George Johnson & Company
Informer
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This Issue

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Dear Clients and Friends,

Happy Spring! With a quarter of the year already passed, we wanted to share some exciting developments within the firm. We started off the year with a great opportunity to help out with the Detroit Public Schools community. A number of our team members honored Martin Luther King Day by volunteering to paint some offices and clean up the auditorium of Osborn High School. We look forward to other community efforts in which we plan to participate during the year.

I am happy to announce that this year, April 10th, to be exact, marks Michael Nicholas' 25th anniversary working with George Johnson & Company. His leadership and skill has been an asset to the firm, and we look forward to many more years together. Congratulations, Mike!

In February, we provided our nonprofit clients a seminar titled *"How the Form 990 Can Impact Your Contributions and Tax-Exempt Status"*. The seminar was based on current and future tax initiatives affecting the nonprofit community. Though the Detroit Metropolitan area was recovering from a terrible winter storm the day before, we had a surprisingly good-sized audience.

In March, we continued our seminar series with a presentation for our employee benefit plan clients entitled, *"So Many Changes, So Little Guidance…Helping Employee Benefit Plan Professionals Stay Ahead of the Regulatory and Financial Reporting Curve"*. The full-house seminar was presented by Tricia Van Vliet, Director in the National Assurance Department of BDO USA, LLP, and based in the Grand Rapids office. After the seminar, Tricia provided our staff with continued professional education training on further updates for auditing employee benefit plans. Both seminars and the training session were held at the Westin Book Cadillac Detroit, and I am very pleased to report that the seminars were rated highly by the attendees.

As we close out the 2010 tax season, we wanted to be sure you were equipped with information to stay on track for 2011 and beyond. As always, if you have any questions or comments, please feel free to contact me directly.

Sincerely,

George

George G. Johnson
Managing Director

With today's lower mortgage interest rates, is it time to refinance?

Mortgage interest rates are at historic lows. According to the Mortgage Bankers Association, the average interest rate for 30-year, fixed-rate mortgages dropped to 4.25% in September 2010, and the average rate for 15-year mortgages fell to 3.73%. These are the lowest rates in almost 50 years.

If you are currently paying mortgage interest at a higher rate, you may be tempted to refinance your existing mortgage, even if you already refinanced once or twice before. But should you do it? The decision may not be as simple as it first seems.

*** *Comparing interest rates is not enough.*** Here are some other factors to consider before you refinance.

*** *Compare apples to apples.*** Always request a good-faith cost estimate from any lender. This report should disclose all the fees and closing costs, such as points, credit report fees, inspection fees, private mortgage insurance, and appraisal fees. Use this information to evaluate competing loan proposals.

*** *Calculate your breakeven period.*** This is the length of time it takes you to recover the costs a lender typically charges to refinance your mortgage. To do this, divide your refinancing costs by your monthly savings (your current loan payment minus your new loan payment). If you plan on selling your home in the near future, refinancing may not save you money because it usually takes several years to recover refinancing costs through a lower monthly payment.

*** *Check for prepayment penalties.*** Before you pay off your existing loan, check for an early payment penalty clause. Your note agreement will spell out the exact terms of the prepayment penalty, if any, or you can check with your lender. A prepayment penalty adds to your refinancing costs and will lengthen your breakeven period.

*** *Analyze the loan term.*** To save interest, avoid stretching out your total loan period when you refinance. Let's say you've been paying for ten years on a 30-year loan. If you take out a new loan with a 30-year term, you will increase your total payoff period to 40 years. Instead, consider making your new loan term coincide with the remaining term of your old loan (in this example, 20 years). Another alternative is to continue making the same monthly payment toward your new 30-year loan. If you do that, you'll pay off your loan in a shorter period of time. This could save you a substantial amount of interest.

*** *Take taxes into account.*** In evaluating a refinancing, don't overlook the potential tax deductions.

*** *Loan points.*** Most lenders charge points, also known as a loan origination fee, on home loans. If you itemize deductions on your tax return, you can generally deduct points paid on a refinancing, but not all in the first year. Instead, you must spread your deduction pro rata over the life of the new mortgage. To qualify, paying points must be an established practice in your area, and the amount paid can't be more than what is normally charged in the area.

