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April 2011

Thanks!

"I would maintain that thanks are the highest form of thought..."

— G. K. Chesterton

We will celebrate the Monday, April 18 completion of the filing season with our traditional holiday by closing the accounting office on the following day, Tuesday, April 19. The computer center will be open. We will honor our staff with an appreciation luncheon at noon on Friday, April 22, and we will be closed (including the computer center) that afternoon. We are indebted to our staff for their excellent performance and to our clients for the opportunities of working for them. To both staff and clients – *Thank you!*

IRA CONTRIBUTIONS DUE APRIL 18

If you are planning to make individual retirement account contributions for the year 2010 and have not already done so, you will need to make your IRA deposits on or before April 18, 2011. This requirement applies to deductible IRAs, nondeductible traditional

IRAs, and Roth IRAs. This due date is applicable whether or not you obtain an extension to file your individual income tax return. Please let us know if you have any questions about your IRAs or other retirement plans.

GUIDELINES FOR RETAINING YOUR TAX RECORDS

The end of the tax-filing season might coincide with the time that you are doing your spring cleaning. Old tax returns and records can seem like particularly good candidates for the circular file. You could, however, need some of this information to file a future year's return or an amended return, or in case the IRS questions a return that you have already filed. We suggest the following general record retention guidelines:

Income tax returns and supporting documents (receipts, 1099 forms, W-2s, etc.).

The IRS generally has three years after a

return is filed to assess additional taxes. (Returns filed early are treated as having been filed on their due date.) Thus, you should keep all of the information that supports your income and deductions *for at least three years* from the filing date in case of an audit. It is safer, however, to keep the supporting documents for six years. The IRS has up to six years to assess taxes when substantial income has been omitted from a return. This rule applies when the amount of the omission is more than 25 percent of the gross income required to be included on the return. The IRS can audit a false or fraudulent return *at any time*.

(Continued on reverse)

Your copy of the return and any Forms W-2 should be a permanent record. For those of you whose returns we prepare, we also suggest retaining the support data envelope that we returned to you with your copy of your return for at least six years.

Investment records.

You might need some records indefinitely. For example, you should retain records showing how much you paid for your investments (stocks, bonds, land, mutual fund shares, etc.) to calculate gains or losses if you sell these investments. You will need these records, along with pertinent sales information, to support the tax return on which you report the sale.

Home purchase and sale records.

You should, of course, maintain records of your home purchase, but the 1997 tax law changes diminished the need for such records required for income tax purposes. Under current law, no tax is due on up to \$500,000 of gain on the sale of your principal residence (\$250,000 for single taxpayers). This exclusion is available every two years but subject to some complicated

rules on five-year ownership, "unforeseen events," and marital status.

Depreciation records.

If you own rental real estate or depreciable business property, keep records of the property's cost, the purchase date, the method used to calculate depreciation, and all depreciation claimed on the property in prior years until you sell or dispose of the property. Then, keep this information with the tax return on which you report the sale.

Will the IRS provide a copy?

If your copy of your return is misplaced, you can generally obtain a copy from the IRS at a nominal cost. Having your own copy, however, and keeping a mailing receipt in your records might help you contest penalties should the IRS claim that it never received the return from you.

Questions?

Please get in touch with us if you are unsure about whether to keep a particular tax record.

WHEN THE IRS CALLS

Internal Revenue Service agents often telephone taxpayers selected for examination prior to sending a written notice to the taxpayer of the examination of the tax return. We also know of instances in which IRS agents have appeared at taxpayers' residences without prior notice. We encourage you to refuse to discuss your tax return or your business with any caller who professes to be an IRS agent. You have no way of knowing that you are, in fact, talking to an agent. In addition, an inadvertent offhand remark that an agent misinterprets could later cost considerable time and effort (and money) to overcome.

If an IRS agent appears without notice at your residence or place of business or if you receive a call from someone claiming to be an IRS agent who says that your return has been selected for examination, we suggest that you ask to be notified in writing and do not give the person any information. After receiving written

notice, you should, of course, make every effort to cooperate. If you are to be represented in an examination, we urge you to call your representative immediately to allow him or her to schedule the appointment and handle all contact with the agent.

We encourage our tax clients, if contacted by the IRS, to contact us and to send us a copy of any written notice or request for information. Agents sometimes request information to which they are not entitled, and we might be able to help spare you some problems in the examination.

Remember that the Internal Revenue Service is entitled to only that information necessary to correctly determine your tax. That in itself might involve many gray areas, and a chance remark or the misinterpretation of a casual phone conversation could damage your position.

