George Johnson & Company
Informer
Tax Planning 2010

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MID-YEAR | 2010

Tax Planning Letter

To Our Clients and Friends:

This year is a critical one for tax planning. Many of the tax rates and rules we have at the start of 2010 are scheduled to sunset at year-end, and the tax code prior to the *Tax Act of 2001* will once again take effect in 2011. Congress sees this pending event as a good reason to tackle a complete overhaul of the tax code this year.

A change as significant as we will have between the tax rules in 2010 and 2011 also presents opportunities for tax planning. Make time early this year to consider the moves you can make to minimize your taxes in both 2010 and 2011.

This special edition of the *Informer* is being sent to you to encourage you to get started with your planning. Not every suggestion will be appropriate for you, and options not mentioned here may be more suitable in your particular situation. Don't let this watershed year in taxes pass without devoting some time to the kind of planning that will lower your taxes and help you achieve your financial goals. Call now and let's get together to put a tax plan into action for you.

Sincerely,

George Johnson
Managing Director

Big Changes Make 2010 a Watershed Year for Tax Planning

The dawn of the second decade of the 21st century will start off with sunsets, at least in the tax world. You may recall that many of the tax acts passed over the last nine years included "sunset" provisions, or built-in expiration dates. The result: 2010 might be the last year to take advantage of certain credits, deductions, and other federal tax breaks.

The biggest change involves tax rates. Current favorable capital gains and ordinary income tax rates are scheduled to expire at the end of 2010. On January 1, 2011, rates will revert to higher pre-2001 levels unless Congress enacts new legislation. Either way, the potential for increased tax rates in 2011 and beyond calls for advance planning in several areas, including investments, income timing, and your business.

Here are some suggestions to help you get started:

Your investments

For 2010, the maximum long-term capital gains tax rate for most investments and for qualified dividends is 15 percent. The rate falls to zero if you're in the 10 percent or 15 percent tax brackets for ordinary income. Those two brackets currently apply when you're married filing jointly and your taxable income is less than $68,000 ($34,000 if you're single).

After the temporary rules end on December 31, 2010, selling appreciated investments may cost you more in taxes. Yet making sales in the current year to take advantage of lower rates can put you in a higher bracket and affect income-limited deductions and credits.

As an alternative to selling, other forward-looking tax strategies might better suit your overall goals.

For instance, since after this year it's likely that dividends will once again be taxed at your ordinary income tax rate – which may also be higher than this year's rates – you could choose to invest in stocks with growth potential instead of those paying current income in the form of dividends.

If tax rates go higher, you might want to consider investing in tax-free municipal bonds. There is an easy way to compare the yield on tax-exempt municipal bonds with the after-tax yield from taxable investments. Subtract your top tax bracket from 100 and divide the tax-exempt interest rate by that number. The result is the equivalent taxable return. In making your investment decision, you'll want to choose the investment that provides the greater after-tax return.

As you rebalance your portfolio over the course of 2010, you might also consider increasing your investment in mutual funds with low turnover rates. Here again, you'll reduce taxable capital gains in future years.

Gifts of stock to certain family members in lower tax brackets and donations of appreciated assets to your favorite charity are other viable alternatives for reducing the amount of capital gains tax you'll pay now and in the future.

Timing your income

When tax rates are expected to increase in the near future, a basic tax planning move is to calculate the effect of shifting income into the current period. This year offers an excellent opportunity to do just that.

Are you aware that you'll be able to convert your traditional IRA to a Roth during 2010, no matter your income or filing status? The conversion creates taxable income this year, which you can pay in full prior to any tax rate increase.

The benefit to doing this is that later withdrawals will be tax-free. Converting to a Roth also eliminates the need to withdraw required amounts from the account, so you could reduce your income, and the related taxes, in future years.

Another income planning consideration is the effect of minimum distributions from your traditional IRA if you'll reach age 70½ this year. The rule requiring mandatory withdrawals is reinstated in 2010. However, for the first year in which you're required to take distributions, you have the option of deferring your initial withdrawal from December 31 until the following April.

Doing so means you'll have to take two distributions in 2011. Depending on your expected income next year, waiting may not be advantageous.

Your business

Does your business operate as a regular C corporation? Think about making dividend payments during 2010. In a typical tax planning year, dividend distributions are unappealing because they're not a deductible business expense and you have to report them on your personal return as income. But the expiration of preferential tax rates for dividends at the end of 2010 could make this a good time to pay dividends from your corporation.

An important recent rule change could affect your business if your company suffered a loss in 2008 or 2009.

Normally, a business can carry back a net operating loss (NOL) for only two years before carrying it forward for up to 20 years. The American Recovery and Reinvestment Act of 2009, signed in February 2009, allowed a carryback for three, four, or five years to qualified small businesses for NOLs in tax years beginning or ending in 2008. To qualify for the longer carryback period, the business had to have average gross receipts of $15 million or less.

A new law signed November 6, 2009 expanded the longer carryback period to include businesses of any size. The longer carryback is generally available for NOLs incurred in either 2008 or 2009. One important restriction: An NOL carried back to the fifth year is limited to 50 percent of the taxable income for the year.

Planning for future events is an ongoing process, made even more important by the big changes coming. For suggestions and advice that will help you save tax dollars, please call us for a tax planning review.

Your 2010 Tax Reminders

Filing deadlines

The filing deadline for 2009 tax returns for individuals and partnerships is April 15, 2010. The deadline for calendar-year corporations is March 15, 2010. Extension requests can be filed, giving individuals and corporations an additional six months to file (but not to pay taxes owed). Partnerships can request an additional five months to file.

