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2010 Tax Newsletter

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Roth Conversion

From the beginning of 2010, anyone can now convert a traditional IRA to a Roth since the income limits on the Roth conversions disappear. You will have to pay taxes on the previously untaxed amounts you convert. For the amount converted in 2010, taxpayer can make an election to recognize half the income in 2011 and the remainder in 2012.

January 15, 2010

Dear Clients and Friends,

Happy New Year! We wish you have a very successful and prosperous 2010.

The U.S. government is taking once-in-a-generation actions in response to a once-in-a generation recession. It's redirecting hundreds of billions of dollars towards middle-class tax relief, education, energy, healthcare and the revival of the nation's banking system. In February, President Obama signed into law the "American Recovery and Reinvestment Act of 2009". This new legislation was passed to aid our ailing economy and includes a wide variety of tax incentives targeted to individuals and businesses, which make up roughly one third of the $ 789 billion package. The other major tax act passed to help the economic crisis was "Worker, Homeownership, and Business Assistance Act of 2009". Between the recession, job loss, massive federal tax benefits and state tax increases, tax planning is more important now than ever. So as your trusted advisor we will try our best to avail you of every tax saving opportunity that you are entitled to.

Here is a rundown of very few new tax provisions that will affect individuals and small businesses.

- The new law renames the HOPE education credit to "**American Opportunity Tax Credit**" and enhances the maximum amount of credit from $ 1,800 to $ 2,500 and the scope of the credit from first two years to all four years of college as well as adding course materials to qualifying expenses.

- The **Energy tax credit** has been simplified and increased. Energy efficient improvements to your home during 2009 or 2010 will entitle you to a tax credit of 30% of the qualified purchase, up to a maximum credit of $ 1,500.

- 2010 is the last year with **lower capital gains tax** rate. Currently the highest rate is 15 percent for individuals in the 25 percent to 35 percent tax brackets. Taxpayers in the 10 percent and 15 percent tax brackets pay no capital gains. In 2011 the top rate will return to 20 percent; the zero rate will revert to 10 percent.

- **New Car** Deduction is an above the line deduction for state and local taxes or excise taxes paid on the purchase of new vehicle. The deduction phases out at the adjusted gross income of $ 125,000($ 250,000 for joint filers).

- Congress extended and expanded the **first-time homebuyer credit** for the purchase of home before May 1, 2010. First-time buyers can claim up to $8,000 and current homeowners who've lived in their residence for five of the eight years before buying can get up to $6,500 as credit.

- **Economic recovery payment** is one-time payment of $ 250 for 2009 to social security recipients, railroad retirees and disabled veterans and retired government workers.

- The new law allows **Making Work Pay Credit** to individuals with earned income to offset their share of payroll taxes up to a maximum credit of $ 400 ($ 800 for joint filers).

- A temporary exclusion up to $ 2400 of **unemployment compensation** from a recipient's gross income has been added as well.

- The new law will allow certain businesses to elect to recognize **cancellation of indebtedness** income over five years beginning in 2014 for specified types of business debt repurchased by the business before 1/1/2011.

- A net operating loss (**NOL**) is the excess of business deductions over gross income in a particular tax year. In general, NOLs may be carried back two years and forward 20 years. New law allows **longer carry back** period for most businesses not just small businesses. It generally permits any business to increase the carry back period for an applicable NOL to 3, 4, or 5 years from 2 years.

- California's **New Jobs credit** provides a new credit up to $ 3,000 for each net increase in qualified full time employees in 2009 over 2008.

- In CA all the businesses with annual gross receipts of over $ 100,000 and no resale permit are required to register with the **State Board of Equalization**.

- **Standard mileage rate** for business miles driven in 2009 is 55 cents. To claim the business miles you must maintain mileage log with date, destination, purpose and total miles.

Effective tax planning requires a long term strategy, periodic reviews and frequent adjustments. We can help you keep your taxes as low as the law allows, call now for a review of your tax situation.

NOTE: 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.

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