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TAX AND BUSINESS **Alert**™

April 2011

As the economy picks up, business begins to expand, and the bottom line starts to improve. But, quite often, the tax bill goes up as well. However, an excellent way to reduce that tax bill is through the use of bonus depreciation. Bonus depreciation is available for qualified property in the year the property is acquired and placed in service. Bonus depreciation is not prorated; therefore, it doesn't matter when during the tax year the property was placed in service. So, even property placed in service on the last day of the tax year is eligible for the full applicable amount. Bonus depreciation is available for qualifying vehicles via an \$8,000 increase in the first-year luxury auto depreciation limit.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Relief Act) provides for 100% first-year bonus depreciation (i.e., effectively writing off the entire cost of the asset in the year placed in service) for qualified property that is purchased and placed in service after September 8, 2010, and before January 1, 2012 (January 1, 2013, for certain aircraft and long-production-period property). Prior to this legislation, the maximum bonus depreciation allowance percentage had been 50%. Note

Claiming Bonus Depreciation for Business Property Acquisitions

the 100% first-year bonus depreciation rules apply for both regular tax and AMT purposes, so no adjustment is required for AMT.



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To be eligible for bonus depreciation, the property must meet three broad criteria:

1. The asset must be qualified property (defined below),
2. The original use must commence with the taxpayer, and
3. The property must be acquired and placed in service before January 1, 2012 (January 1, 2013, for certain aircraft and long-production-period property).

(Continued on page 2.)

The information contained in this newsletter was not intended or written to be used and cannot be used for the purpose of (1) avoiding tax-related penalties prescribed by the Internal Revenue Code or (2) promoting or marketing any tax-related matter addressed herein.

Tax Calendar

April 18—Besides being the last day to file (or extend) your 2010 personal return and pay any tax that is due, 2011 first quarter estimated tax payments for individuals, trusts, and calendar-



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year corporations are due today. Also due are 2010 returns for trusts and calendar-year estates, partnerships, and LLCs, plus any final contribution you plan to make to an IRA or Education


Savings Account for 2010. SEP and Keogh contributions are also due today if your return is not being extended.

—If you need to file a 2010 gift tax return, it also must be filed or extended by this date.

—If you paid cash wages of \$1,700 or more in 2010 to a household employee, you must file Schedule H by this date. You may also have to report any federal unemployment tax paid and any income tax you withheld for your household employees.

May 2—If you have employees, a federal unemployment tax (FUTA) deposit is due if the FUTA liability through March 31 exceeds \$500.

—Most employers must file Form 941 (Employer's Quarterly Federal Tax Return) to report Medicare, social security, and income taxes withheld in the first quarter of 2011. (If your tax liability is less than \$2,500, you can pay it in full with a timely filed return.) If you deposited the tax for the quarter in full and on time, you have until May 10 to file the return.

June 15—Second quarter estimated tax payments for individuals, trusts, and calendar-year corporations are due today. 

Claiming Bonus Depreciation for Business Property Acquisitions


(Continued from page 1.)

Qualified property must also meet *one of four* definitions:

1. The asset is eligible property with a recovery period of 20 years or less.
2. The asset is depreciable computer software.
3. The property is water utility property.
4. The asset is qualified leasehold improvement property.

The term *original use* generally means the first use of the asset. Simply put, the asset generally must be new, rather than pre-owned; however, there are some exceptions. New property initially used by a taxpayer for personal use and subsequently converted to business use

meets the original-use requirement. Property acquired for use in a taxpayer's business that was previously used by another taxpayer does not qualify regardless of how the previous owner used the property (i.e., for business or personal use). Capital expenditures to recondition or rebuild acquired or owned property satisfy the original use requirement, but purchases of reconditioned or rebuilt assets do not qualify. The determination of whether an asset is reconditioned or rebuilt (i.e., used) is a question of fact. However, an asset that contains used parts will *not* be considered used if the cost of the used parts is 20% or less of the total cost.

The time to take advantage of the 100% first-year bonus depreciation provision is limited. So, please contact us to discuss the benefits of bonus depreciation or any other tax compliance or planning issue. 

Age-related Planning Milestones

In an era filled with uncertainty, you can count on one thing for sure: time marches on! Listed below are some important age-related tax and financial planning milestones that you should keep in mind. Many of these milestones present tax-saving opportunities.

Age 0–23: The so-called Kiddie Tax rules can potentially apply to your child's or grandchild's investment income above a specified amount until the year he or she reaches age 24. For 2011, the investment income threshold is \$1,900.

Age 50: If you're age 50 or older as of the end of the year, you can make an additional catch-up contribution of up to \$5,500 for 2011 to your 401(k), Section 403(b), or Section 457 plan, or up to \$2,500 for 2011 to your SIMPLE plan, assuming the plan permits catch-up contributions. You can also make an additional catch-up contribution of up to \$1,000 for 2011 to your traditional or Roth IRA.

