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CPAs & Advisors LLC

Moody CPAs & Advisors, LLC Tax Newsletter

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In This Issue

- Energy Tax Credits
- Tax Relief Act of 2010
- Estate Tax Current Happenings
- Small Business Stimulus Act
- Health Care Reform Act: Changes for 2011-2013

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Welcome

We hope that everyone had a safe and happy holiday season! If you have turned on the news or picked up the newspaper in the last few weeks you have seen a lot of talk about tax changes. The aim of this newsletter is to update you on what has happened in the last few months and explain how it may impact you. Take a read through this letter as many of these items are sure to impact you for 2010 and 2011.

One large issue to call to your attention is the new 1099 rental reporting requirement in the Small Business Stimulus Act as this is a large change. Under the new law, effective 1/1/2011 if you receive any rental income you must issue 1099s to any business or individual who you pay more than \$600 to in the calendar year. This will require you to have the employer ID or social security number, name, address, and amount paid to any person or business who does work in connect with a rental property. The penalties for non-compliance are very high. Please call us if you have any questions about this new rule or anything else in this newsletter. Also, feel free to forward this along to anyone you know who may benefit from this information.

Regards,

Brian and Chris

Energy Tax Credits

If you purchased energy-efficient products or made energy-efficient improvements to your home during 2010, you may be able to claim a Residential Energy Property Credit or a Residential Energy Efficient Property Credit on your 2010 tax return. These credits apply to improvements such as adding insulation, energy efficient exterior windows, energy-efficient heating and air conditioning systems, and installing qualified residential alternative energy equipment such as solar hot water heaters and geothermal heat pumps. Both credits equal 30 percent of the cost of the improvements up to a maximum of \$1,500 for items placed in service in 2009 and 2010.

Tax Relief Act of 2010

President Obama signed the *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* which has extended a host of tax incentives. The following is a list of some of the notable provisions in this Act.

- For 2011 and 2012, the new law keeps the individual income tax rates at 10, 15, 25, 28, 33, and 35 percent.
- There is a full repeal of the limitation on itemized deductions and the personal exemption phase-out.
- Qualified dividends and capital gains will remain taxed at the same reduced rates.
- The \$1,000 child tax credit will remain with related enhancements.
- An AMT “patch” for 2010 and 2011 has been enacted in order to extend the increased AMT exemption amounts.
- Effective for calendar year 2011, the employee share of the OASDI portion of Social Security taxes is reduced from 6.2 percent to 4.2 percent on wages up to the taxable wage base of \$106,800. Self-employed individuals will pay 10.4 percent on self-employment income up to the wage based which is reduced from the normal 12.4 percent rate.
- For businesses, the Act increases the bonus depreciation rate from 50 percent to 100 percent in the case of qualifying property acquired after September 8, 2010 and before January 1, 2012, and placed in service before January 1, 2012.

Estate Tax Current Happenings

The federal estate tax, along with federal gift and generation skipping transfer taxes, was significantly overhauled in 2001. At this time, Congress set in motion a gradual reduction of the estate tax until abolishing it for 2010.

Starting in 2011, the estate tax had been scheduled to revert to its pre-2001 levels of 55 percent and a \$1 million exclusion. The new law revives the estate tax, but with a maximum estate tax rate of 35 percent with a \$5 million exclusion. The revived estate tax is in place for 2010-2012.

The new law gives estates the option to elect to apply the estate tax at the 35 percent/\$5 million exclusion levels for 2010 or to apply carryover basis for 2010. The new law also allows “portability” between spouses of the maximum exclusion and extends some other tax-friendly provisions originally enacted in 2001.

Small Business Stimulus Act

The Small Business Jobs Act of 2010, which Congress passed and President Obama signed in September, offers a variety of small business tax breaks and includes some revenue raisers. Below are a few of the key provisions that we believe you, as a small business owner, will be interest in.

- **Section 179 expensing and bonus depreciation** – The act increases the maximum amount a taxpayer may expense under IRC §179 to \$500,000 and increases the phase-out threshold amount to \$2 million for tax years beginning in 2010 and 2011.
- **Self-employed individual's health insurance** – The act allows self-employed individuals who deduct the cost of health insurance for themselves and their families to take the deduction into account in calculating net earnings from self-employment for purposes of SECA taxes.
- **Start-up expenses** – The act increases the deduction for startup expenses from \$5,000 to \$10,000 for tax years beginning in 2010. The start of the limitation on the deduction is increased from \$50,000 to \$60,000.
- **Rollovers to Roth Accounts** – The act allows rollovers from elective deferral plans to Roth-designated accounts. If a 401(k) plan, 403(b) plan, or governmental 457(b) plan has a qualified designated Roth contribution program, a distribution to an employee from an account under the plan that is not designated a Roth account is permitted to be rolled over into a designated Roth account under the plan for the individual.
- **Reporting Rental Income** – Rental income recipients making payments of \$600 or more to a service provider in the course of earning rental income are required to provide an information return (typically Form 1099-MISC) to the IRS and to the service provider. This provision will apply to payments made after December 31, 2010.

Health Care Reform Act: Changes for 2011-2013

Below are some of the changes for 2011 through 2013 as a result of the Health Care Reform Act.

2011 Changes

- For the purposes of HSAs and FSAs, over-the-counter drugs not prescribed by a doctor will not qualify for reimbursement through HSA or FSA plans.
- Individuals that are under 65 and receive distributions from HSAs and FSAs that are not used for medical costs will be subject to a 20 percent penalty.

2012 Changes

- Payment for services or merchandise made in the amount of \$600 or more to an individual other than an employee or a corporation in the course of your trade or business will require the payer to issue a form 1099 to the recipient.
- A new provision in which the economic substance doctrine is clarified and enhanced by way of a new uniform definition of economic substance.

2013 Changes

- Medical expenses will only be deductible after they exceed 10 percent of AGI instead of 7.5 percent.
- Taxpayers with wages in excess of \$200,000 (\$250,000 for married filing jointly) will pay an additional Medicare tax of 0.9 percent.
- FSAs will be capped at \$2,500.
- An individual with Modified Adjusted Gross Income (MAGI) over certain threshold amounts, some of which comes from "investment income", the excess over the threshold amount will be subject to an additional tax. The tax

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Internal Revenue Code.

will be 3.8 percent of the excess or the net investment income, whichever is less.