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The Twenty Top Tax Breaks In The New 2010 Tax Act

The 2010 Tax Relief Act includes dozens of tax breaks for individuals and businesses. Here are 20 of the top provisions.

1. No increase in income tax rates. Rates in the top two income brackets had been scheduled to rise from 35% to 39% and from 33% to 36%. The new law also preserves relief from the "marriage penalty" for joint filers.

2. Status quo for capital gains and dividends. The maximum tax rate for long-term capital gains was supposed to jump to 20% (10% for low-income individuals), and dividends would have been taxed as ordinary income. Now, the existing 15% rate for long-term gains and dividends remains for most taxpayers through 2012.

3. Lower payroll taxes. For 2011 only, the law authorizes a two percentage point drop—to 4.2%—in employees' share of the Social Security tax, due on the first $106,800 of wages. You get the same break if you're self-employed.

4. Alternative minimum tax (AMT) relief. The new law slightly increases the exempt amounts on 2010 and 2011 returns for avoiding exposure to the AMT and its bigger tax bite. The amounts had been scheduled to revert to low, pre-2001 levels.

5. No phaseouts for itemized deductions and personal exemptions. Before 2010, itemized deductions and personal exemptions were phased out for high-income taxpayers. But those limits were repealed for 2010, and the new tax act extends that relief through 2012.

6. A bigger break for owning qualified small business stock (QSBS). The maximum 50% exclusion for investments in QSBS had been temporarily increased to 75%. Now, under the new tax act, there's a 100% exclusion for QSBS acquired before January 1, 2012.

7. An enhanced education credit. The American Opportunity Tax Credit (AOTC), which expanded the Hope credit for college expenses, was scheduled to expire after 2010. Now, the maximum $2,500 AOTC is extended through 2012, though it's still phased out for high-income taxpayers.

8. A bigger deduction for college savings. The maximum $2,000 deduction for contributions to Coverdell Education Savings Accounts, slated to drop to $500 after 2010, is extended through 2012.

9. A partial reprieve for Section 179 deductions. The maximum Section 179 deduction, which rose from $250,000 to $500,000 for qualified business property placed in service in 2010 and 2011, was then scheduled to drop to $25,000. The new law allows a maximum $125,000 deduction for 2012.

10. A bonus for bonus depreciation. The tax act retroactively reinstates this business perk, which had expired after 2009. A 100% bonus depreciation deduction is generally available for qualified property placed in service in 2011, and there's a 50% deduction for 2012.

11. Revived credit for going green. The credit for home energy-saving devices, scheduled to expire after 2010, is

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Find Welcome Tax Reprieve For Capital Gains And Dividends

Thanks to the Tax Relief, Unemployment Insurance Reauthorization and Jobs Creation Act of 2010, investors can rest a little easier. The new law extends favorable tax rates for long-term capital gains and dividends. But the reprieve is only temporary.

For several years, the maximum capital gains tax rate for profits on the sale of securities held longer than a year has been 15% (and there has been no tax on gains for taxpayers in the lowest tax brackets). But that rate had been scheduled to increase to 20% (10% for low-income investors) in 2011. The 2010 Tax Relief Act preserves most existing tax rates, including the lower rate for long-term capital gains, through 2012. That gives you a window for selling assets that have racked up big gains. (You're allowed to repurchase favorite holdings after a 30-day hiatus.)

Note that even high-income investors may benefit from the 0% rate if a portion of their capital gain income falls below the tax bracket thresholds.

Similarly, the current 15% tax rate for most dividends from U.S. companies is preserved through 2012. Without the new legislation, dividends would have been taxed at ordinary income tax rates that were also scheduled to rise, to as high as 39.6%.

It's seldom a good idea to let tax considerations dictate investment strategy, but we can help you consider how to make the most of these temporary tax breaks during the next two years.

Robert J. Pyle, CFP, CFA

401(k) Alternatives For Business Owners

If you have fewer than 25 employees in your small business, a 401(k) plan may not be right for you. But if your business offers no retirement plan at all, you could lose out in attracting the most qualified job candidates. One or more of these alternatives might be a better fit for your situation.

Simplified Employee Pension (SEP IRA). A SEP IRA is low cost and low maintenance.

- The employer makes all of the contributions; employees can't add to their accounts.
- The plan must cover all eligible employees.
- There is no "plan document."
- You don't have to file annual reports with the IRS.
- Contributions are tax deductible.
- Contributions can vary from year to year. So if you hit a lean spell, you aren't locked in.

Savings Incentive Match Plan for Employees (SIMPLE IRA). For a business with fewer than 10 employees, the SIMPLE IRA is a great starter plan.

- Your contribution is required; employees have the option of contributing.
- But you can't sock away as much for yourself as you can with a SEP IRA, which for 2010 allows a maximum contribution of $49,000. SIMPLE IRA contributions are normally capped at $11,500 ($14,000 for those 50 or older at year's end) plus an employer matching contribution that can't exceed 3% of salary.
- Don't confuse the SIMPLE IRA with the SIMPLE 401(k), which is like a traditional 401(k) plan but with higher fees and less flexibility.

Profit-Sharing Plan. This gives each employee a slice of the company's earnings.

