

TOOLS FOR SUCCESS

2010 TAX LAWS UPDATE WHAT TO LOOK FORWARD TO

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Year 2010 is here, and so are some tax law changes! Along with planning for a great year by scheduling time with family, friends, and pets, (or joining an inspiring book club) you should keep in mind the new tax law changes for 2010. Knowing and being aware of the tax law changes not only empowers, but also enables taxpayers to plan for the current year, and years to come.

The following are some of the major Individual and S-Corporation/Small Business tax law changes for 2010:

INDIVIDUALS:

Roth IRA Conversions - Starting in 2010, there are no income limits for taxpayers that would like to switch from a traditional IRA to a Roth IRA. Also, the taxpayer has the option to spread the tax over two years. Eliminating the limitations on conversions also removes the income limitations on contributions to Roth IRAs. A taxpayer who, in the past, did not qualify to make a Roth IRA contribution because of high income will now be able to make a traditional IRA contribution (there is no income limitation for contribution) and directly convert to a Roth IRA.

First-time Home Buyers - The deadline has been extended for purchasing a qualifying home from Nov. 30, 2009 to April 30, 2010 through The Worker, Homeownership, and Business Assistance Act of 2009. For a buyer who has not owned a primary residence during the three years up to the time purchased, the maximum credit amount remains at \$8,000. The new law also has current homeowners who can qualify under a "long-time resident" clause and receive a credit of up to \$6,500. To qualify this way, the buyer must have used and owned a home as a primary residence for at least five consecutive years of the eight-year period prior to the purchase of a new home as primary residence. The full credit is available to taxpayers with modified adjusted gross incomes up to \$125,000 for single filers and \$225,000 for joint filers. The taxpayer has the option to claim the credit either on their 2009 or 2010 tax returns for purchases in 2010. Homes purchased for over \$800,000 do not qualify for this credit.

Section 529 Plans (Qualified Tuition Programs)

- Qualifying expenses typically include tuition, fees, books, supplies, and equipment required for classes. However, for 2009 and 2010, qualifying expenses will also include computers, peripheral equipment, software, internet access, and related services.

Standard Deduction for Property Taxes - Unlike

prior years 2008 and 2009, non-itemizers will no longer be able to include up to \$500 (single) or \$1,000 (married filing jointly) of property taxes paid in addition to their standard deduction.

Deduction for Sales Tax on New Vehicles - Buyers of new vehicles can elect to deduct sales taxes in lieu of state income taxes if they itemize. They will no longer get a tax benefit for sales tax paid on new vehicles by an addition to standard deduction.

Education Credit - The Hope Credit is renamed to the American Opportunity Tax Credit under the American Opportunity Tax Credit and has enhanced the credit for 2009 and 2010 as follows:

- The credit is allowed for the first four years of college instead of just the first two years of college.
- The maximum credit is \$2,500 per student per year instead of \$1,800.
- Up to 40% of the credit is refundable.
- AGI phase-out range has increased to \$80,000-\$90,000 (single) and \$160,000-\$180,000 (married filing jointly).
- The credit may offset AMT
- Qualified expenses included tuition, fees, and materials

Alternative Minimum Tax (AMT) - The AMT exemption is scheduled to drop to \$33,750 for single filers and to \$45,000 for those filing a married joint return. Congress should and most likely will intervene and rule against this from occurring before an increased number of taxpayers gets added to the AMT bracket.

Tax Safe Harbor For Qualified Individual Estimated Tax - Estimated tax payments of "qualified individuals" could be based on the lesser of:

- 90% of current year's tax; or
- 90% of preceding year's tax

A qualified individual is anyone who's prior year's adjusted gross income is less than \$500,000 and the individual's prior gross income is from a small business. A small business is defined as less than 500 employees during the calendar year ending with, or within, the individual's preceding tax year.

Under the old law, an individual's annual estimated tax was the lesser of:

- 90% of the current year's tax; or
- 100% of the preceding year's tax

If the preceding year's adjusted gross income exceeded \$150,000, 110% was substituted for

the 100% of the preceding year's tax.

Home Energy Credits - The new tax law increases the energy credits for taxpayers who make energy-efficient improvements to their house. Under the new tax law, the credit rate jumps to 30%, from a 10% credit rate under the old law. Also, the new tax law raises the maximum credit limit to \$1,500, from \$500 credit limit.

An energy efficient improvement includes the following:

- Insulation system that reduce heat loss/gain
- Exterior windows
- Exterior doors
- Metal and asphalt roofs
- Biomass fuel stoves

A second credit exists for alternative-energy equipment placed in service for your home. Examples include solar water heater, geothermal heat pump, and small wind energy property. You can also deduct installation costs. A 30% credit rate also applies to this energy saving improvement. However, unlike the first, there is no limitation. For example, if a homeowner purchased a \$10,000 solar water heater, the tax credit will be \$3,000 not \$1,500. To know if certain manufacturer product qualifies, the best place is to check the IRS website (www.irs.gov). Guidance has been issued by the IRS that will allow manufacturers to certify that their products have met the standards.

S-CORPORATION/SMALL BUSINESSES:

Section 179 - The maximum Section 179 expense deduction is \$250,000 for 2010. The threshold amount is \$800,000, meaning the \$250,000 limitation is reduced by the amount of 179 eligible property that was purchased over \$800,000.

S-Corp Built-In Gain Period - For C corps that convert to S corps in the years 2009 and 2010, the holding period for assets subject to the built-in gains has shortened from 10 years to 7 years.

Net Operating Loss (NOL) Carry-back Extended and Enhanced - A small business can elect to carry back an NOL for up to five years. The five-year small business NOL is enhanced as follows:

- Suspends the 90% limitation on AMT NOL
- Limits the deduction in the fifth carry-back year to 50% of income
- Allows carry-back to any qualifying business, not just small businesses
- Allows extended carry-back of losses in any one tax year ending after December 31, 2007 and beginning before January 1, 2010