

As the end of the year approaches, here is some year-end planning information. I know the number of listed topics is a bit overwhelming, but there were many tax changes this year. For these tax topics and others about which you have questions, feel free to contact me.

Reminders for Individual Filers ~

Tax Credit for First Four Years of College

The American Opportunity Credit is designed to help parents and students pay part of the cost of the first four years of college. The new credit modifies the existing Hope Credit for tax years 2009 and 2010, making it available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. Tuition, related fees, books, equipment (including laptop computers) and other required course materials generally qualify. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student.

College Savings Accounts – 529 Plans

529 Plans allow you to contribute to a college account and if the funds are used for higher education, any amount you pull out is tax free. 529 Plans are clearly an excellent strategy for saving for higher education for family members. If you consider a Georgia 529 plan, you may be eligible for a state deduction.

Certain Computer Technology Purchases Allowed for 529 Plans

Congress added computer technology to the list of college expenses (tuition, books, etc.) that can be paid for by a qualified tuition program (QTP), commonly referred to as a 529 plan. For 2009 and 2010, the law expands the definition of qualified higher education expenses to include expenses for computer technology and equipment or Internet access and related services to be used by the designated beneficiary of the QTP while enrolled at an eligible educational institution. Software designed for sports, games or hobbies does not qualify, unless it is predominantly educational in nature.

Energy-Efficient Home Improvements

Congress wants homeowners to make their homes more energy efficient. This credit for non-business energy property is increased for homeowners who make qualified energy-efficient improvements to existing homes. The amount of the credit is 30 percent of the cost of all qualifying improvements and is limited to a \$1,500 credit for improvements made both in 2009 and 2010. The cost of installation does not qualify for the credit. Qualifying improvements include the addition of insulation, energy-efficient exterior windows, and energy-efficient heating and air conditioning systems.

First-Time and Long-Time Resident Homebuyer Credit for Primary Residences

This newly expanded version of the tax credit is both for taxpayers who haven't owned a principal residence during the past three years or owned a home for 5 out of 8 consecutive years and purchase and close escrow on a home before July 1, 2010. The credit is up to \$8,000 for first-time home buyers and \$6,500 for long-time resident buyers. The credit may be claimed on either an amended 2009 tax return (if you close in 2010) or a 2010 return. The cost of a home may not exceed \$800,000 and the credit phases out at higher income levels (starting at \$225,000 for joint filers and \$125,000 for other filers).

Making Work Pay Credit

In both 2009 and 2010 wage earners qualify for the Making Work Pay Credit. For single individuals, the credit is \$400 and is \$800 for married couples filing jointly. The credit phases out for taxpayers with modified adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly). If you work two jobs or both of you work or you're claimed as a dependent, we need to check to see whether you have sufficient withholding.

IRA and Roth IRAs

You may contribute to your IRA or Roth IRA for 2010 as long as you do it by April 15, 2011. If your income is too high to make a contribution to your IRA or Roth IRA, you may contribute to a non-deductible IRA. Your contribution may be as much as \$5,000 plus an additional \$1,000 if you're over 50 years of age. If you participate in a retirement plan at work, the amount of your deductible IRAs is limited. Income phaseouts also apply to contributions to Roth IRAs. The maximum contribution to a 2010 IRA or Roth IRA is the same in 2010 as it was in 2009.

Employer Plans: 401(k)s, 403(b)s, 457s, SIMPLE IRAs, etc.

Maximum contributions to retirement plans remain the same in 2010 as they were 2009. For 401(k)s, 403(b)s, 457s, and other retirement plans, you may contribute up to \$16,500 in salary deferrals plus an additional \$5,500 if you're over 50 years of age. For SIMPLE IRAs, you may contribute up to \$11,500 plus \$2,500 if you're over 50 years of age.

Saver's Credit

For 2010, if you contribute to your retirement plan at work or to a traditional IRA and your income is lower than the income thresholds (less than \$27,000 to less than \$55,500 depending upon your filing status), you qualify for the Saver's Credit. You must be at least 18 years of age, not a full-time student, and not claimed as a dependent on someone else's tax return. Depending on your income, the tax credit is from 10% of your contribution to as high as 50% of your contribution.

Investment Income

The lower 15% tax rates on long-term capital gains (held over 1 year plus 1 day) and qualified dividends have been extended through 2010. The capital gains rate for some investors even drops to zero. Capital gains rates will likely increase after 2010.

Kiddie Tax

The kiddie tax applies to dependents under the age of 19 and also includes dependents under the age of 24 who are full-time students. Income up to \$950 is tax-free. The next \$950 is taxed at 15%, and income above that amount is taxed at the parents' tax rate.

Gift Tax Exclusion

The annual exclusion for tax year 2009 and 2010 is \$13,000 for gifts to individuals who are citizens of the U.S. Any gifts over this amount require that a gift tax return be filed. For gifts to spouses who are not citizens of the United States, a non-taxable gift is limited to \$134,000.

