FAMILY TAX ADVANTAGE LLC

Toll Free (877) FAMTAX-7

Sun Lakes, AZ	Stamford, CT
(480) 802-5-TAX	(203) 322-4888
(480) 802-8147 or (917) 464-7519 Fax	Fax (203) 968-0666

Daniel M. Morson, CPA	Eric B. Morson
Managing Member	Tax Advisor

CLIENT NEWSLETTER

FALL 2010

Planning for the Very Uncertain Next Few Months

Year-end tax planning is always a challenge, but this year it is in the Twilight Zone. No one has any idea what the tax law will be in 2011, and we don't know what changes Congress will make for 2010. But we're going to give you a few ideas, most of which are based upon a state of *total uncertainty*.

Capital Gains: If you have securities that have gone up in value since they were purchased (unrealized gains), it is probably a good idea to sell those securities in 2010 so the profit (capital gain) will be taxed between 0% and 15%. There is a good chance that the capital gains tax will increase in 2011. If you think your appreciated stock will rise even more, and you are reluctant to sell it, you can buy it back immediately after you sell it. By doing this you lock in the gains to date at the maximum 15% tax rate. *Note: You cannot do this if the stock is sold at a loss.* Talk to your broker about this.

First-Time and Long-Time Homebuyer Credits: If you purchased a home after you filed your 2009 income tax return, but went to contract on or before April 30, 2010 and closed the purchase on or before September 30, 2010, you can claim one of these credits on your 2010 tax return, *or you can amend your 2009* tax return and claim the credit there. Please contact us *immediately* if you have this issue.

Conversion from Regular IRA to Roth IRA: As we discussed in the Winter 2010 Newsletter, this remains a great unknown. Until we know what tax rates will be in the future, any attempt (by anyone) to calculate the effects of conversion is pure guesswork.

Bush Tax Cuts Expire 12/31/10: What Happens on New Year's Day 2011?

There are basically 3 possibilities, each of which has its plusses and minuses. *Family Tax Advantage takes no political position.*

(1) Congress does nothing and allows the Bush Tax Cuts to expire. This will result in *large tax increases for everyone*, since most tax laws will revert to what they were on December 31, 2000.

(2) Congress extends *all* of the Bush Tax Cuts either for a few years or permanently. This will result in much larger government deficits than now anticipated. The Bush Tax Cuts were specifically designed to expire at the end of 2010 so as not to increase the deficit too severely.

(3) Congress extends some, but not all of the Bush Tax Cuts as proposed by President Obama, or by some other method.

The proposal by the President extends all Bush Tax Cuts indefinitely *except* for couples earning more than $250,000 and singles earning more than $200,000. This group (about 2% of the total population) will see their taxes rise by 3 to 4 percentage points. However, this will be offset by several permanent extensions of other Bush Tax Cuts that are specifically aimed at high income taxpayers.

According to the IRS and the non-partisan Congressional Joint Committee on Taxation ("JCOT"), about 3% of small business owners fall into 2% high income affected group. It is estimated that about 60% of this 3% are small businesses with zero employees, such as entertainers, professional athletes, and hedge fund managers.

On September 23, the Senate announced that it would not take up these issues until after the November elections. As soon as we have any strong indication as to which way the wind is blowing on this very important matter, we will issue a special Newsletter or News Flash. Be sure to check our website at www.famtax.com for updates.

New Tax Laws Enacted in 2010

Health Care Acts: Provisions Related to Health Care

Adult Dependent: Effective *now*. For purposes of medical insurance and medical expenses, parents can now claim a non-disabled child up to age 27. This does not change the rules for claiming a child as a dependent.

The "Premium Tax Credit" (effective in 2014) applies to people who purchase health insurance through the new state health insurance "Exchanges". People whose income falls between 1 and 4 times the official poverty level (about $22,000 for a family of 4) who do not get employer sponsored insurance are eligible. It's a complex formula (of course), and the credit is paid *directly to the insurance company*, thereby reducing the person's insurance premium.

Excise tax on Uninsured Individuals: This will be phased in during 2014 to 2016. People who fail to maintain minimum health insurance (to be established by the Department of Health & Human Services), will be subject to an additional tax of 2.5% of the amount by which their household income exceeds a "threshold amount" (not yet established), with a maximum of $625 per uninsured adult in the household.

Medical Itemized Deduction Minimum Amount: Currently you can deduct medical expenses that exceed 7.5% of your income. Effective in 2013 this rises to 10%. That means that a person making $50,000 per year can today deduct medical expenses above $3,750; this would rise to $5,000 in 2013.

