

TAX UPDATE

2010 YEAR END NEWSLETTER

C.W. Barsness, CPA
A Professional Corporation

3035 S. Ellsworth Rd. #101 Mesa, AZ 85212
Phone (480) 345-6707
Fax (480) 345-2636

6268 S. Kings Ranch Rd. Suite 1 Gold Canyon, AZ 85218
Phone (480) 288-2200
Fax (480) 288-2225

*G*reetings to clients and friends! The income tax filing season is approaching once again. This Tax Update newsletter provides a summary of key tax law changes and provides some helpful ideas to help you reduce your taxes this year.



Making Work Pay Credit Reminder

Unless Congress acts, 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 filing jointly. The credit phases out for those with incomes in excess of \$75,000 or \$150,000 married filing jointly.

Please recall that federal payroll withholding tables were adjusted so that for most clients your tax refund will be approximately the same. However, if your income is higher or you have more than one job, you could actually owe slightly more than is typical. It is also important in some cases to file a tax return even if you think you owe no tax as you may be eligible for this credit.

Key 2010 Exemptions and Deductions

Listed here for your reference are key deduction rates for 2010.

PERSONAL EXEMPTIONS –

The personal exemption for each qualifying dependent remains at \$3,650 for 2010.

Exemption	2010	2009
	\$3,650	\$3,650

2010 Alert: The phase-out of the personal exemption will not apply in 2010. This includes taxpayers with adjusted gross incomes in excess of the former phase-out amounts.

STANDARD DEDUCTIONS (CONTINUED)

If 65 or over and/or blind add:

	2010	2009
Single/ Head of Household	\$1,400	\$1,400
Married/ Surviving Spouse	\$1,100	\$1,100

2010 Alert: The real estate tax standard deduction is available again in 2010. It is up to \$500 (single) and \$1,000 (married).

STANDARD DEDUCTIONS –

Standard deductions for those who do not itemize are shown below. Only the deduction for head of household increases for 2010.

	2010	2009
Single	\$5,700	\$5,700
Married Filing Sep.	\$5,700	\$5,700
Married Filing Joint	\$11,400	\$11,400
Head of Household	\$8,400	\$8,350

2010 Alert: The overall phase-out limitation on itemized deductions does not apply in 2010. This includes taxpayers with adjusted gross income in excess of the former phase-out amounts.

STANDARD MILEAGE RATES –

The standard mileage rates for 2010 are:

Mileage	2010 RATE/MILE
Business Travel	50¢
Medical/Moving	16.5¢
Charitable Work	14¢

2010 Tax Rates

The income brackets for each tax rate are:

SINGLE	MARRIED JOINTLY	HEAD OF HOUSEHOLD	TAX RATE
\$1 - 8,375	\$1 - 16,750	\$1 - 11,950	10%
\$8,376 - 34,000	\$16,751 - 68,000	\$11,951 - 45,550	15%
\$34,001 - 82,400	\$68,001 - 137,300	\$45,551 - 117,650	25%
\$82,401 - 171,850	\$137,301 - 209,250	\$117,651 - 190,550	28%
\$171,851 - 373,650	\$209,251 - 373,650	\$190,551 - 373,650	33%
Over \$373,650	Over \$373,650	Over \$373,650	35%

Uncertainty in Tax Law Changes

With so many tax provisions expiring in 2009 and 2010, it makes planning your taxes extremely difficult. This is especially true when you need to retain records throughout the year in order to take the deduction. What should you do? For many provisions it is recommended to plan to your greatest benefit. Here are some key areas to note:

1 Exclusion of unemployment benefits. You may no longer exclude from income the first \$2,400 of unemployment benefits in 2010.

2 New vehicle sales tax deduction. There is no longer a tax benefit for sales tax paid on purchasing a new car. This provision expired in 2009.