Age 55: If you permanently leave your job for any reason, you can receive distributions from the former employer's qualified retirement plan(s) without being hit with the 10% premature withdrawal penalty tax. This is an exception to the general rule that the taxable portion of qualified retirement plan distributions received before age 59½ are subject to the 10% penalty tax.

Age 59½: You can receive distributions from all types of tax-favored retirement plans and accounts [e.g., IRAs, 401(k) accounts, pensions] and from tax-deferred annuities without incurring the 10% premature withdrawal penalty tax. Before age 59½, the 10% penalty tax will hit the taxable portion of distributions unless an exception to the penalty tax applies.

Age 62: You can choose to start receiving social security retirement benefits; however, your benefits will be lower than if you wait until reaching full retirement age, which is age 66 for those born between 1943 and 1954. If you also work before reaching full retirement age, your 2011 social security retirement benefits will be further reduced if your income from working exceeds \$14,160 for 2011.

Age 66: You can start receiving full social security retirement benefits at age 66 if you were born between 1943 and 1954. You won't lose any benefits if you work in years after the year you reach age 66, regardless of how much money you make in those years. However, if you will reach age 66 this year, your 2011 benefits will be reduced if this year's earnings exceed \$37,680.



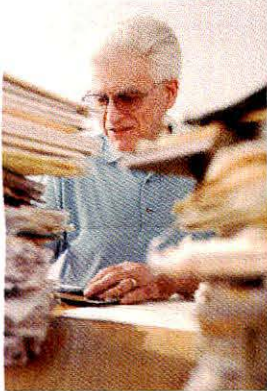
Age 70: You can choose to postpone receiving social security retirement benefits until you reach age 70. If you make this choice, your benefits will be higher than if you started earlier.

Age 70½: You generally must begin taking annual required minimum distributions (RMDs) from tax-favored retirement accounts [e.g., traditional IRAs, SEP accounts, 401(k) accounts] and pay the resulting income taxes. (However, you need not take any RMDs from Roth IRAs set up in your name.) The initial RMD is for the year you turn 70½, but you can postpone taking that one until as late as April 1 of the following year. If you choose that option, however, you must take two RMDs in that year: one by the April 1 deadline (the RMD for the previous year), plus another by December 31 (the RMD for the current year). For each subsequent year, you must take another RMD by December 31. There's one more exception: if you're still working after reaching age 70½ and you don't own over 5% of the employer, you can postpone taking any RMDs from the employer's plan(s) until after you've actually retired.

If you or a loved one is, or is about to be, affected by any of these age-related milestones, or if you think your estate plan needs some updating, please contact us if you have questions or want more information.

New Life for Selected Charitable Contributions

The 2010 Tax Relief Act extended numerous federal tax provisions. Among those are two valuable charitable contribution opportunities for individuals. The IRA qualified charitable contributions provision was extended through 2011. Under this provision, IRA owners who have reached age 70½ are allowed to make annual tax-free distributions of up to \$100,000 directly out of their IRAs to charitable organizations.



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These donations, called qualified charitable distributions (QCDs), generally do not directly affect the IRA owner's

federal income tax bill because funds go directly to the charity. Additionally, the taxpayer does not need to itemize to benefit from this provision, and the QCDs count as IRA required minimum distributions (RMDs). Therefore, charitably inclined seniors with more IRA money than they need can get a tax break by arranging for tax-free QCDs to take the place of taxable RMDs, and those who do not itemize can effectively get the benefit of the deduction by arranging tax-free QCDs. The QCD break

originally expired at the end of 2009 but has been extended through 2011.

Liberalized qualified conservation contribution rules expired at the end of 2009, but were extended through 2011 by the recent 2010 Tax Relief Act. Qualified conservation contributions are charitable donations of real property interests, including remainder interests and easements that restrict the use of real property. For individuals, the maximum write-off for qualified conservation contributions of long-term capital gain property is increased from the normal 30% to 50% of adjusted gross income. For an individual who is a qualified farmer or rancher, the qualified conservation contribution write-off for donated farm or ranch real property can be as much as 100% of the donor's adjusted gross income. However, the donation must include a usage restriction stating that the property must remain available for agricultural or livestock production. In addition, qualified conservation contributions are not counted when calculating an individual's allowable write-offs for other charitable contributions.

Qualified conservation contributions in excess of what can be written off in the year of the donation can be carried forward for 15 years (only a five-year carryover period was allowed under the previous rules).

Please contact us concerning these or other charitable contribution opportunities.



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