Additional Hospital Insurance Tax on High-Income Taxpayers: Under current law, employer and employee each pay a Medicare Tax of 1.45% of salaries/wages, the employee portion being withheld from the paycheck. Beginning in 2013, married taxpayers making more than $250,000 per year and single people making more than $200,000 per year will pay 2.35%. (The employer portion remains at 1.45%.) The same rule applies to self-employment tax.

Medicare Tax on Investment Income: Effective in 2013. A tax of 3.8% is imposed on the amount by which the *lesser of* "Net Investment Income" or "Modified Adjusted Gross Income" exceeds $250,000 for married couples ($200,000 for single people). "Net Investment Income" consists of interest, dividends, royalties, annuities, rents, and non-business capital gains, minus investment expenses (such as investment advisor fees, interest paid to carry investments, etc.). In other words, most high-income taxpayers will have an extra 3.8% tax on income over $250,000.

Restrictions have been placed on employer-sponsored Flexible Spending Accounts (effective 2013), Health Savings Accounts (effective 2011), and Archer Medical Savings Accounts (effective 2011). The tax on non-qualified expenditures from Health and Archer Savings Accounts is increased to 20%. (If you currently have such accounts, you know what these are.)

Small Business Tax Credit: Businesses with 25 or fewer employees and total wages less than $50,000 get a *50% credit against mandatory contributions* that the business makes for employee health insurance. For businesses with 10 or fewer employees and wages less than $25,000, the credit rises to 100%. This credit is phased in gradually from 2010 to 2013.

Employer Responsibility and Penalty: Effective 2014. An "applicable large employer" is one with an average 50 or more employees. Such an employer is required to provide affordable health insurance that meets certain minimum standards, for all its full-time employees. Failure to do so results in a penalty of up to $166.67 per employee per month.

Reporting to IRS: Effective 2013 insurance companies will report certain coverage information. Effective 2011, employers must disclose on Form W-2 the value of the employee's health insurance coverage sponsored by the employer.

Fees on Health Plans: Effective October 1, 2012 a fee of $2 per covered person is imposed on insurance carriers.

Tax on High-Cost Employer Plans: Effective 2018. A tax of 40% is imposed on the amount by which the value of employer-sponsored health insurance exceeds $27,500 for family coverage and $10,200 for individual coverage. The tax is then adjusted by factors that take age, gender, etc. into account. Retirees and employees in certain high-risk occupations have higher limits

Tax on Medical Devices: Effective in 2013 there will be a 2.3% excise tax on all medical devices *except* eyeglasses, contact lenses, hearing aids, and medical devices generally sold at retail to the public. This means, for example, that the parts for an artificial knee are subject to the tax.

Simple Cafeteria Plans for Small Businesses become available in 2011. Formerly only larger employers could implement these plans due to complex requirements. “Cafeteria” plans allow employees to set aside specific sums from their paychecks for things like medical expenses, child-care expenses, and other things. The amounts set aside are generally tax exempt.

Health Care Acts Provisions Unrelated to Health Care

Information Reporting: Effective 2012 all business will be required to issue Forms 1099 to *all recipients* who are paid more than $600. Under current law this is required only for payments to non-corporations, such as individuals. This will be a huge headache for most businesses.

Expansion of Adoption Credit and Adoption Assistance Programs: For 2010 the maximum adoption credit increases by $1000 to $13,170 per child. This figure will be adjusted for inflation starting in 2011. The same amount applies to the income exclusion for adoption assistance programs.

Tax on Indoor Tanning Services: Effective July 1, 2010 there is a 10% federal sales tax on these services.

Small Business Jobs Bill of 2010

Congress has passed and the President will sign on 9/27, the Small Business Jobs Bill (HR 5297). The bill provides for $30 billion in lending to small business, and $12 billion in tax breaks. The tax breaks are principally in the form of rapid write-offs (depreciation) of newly acquired business equipment. 50% bonus depreciation is extended to December 31, 2011, and is retroactive to January 1, 2010. An extra $8000 depreciation is allowed on cars purchased in 2010 and used for business. The maximum full write-off of new assets is increased to $500,000 retroactive to January 1, 2010 and continuing to end of 2011. More on this in our next Newsletter.

Please feel free to call or write if you have any questions.

	Dan	Eric
Direct	(480) 802-5-TAX	(203) 322-4888
Toll Free	(877) FAMTAX-7, Option 1	(877) FAMTAX-7, Option 2
E-Mail	Dan@FamTax.com	Eric@FamTax.com
Fax	(917) 464-7519 or (480) 802-8147	

Dan and Eric