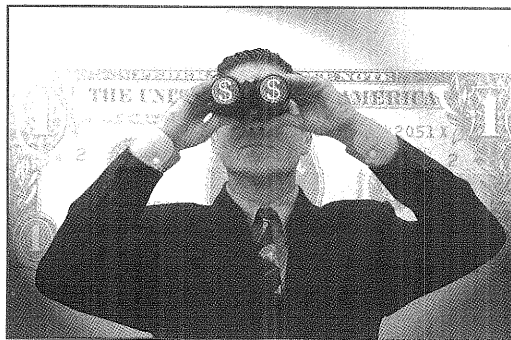
3 Alternative Minimum Tax. The exemption levels drop back down in 2010 unless Congress acts to sustain higher exemption levels. For the past few years Congress has done just that, saving numerous taxpayers from this higher tax.

4 Domestic Production Activities Deduction. This deduction increases from 6% to 9% of qualifying business net income in 2010.

5 State and Local Sales Tax Deduction. Save any receipts that substantiate payment of large amounts of sales tax. If continued, you may opt

to deduct either state income taxes OR the state and local general sales taxes paid as an itemized deduction.

6 Teachers Classroom Expense. If you are a teacher, assume you will be able to continue to deduct up to \$250 of qualified out-of-pocket expenses for unreimbursed purchases of qualifying classroom supplies and materials.



7 Other Provisions Worth Watching. Other common tax code provisions that could be extended through 2010 include; direct contributions to charities from qualified retirement plans, the standard deduction option for property taxes, and the extension of the qualified tuition and educational expense deduction. In all these cases, once again, save any documentation required to take advantage of these options to retain flexibility if and when the tax law changes.

New Small Business Bill Adds 2010 Tax Incentives

In late September, 2010 the Small Business Bill was signed into law. The bill includes an estimated \$12 billion in tax incentives for small businesses. Chief among them are:

Section 179 Expensing. For qualified capital purchases in 2010 and 2011, taxpayers may expense (versus depreciate) up to \$500,000 in new purchases. In addition, qualified leasehold investment property, restaurant property, and retail improvements may be expensed up to \$250,000.

Bonus Depreciation. The bill extends the special 50% first-year bonus depreciation for property placed in service in 2010.

Cell Phone Bookkeeping. You no longer need to keep a log of business use of cell phones. The bill de-lists cell phones as "listed property" requiring less substantiation to qualify cell phone expense as a reasonable deduction.

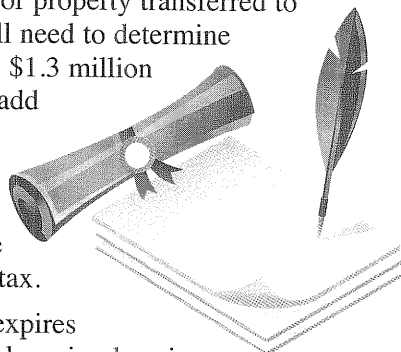
The bill also includes many provisions to help stimulate lending money to small businesses so if you are looking to expand your business it pays to review the possibilities with your lender.

The One-Year Estate Tax-Break

For 2010, and only 2010, the federal estate tax is eliminated for individual estates. This change means that the old "stepped up basis" rules for property transferred to you via an estate is no longer used. Instead, you will need to determine the gain on each individual asset transferred. Up to \$1.3 million of these "carryover" gains can be exempt from tax (add \$3 million for gains inherited from a spouse).

In addition, the tax rate on gifts above a \$1 million lifetime exemption is dropping from 45% in 2009 to 35% in 2010. Recall, any gifts below the lifetime limit to any one person would not be subject to this tax.

In 2011, the one-year federal estate tax elimination expires and the federal estate tax laws revert back to old tax laws in place in 2001 unless Congress acts to modify the rules.



Remember Your 2010 RMD

In 2009, those age 70½ or over were given a one-year waiver on making required minimum distributions (RMD) from qualified retirement accounts. This waiver has expired. So unless Congress acts, to avoid penalties, please make any required retirement plan distributions prior to year end.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.