Charitable Contributions (cash or check)

Both charitable contributions in the form of cash or check require a receipt from the charity. This means that if you attend church on Sunday and put \$10.00 in the collection plate, you cannot take a deduction without a receipt from your church. If you pay by check, your canceled check is your receipt unless the total of your contributions is \$250 or more. Because of recent tax court cases, the best practice is to obtain a receipt for every donation.

Non-Cash Charitable Contributions

Don't forget that non-cash charitable deductions require documentation. You cannot simply say "3 bags of clothing." Not only do you need a receipt from the charity, but a list of what you contributed.

Charitable Travel

You may still deduct local charitable mileage at 14 cents per mile, but you cannot deduct charitable travel unless there is "*no* significant element of personal pleasure." If you travel for a charity (a chorus, symphony, fraternal organization, etc.), you cannot deduct your expenses unless you can prove that all or most of that trip was directly related to the charitable work.

Use Tax

This is an area that is under continued scrutiny by states. If you made a purchase on the Internet and did not pay sales tax, you are required to pay sales tax to your state when you file your tax return.

Home equity interest and refinancing

Unless you substantially improve your home with funds from a home equity loan, your mortgage interest deduction may be limited. The total of your home equity debt is limited to \$100,000 for you to be able to deduct the interest. Any interest paid on loans that exceed \$100,000 is considered personal interest and is not deductible.

Roth Conversions – New Rules Starting in 2010

Taxpayers with modified adjusted gross income of more than \$100,000 will be allowed to convert a traditional IRA to a Roth IRA. Income taxes due on the 2010 conversion can be spread over two years (2011 and 2012). Conversions in subsequent years are included in income during the tax year in which the conversion is completed. Removing the Roth IRA conversion cap however doesn't mean anyone can contribute to a Roth IRA, but it does mean that anyone can convert an existing IRA to a Roth IRA.

IRA conversions to Roth IRAs

Roth Conversions – if you converted any retirement funds to your Roth IRA in 2010, you have six months to move those funds back to your retirement account to avoid paying income taxes. This strategy is especially good if the value of those funds is worth less today than they were when you made the transfer to your Roth.

Flexible Spending Accounts (FSAs), Cafeteria Plans, Section 125 Plans

If your company offers these plans, the enrollment period is often times toward the end of the year. Remember that whatever amount you elect to contribute to your plan comes out of your wages tax-free. You pay no income tax, social security tax, or Medicare tax on the amount you contribute for your projected medical expenses (including over the counter drugs) and/or dependent care expenses (not including overnight camps). The key to how much you elect to contribute either for dependent care or medical expenses is to not contribute more than you will spend in a calendar year plus 2 months 15 days. Should you not spend what you contributed, you forfeit that amount for that calendar year.

Reminders for Business Filers ~

Office in Home

If you have an office in home, your office must be used *exclusively* for your business and *regularly* for your business. Also, the 1st business related trip of the day from your qualified home office is not deductible unless you qualify under special rules. It is considered part of your personal *commute*. The trips after that 1st stop of the day are deductible business miles if the stop is business related.

Telephone expense

If you have a business that you operate in your home, you must have a separate business telephone line to deduct your telephone expenses. If you have a personal phone from which you make business calls, you may deduct only the business long-distance amount as telephone expense.

Business Use versus Personal Use Property Deductions

This is a category that includes cell phones, home computers, auto expenses, etc. The IRS examines the personal use versus the business use. For example, I have a cell phone, but the only time I use it is when I travel. I keep in touch with family and return client calls, but this cell phone is in use a small percentage of the year for business. It is unlikely that I qualify to deduct much of my cell phone expense. Home computers are a problem, also. How much of the time do you spend on your computer that is personal use as opposed to business use?

Travel and Meal & Entertainment Expense

In addition to a receipt, make sure you keep a log noting the name of the client, the purpose of the meeting, the cost, and who attended. Your credit card statement is not considered substantiation.

Business travel expense

Keep a log of your business mileage. Without a mileage log, no deduction is allowed. Again, keep track of the name of the client and business purpose of the meeting. Most of you use the standard mileage rate. For 2010, it is 50 cents per mile.

Forms 1099-MISC

If you paid more than \$600 to a business or individual for services rendered, you are required to issue Form 1099-MISC. Forms must be mailed to the recipients no later than February 15, 2011. Your forms must be mailed to the IRS no later than March 1, 2011. If you are required to issue the forms and do not, your deduction may be disallowed by the IRS.

Business Inventory

The IRS continues to place an increased emphasis on the physical inventory of businesses as of December 31st each year. Make sure that if your business does have inventory, you count that inventory the last day of each year.

Sales Tax

Sales and use tax audits are increasing. In general, you must pay sales or use tax on any item you purchase that is not re-sold (e.g. office supplies, equipment, etc.). You must collect sales tax on any item sold to non-exempt customers.

Corporate records

To avoid losing the S Corp or C Corp liability protection, make sure that your corporate records are maintained on an annual basis. S and C corporations are required to maintain minutes while LLC's have no such requirement.

Section 179 Expense and Bonus Depreciation for Businesses

Thanks to the 2010 Small Business Jobs Act, the Section 179 limits increase to \$500,000 for qualifying assets. There are special rules that may limit this deduction.

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