion:** Two advantages of Roth IRAs over traditional IRAs are that qualifying withdrawals from Roth IRAs are federal-income-tax-free and the original Roth account owner need not take required minimum distributions after reaching age 70 1/2, and so can pass the account's assets on to his or her heirs. Beginning this year, the $100,000 modified AGI restriction on converting a traditional IRA to a Roth IRA went away. This, coupled with lower IRA asset values, makes 2010 a great time for many people to make a conversion. According to a story appearing in the 2/5/10 *CPA Letter Daily*, 58% of the responding CPAs said that anticipation of higher future tax rates was the most likely trigger for 2010 conversions, and 54% are advising clients to pay tax on the Roth IRA conversion in full in 2010, despite the ability to defer the resulting income into 2011 and 2012.

**Charitable Contribution of Credit Card Rebates:** This private letter ruling looked at whether taxpayers have gross income on credit card rebates when taxpayers can choose to direct the rebate to a participating charity under a program offered by the card company, and if these charitable payments qualify for a contribution deduction. The IRS ruled that the rebates directed to a charity are adjustments to the purchase price, rather than gross income, and are deductible contributions as long as the substantiation requirements are met for amounts of $250 or more. The substantiation requirements were not met in this ruling because the written acknowledgement did not include the date of the contribution by the credit card company. Ltr. Rul. 201027015 .