

Matthew R. Horowitz

Caring About Your Business...

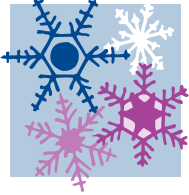
C.P.A.

Is Our Business

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Winter 2010 Vol. XV. No. 2

Winter Notes:



Since our last newsletter, there has been much post-election discussion centering on how the new House and Senate makeup will shape policies in 2011 and beyond. There are still many unanswered tax issues left on the existing congressional plate. However, how much is achieved is both a matter of the limited amount of time until this Congress adjourns and the political will of a lame-duck Congress returning from a highly contentious mid-term election.

There are many tax issues where there isn't significant disagreement, and it is possible that they will be resolved before year-end. However, there are many more that are more complicated and more politicized. Congress has not been able to move these forward so far and may simply leave it to the next Congress to address. We will dedicate this newsletter to giving you an overview for 2010 and beyond...

Our September 30 client appreciation dinner was held at the Maple Lawn Conference Center and was presented by Martin Miller & Matt Horn from the financial services firm Scott and Stringfellow. Our guest speaker, Farley Shiner, spoke by conference call about the many challenges facing individual investors. Farley's message about the economy, mixed in with some specific stock recommendations were well received by everyone. Shortly after he spoke, the general stock market went on a tear not seen during the past eighty years.

It's hard to believe another year has gone by, and it's time to think about gathering all of that tax information again. We hope that you had a great 2010 and are happy and healthy. This tax season we return all of our exceptional professionals -- Jeff, Ellen, Scott & Marilee. We sincerely appreciate your continued business and look forward to speaking with each of you shortly. We would like to thank you for the many referrals throughout the summer and fall -- they are very much appreciated. As we head into what promises to be a very busy and productive season, I'd like to thank everyone who came in recently for income tax planning. I think you will agree that it was time well spent.

Periodically, we have great tickets to the Orioles games and also for Maryland Terrapin basketball games. If you're interested, please call us anytime for free tickets.

Tax Law Changes for 2010: Revisited

The most immediate concern for millions of taxpayers are credits and deductions that have not been extended for the 2010 tax year. Currently, the following deductions have not been renewed for 2010:

- ◆ The option to take an itemized deduction for state sales taxes
- ◆ The additional standard deduction for real estate taxes (for non-itemizers)
- ◆ The deduction for qualified education expenses (the education tax credit is still available)
- ◆ The deduction for teachers' classroom expenses up to \$250

2010 marks the second, and final, year of the Making Work Pay Credit. This provision in the tax code allows for a tax credit of up to \$400 for individuals and \$800 for married couples. The credit phases out for those with incomes in excess of \$75,000 (single), or \$150,000 (married).

Extending Alternative Minimum Tax (AMT) relief is also expected to be addressed before year end. Rather than a long-term fix, the AMT patch also tends to be a year-by-year fix. Because the income thresholds for AMT were not indexed for inflation, Congress began temporarily increasing AMT exemption amounts used to figure the AMT almost ten years ago. For 2010, the AMT exemption amounts have been dropped from \$70,950 to \$45,000. Practically speaking, this means that if Congress doesn't act before the end of the year, AMT will go from affecting 4 million taxpayers to 20 million. This amounts to a hostile takeover of the Federal tax code. Our sense is that AMT will now begin to affect most households earning in excess of \$55,000. Ouch.



Looming in 2011: Higher Taxes

Also looming large for taxpayers attempting to plan for 2011 and beyond are several sunset provisions from 2001's Tax Relief Act. Among those most likely to garner attention from Congress include these expiring provisions:

- **Ordinary income tax rates:** Without action, the 10-percent tax bracket will be eliminated and a 39.6 percent tax bracket added.
- **Long-term capital gains and qualified dividends:** The current capital gains rates are limited to no more than 15%. If Congress does nothing, the capital gains rates will increase to a top rate of 20%. Additionally, dividends now taxed at capital gains tax levels would be taxed again at the higher ordinary income tax rates -- which could be as high as 39.6 percent.
- **Itemized deductions and personal exemptions:** For 2010 these deductions will not have phase-outs. Phase-outs are scheduled to be reinstated for 2011.
- **Child tax credits:** Without action, the credit is reduced to \$500 per child (from \$1,000).

Beyond 2011: More Tax Increases

One of the most vexing areas for planners, attorneys and CPA's has been estate tax planning. Historically, a long-term undertaking, it has become an annual event in recent years. Please allow me to explain: Under the 2001 Tax Relief Act, the maximum estate tax rate dropped steadily from 55 percent in 2001 to 45 percent in 2009. In conjunction, the amount of property **excluded** from estate taxes increased to \$3.5 million. For 2010, there has been a full repeal of the estate tax (which was very timely for the George Steinhilber family). However, the estate tax rate is poised to jump back to the pre-2001 level and more importantly the amount of property **excluded** from estate tax is now scheduled to be \$1.0 million.

Resolving the estate tax issue was expected to be a top priority in early 2010, but it has yet to be resolved. Whether an agreement can be reached in 2011 remains to be seen. In the meantime, many taxpayers who'd never considered estate tax planning are going to now give it some serious thought. Our guess?? That the top estate tax rate will eventually settle at 45% with the amount of property **excluded** from estate tax settling at \$3.5 million.

Our summer newsletter already addressed two major tax increases slated for 2013: The additional .9% Medicare tax and the additional 3.8% tax on investment income. Both provisions will effect taxpayers earning greater than \$200,000 (single) or \$250,000 (married).

Special thanks to Leslie Bonacum of CCHGroup.com for her firm's excellent insight & analysis.

2010 & 2011 Dollar Limitations for Retirement Plans:

Annual dollar limit for defined contribution plans, SEP's	\$49,000
Maximum salary deferrals for 401(k), 403(b) plans	\$16,500
Catch-up contribution limits for 401(k), 403(b) plans	\$5,500
Maximum salary deferral for SIMPLE IRA plans	\$11,500
Maximum IRA contribution	\$5,000
Catch-up contribution limits for IRA's	\$1,000
Social Security taxable wage base	\$106,800

IRS Eliminates the 8109 Federal Tax Deposit Coupon

The U.S. Department of the Treasury recently announced an initiative designed to increase the number of electronic transactions and reduce the amount of paper processing done by the agency. The new program will reduce dependency of paper in several ways, one of which directly impacts Form 8109.

Businesses currently permitted to use Form 8109 federal tax deposit coupons for deposit of payroll tax liabilities will be required to use the IRS Electronic Federal Tax Payment System (EFTPS) beginning in 2011. The only exception will be very small employers whose tax liability is less than \$2,500 quarterly. These employers will be able to deposit taxes via their Form 941.

Businesses that make federal tax deposits using a paper 8109 coupon should be aware that this form of payment will cease beginning in 2011. Other options are to enroll in EFTPS or engage the services of a payroll services firm. Hiring a payroll services firm includes the following benefits:

- Electronic payment of all Federal payroll taxes.
- Payment of all state payroll taxes and timely filing of all payroll tax returns.
- Timely tax deposits and preparation of W-2's.
- Peace of mind

*Enjoy the Holidays
and we'll see you soon!*

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