If you have refinanced in the past, you could be eligible for another deduction. When you pay off a prior refinancing, you can immediately deduct any remaining points from the previous mortgage.

If you refinance to get a lower interest rate or shorter loan term and also to tap your equity to make improvements to your home, points attributable to the home improvement portion can be deducted immediately. Any remaining points must be deducted pro rata over the loan's term.

*** *Other deductions.*** If the lender charges a prepayment penalty for paying off the previous loan early, you can generally deduct the amount paid as interest. Most other closing costs, such as appraisal or title insurance fees, are not deductible. However, you should bring your loan documents to your tax appointment because there could be additional deductions.

Other factors may also come into play. For instance, after you refinance, you may have to adjust your tax withholding or estimated tax payments to reflect a lower interest deduction. And lenders now require more detailed financial information and documentation. We can help you with the paperwork and with making the best choices in your particular circumstances.

Is it time to talk finances with your parents?

One day, you may find yourself taking care of an elderly parent who is in declining physical or mental health. This can be stressful, both emotionally and financially. On the financial side, there are steps you may want to take to prepare for this situation.

Talk to your parents about their financial affairs. Parents may be reluctant to discuss their finances, but someone needs to know the names of their lawyer and accountant. Someone needs to know where their important financial papers are located. Chances are that much of the information will be in your parents' heads, or scattered in various places around their house.

Here is a general overview of the topics you might want to cover with your parents:

Vital statistics

- Where are social security cards kept?
- Where are marriage or divorce records and family birth certificates?
- Where are military service records and pension records?

Financial records

- Help your parents make a list of their financial assets, bank accounts, investments, etc.
- Review the beneficiaries they have designated and how accounts are titled.
- Do they have a safe deposit box? Record the location and box number.
- Find the name of their accountant and copies of tax returns.

Physical assets

- Locate mortgage records and the deed to their house and other properties.
- Locate vehicle titles
- Do they own any assets stored elsewhere?

Insurance

- Locate records for home, vehicle, health, and life insurance.

Estate planning

- Do they have a will or living trust?
- What is the name of their attorney?
- Discuss any special wishes for bequests; encourage your parents to put them in writing.
- Have they set up directives for medical care (living wills)?
- Have they set up a Power of Attorney in case they become disabled?

Do not try to find all this information in one exhausting session. Instead, use the list as a starting point for a series of conversations. Wherever possible, involve your parents in putting their own affairs in order. You may find it's a great opportunity to bond with your parents in their golden years.

Check the new rules for 2011 tax planning opportunities

Sunset was postponed last December, at least in the world of taxes. Many existing laws, which had been due to expire, or "sunset" at the end of 2010, were extended through 2012. At the same time, new rules that can impact your tax planning came into effect. With so many changes, you'll want to make sure you understand the possibilities available to you as you undertake your tax planning for 2011. Here are some suggestions.

Business tax planning

There is a new twist on an existing option for accelerated write-off of assets you purchase from September 9, 2010, through December 31, 2011. You can choose to expense 100% of the cost of new equipment, such as machinery, some vehicles, and computers, under expanded "bonus" depreciation rules.

While this sounds similar to Section 179, which also allows immediate expensing of assets you'd otherwise have to write off over several years, differences between the two methods exist. For instance, the amount of Section 179 expensing you can claim may be limited by your income. In contrast, bonus depreciation can create an operating loss that you may be able to carry back to prior years to generate a refund. Also, bonus depreciation is available only for new assets; Section 179 expensing applies to both new and used assets.

And what about the rules for Section 179? The expensing limit was increased to $500,000. Your deduction begins to shrink if you buy more than $2 million of assets.

Another depreciation break was also extended: the 15-year life for certain leasehold and retail improvements and restaurant buildings and improvements. These assets will no longer qualify for 15-year depreciation after 2011.

Check out this tax break if your business has fewer than 25 full-time employees: You might qualify for a tax credit of up to 35% of employer-paid health care costs.