Check your children's income

Your children may be required to file a 2009 income tax return too. Generally, a 2009 return is required if the child had wages of more than $5,700, self-employment earnings over $400, or investment income (such as dividends, interest, or capital gains) over $950. If your child had both earned and investment income, other thresholds apply. Also, if your child is due a refund, a return must be filed to get it.

Charity recordkeeping

The law has strict recordkeeping requirements for deducting charitable contributions. For cash contributions under $250, you must have a bank record such as a cancelled check, credit card record, or receipt from the charity. For donations of $250 or more, a receipt from the charity must be obtained before filing your return.

Deduction reminders

With the ever-changing tax law, it's easy to lose track of what's deductible from one year to the next. Don't overlook these deductions available for your 2009 return:

- Sales tax paid on up to $49,500 of the purchase price for a new vehicle
- Choice of deducting sales taxes paid in 2009 or state and local income taxes paid
- Educator's deduction of up to $250 for classroom supplies purchased
- Deduction for college tuition and fees
- Additional standard deduction of up to $500 ($1,000 for couples) for real estate taxes paid

Various restrictions and income limits usually apply.

IRA contributions

Make contributions as early in 2010 as you can. If you didn't reach the 2009 contribution maximum last year, designate 2010 contributions as being for 2009 until you reach the dollar limit or April 15. Then you can deduct these contributions on your 2009 return for a quicker tax benefit.

Business tax breaks

Be sure to take advantage of the various 2009 tax breaks available for your business, such as: the $250,000 expensing option for the purchase of new or used business equipment; 50 percent bonus depreciation for new equipment purchases; 15-year depreciation for qualified leasehold, restaurant, and retail improvements; 65 percent subsidy for payment of COBRA health premiums for former employees; and expanded carryback period for 2008 and 2009 net operating losses.

Your 2010 Tax Numbers

The law requires the IRS to make annual inflationary adjustments to a variety of tax numbers. Because 2009 inflation was minimal, most of these numbers will remain unchanged or change only slightly for 2010. Here are some of the key tax numbers you'll use for your 2010 tax planning.

Standard mileage rate for business driving: 50¢ a mile

Mileage rate for medical and moving expense deductions: 16.5¢ a mile

Mileage rate for charitable driving: 14¢ a mile

Adoption credit: $12,170

Maximum wages subject to Social Security tax: $106,800

Social Security earnings limit:

- Under full retirement age: $14,160
- Year full retirement age reached: $37,680
- Full retirement age: No limit

Annual gift tax exclusion (per donee): $13,000

Maximum retirement plan contributions:

- IRA for those under 50: $5,000
- IRA for those 50 and older: $6,000
- SIMPLE plan for those under 50: $11,500
- SIMPLE plan for those 50 and older: $14,000
- 401(k) plan for those under 50: $16,500
- 401(k) plan for those 50 and older: $22,000

"Kiddie tax" threshold: $1,900

"Nanny tax" threshold: $1,700

Personal exemption: $3,650

Standard deduction:

- Single: $5,700
- Joint returns and surviving spouses: $11,400
- Married filing separately: $5,700
- Head of household: $8,400

- Additional for elderly or blind (married): $1,100
- Additional for elderly or blind (single): $1,400

As you do your planning for 2010, be aware that Congress expects to take up major tax reform in 2010. See us prior to making business and financial decisions so that current rules and pending changes can be considered. We're here to help you make the choices that will minimize your taxes.

Homebuyer Credit Extended and Expanded in Recent Law

Are you planning to become a move-up homebuyer? Or do you intend to downsize when you move from your current home? Either way, you may be eligible for a refundable federal tax credit of up to $6,500.

This new tax break is part of the revised first-time homebuyer credit. The Worker, Homeownership, and Business Assistance Act of 2009, a law signed November 6, 2009, also extends the time you have to claim the credit.

This refundable credit is now available through April 30, 2010. If your transaction is incomplete as of April 30, you'll still be able to claim this tax break on your 2009 or 2010 return, provided you have a binding written contract and close by June 30, 2010.

For first-time homebuyers, the amount of the credit remains the same – 10 percent of the price of your new home, up to a maximum of $8,000. If you used the same residence as your main home for five consecutive years of the eight years prior to buying a new house, you'll also qualify for the credit. However, under this rule, the credit is limited to a maximum of $6,500.

Recapture requirements are unchanged. That means you won't have to pay the money back as long as you live in your new home three years.

Check the chart below for an overview of both the prior and extended credits.

Homebuyer Credit: An Overview

	Prior Rules	Extended and Expanded Rules	
Purchase Date	Closed on your new home from 1/1/09 through 11/6/09	Closed on your new home from 11/7/09 through 4/30/10 or signed a binding contract by 4/30/10 and closed by 6/30/10	
Prior Home	Have not owned a home in the previous three years	Have not owned a home in the previous three years	Have lived in the same home five consecutive years of the previous eight
Credit Amount	10 percent of the purchase price, up to a maximum of $8,000	10 percent of the purchase price, up to a maximum of $8,000	10 percent of the purchase price, up to a maximum of $6,500
Other Requirements	Buy your home from an unrelated party	• Are not a dependent and are over age 18 • Buy your home from an unrelated party • Buy a home that costs no more than $800,000 • Attach a copy of your closing statement to your return	
Tax Return Year	2008 or 2009 federal income tax return	Preceding- or current-year federal income tax return	
Income Limits	$75,000 (singles) $150,000 (couples)	$125,000 (singles) $225,000 (couples)	

Your Referrals Are Appreciated

We appreciate your business, and we would appreciate your referrals. If you know someone in need of our services, please mention our name to them. We are a growing firm, and we would like more good clients like you.

Please contact our office by phone: 313.965.2655

This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.