Investment planning

Capital gain rates will remain at a maximum of 15% (and a minimum of 0%) through December 31, 2012. The rates apply to qualified dividends and long-term gains from investments you sell. That makes 2011 a good time to implement strategies for potential tax savings.

One example: You may be able to manage your income to stay within the 10% or 15% income tax brackets, which would allow you to take advantage of the 0% capital gain rate.

Alternatively, you could gift appreciated stock to family members in those brackets. For 2011, the cutoff for the 15% bracket is $69,000 of taxable income when you're married filing jointly ($34,500 for singles).

Also, a tax-savvy way to completely eliminate your capital gains tax might be to donate appreciated stock to charity and receive a deduction equal to the security's current market value. Special rules apply to noncash donations, so check with us before you move forward on this strategy.

IRA planning

Thanks to the extension of the "charitable IRA rollover" rule, taxpayers age 70½ and older can again use their IRA to make a donation to their favorite charity. The distribution can be used to offset some or all of your required annual minimum distribution.

Another exciting option is a Roth IRA conversion. If you procrastinated on converting your regular IRA to a Roth last year, you can still do so in 2011. Although converting your IRA generates taxable income in the year of the transfer, later withdrawals of contributions and income from the Roth are tax-free. Making this transfer while income tax rates remain low could pay off big time. And your conversion opportunities are not limited to just traditional IRAs. You can also convert your 401(k), 403(b), or 457 plan to a Roth.

Estate and gift tax planning

The new rules for estates include a maximum tax rate of 35% and a $5 million exemption for 2011 and 2012. The exemption is the amount you can leave to heirs, tax-free, and it applies to lifetime gifts as well. Therefore, you and your spouse could gift up to $10 million of cash, investments, or ownership in a business without incurring gift tax. That's in addition to your annual exclusion of $13,000 per recipient.

Estates of persons who died in 2010 have the option of applying the restored estate tax rules and receiving a step-up in basis on property passing to heirs or having no estate tax but using a carryover of the decedent's basis in property.

The December tax law contains other provisions that offer planning opportunities – almost all of which are temporary. Please give us a call for details and planning guidance.

More options for tax refunds this year

Last year, you could use your tax refund to purchase U.S. Series I Savings Bonds in your name. This year, there are some new options for purchasing savings bonds with your income tax refund.

You can buy savings bonds for yourself and up to two other individuals. Form 8888 is used to designate the person or persons in whose name the bonds are to be issued. The savings bonds will then be mailed to those individuals.

Up to $5,000 in bonds can be purchased in $50 increments. Also new this year: You may request a paper check for the balance of your refund if you prefer that to direct deposit.

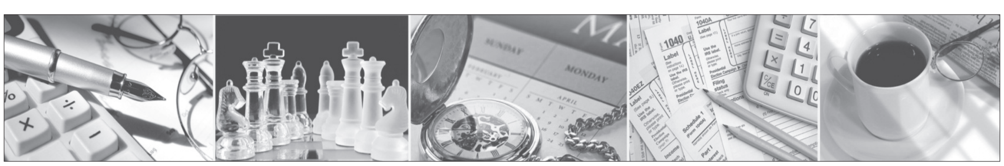
2011 mileage rates released

The IRS has released adjustments to the mileage rates that can be used for business driving, driving for medical or moving purposes, or charitable driving. Effective January 1, 2011, the standard mileage rates for the use of a car, van, pickup, or panel truck are 51¢ per mile for business miles, 19¢ for medical or moving purposes, and 14¢ for charitable driving.

Filing threshold raised for nonprofit organizations

Tax-exempt organizations are required to file annual reports with the IRS. Those with gross receipts below a certain threshold amount can file an E-postcard rather than a longer version of Form 990. The IRS has just raised that threshold amount to $50,000, an increase over the previous filing threshold of $25,000.

The deadline for nonprofit filings is the 15th day of the fifth month after the organization's year-end. For calendar-year organizations, the filing deadline for 2010 reports is May 16, 2011 (since May 15 is on a Sunday this year).



This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.