- An overall annual contribution, based on the company's performance, is apportioned to individual accounts according to each employee's salary.
- Contributions are discretionary and tend to vary from year to year.
- A business of any size may use a profit sharing plan and can combine it with other retirement plans.
- Businesses with profit-sharing plans must file IRS Form 5500 each year.
- Administrative costs may be higher than under more basic plans, because this plan must perform a non-discrimination test to ensure it doesn't favor highly compensated employees.

Defined-Benefit Plan. This is the most costly, complex plan for small businesses, but it has one big potential advantage—it lets you make very large contributions that can quickly build your nest egg. You're now allowed to fund a maximum annual retirement benefit of $195,000.

- Your contributions are mandatory.
- You can't decrease benefits retroactively.
- Defined-benefit plans are available to businesses of any size and can be combined with other retirement plans.
- Requires filing an IRS Form 5500 with a Schedule B each year.

The Schedule B must be signed by an enrolled actuary, who will calculate contribution amounts based on your employees' ages and the target benefit. ●

The Dawning Of New Financial Regulations

The regulatory world is changing for financial advisors, and that could have significant implications for current and prospective clients. Many advisors will now have to disclose more about how they operate and they may face new rules or have their businesses reviewed by different regulators. Here are several key changes.

New disclosure requirements. The Securities and Exchange Commission (SEC) has revamped the Form ADV that registered investment advisers (RIAs) must file with the SEC. RIAs now must offer a brochure and supplements written in easy-to-understand "plain English." Among other requirements, RIAs must also disclose:

- The types of services they offer
- Their total assets under management (AUM)
- How they are compensated
- Any potential conflicts of interest
- Risks of investing in securities
- Any material risks that relate to a particular strategy
- Facts about legal or disciplinary problems

Full disclosure will make it easier for clients to evaluate and compare financial advisors and could lead to stronger relationships between clients and their advisors.

Shift in regulatory supervision. Effective July 21, 2011, regulation of more than 4,000 RIAs will shift from the SEC to state authorities. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), state regulators will have authority over RIAs that have AUM of less than $100 million. Prior to the new law, the maximum AUM for state supervision was $25 million.

Their larger responsibility will likely create stiff challenges for states already scrambling to do their jobs at a time when revenues are down and budgets are tight. But under the old

11 Important Financial Ideas For 2011

With some astute advance planning, you may be able to improve your financial fortunes in 2011. Here are, appropriately enough, 11 timely tips to consider.

1. Revise your estate plan. Under the 2010 Tax Relief Act, the federal estate tax has returned after a one-year repeal. For 2011 and 2012, an estate can benefit from a $5 million exemption and a top tax rate of 35%, among other changes. Meet with your estate planner to consider ways to maximize the benefits.

2. Pay attention to other taxes, too. Although favorable tax rates on income, dividends, and capital gains have also been preserved for 2011 and 2012, there's no reason to pay more tax than you have to. Look for strategies that might postpone income to years when you expect to be in a lower tax bracket or help in other ways. One possibility is to invest in stocks that pay no dividends but have the potential for long-term growth.

3. Consider (even now) converting your IRA to a Roth. Though you missed the one-time chance to put off and spread out taxes due on a conversion, a Roth IRA might still be a boon to your long-term prospects, delivering tax-free income during retirement.

4. Max out your 401(k) contributions. It's not new advice, but it continues to make sense to put as much as you can into your retirement plan at work. You'll shelter income from being taxed at the new, higher rates and put tax-deferred compounding to work. The maximum deferral for 2011 is $16,500, plus you can add a $5,500 "catch-up" contribution if you're age 50 or older.

5. Leverage low interest rates. Loan rates are plumbing historic depths, making inexpensive borrowing a viable financial strategy. You could refinance a car loan or mortgage or borrow to pay college costs. Just don't make the mistake of carrying more debt than you can afford.

6. Take advantage of low asset values. Your investment account balances may be a shadow of their former selves, and home values, too, have suffered. But you could benefit from those reduced assets if you're trying to shift value out of your taxable estate. With planning vehicles such as a grantor retained annuity trust, or GRAT, for example, you could now transfer more of your estate without taxes, and low interest rates only increase your advantage.

7. Protect against inflation. Although no one can be sure about future economic conditions, it's wise to take steps to guard against the threat of inflation. Inflation can steadily erode your savings and reduce your purchasing power. First and foremost, ensure that your portfolio is properly diversified and includes inflation-defensive components. Some possible additions are precious metals like gold, certain commodities and Treasury Inflation Protected Securities (TIPs). Caveat: Maintain an investment approach that suits your personal tolerance for risk.

8. Be ready for a rough ride. Though stock market volatility recently retreated to more normal levels, it could pick up again later this year, and a well-diversified portfolio can help you ride out market ups and downs by including a broad range of assets, some of which may gain value while others fall. (Diversification, of course, can't guarantee against losses in a declining market.)

9. Don't let a weakening dollar sap your investments. Big federal budget deficits and slow economic growth could make the U.S. dollar less popular, and if its value declines, so will your purchasing power (particularly when you're buying imported goods). But when the dollar falls, other currencies rise, and you could invest in multinational corporations (that generate some of their income outside the "dollar zone") or in foreign stocks that pay dividends in euros or yen, for example. You might even commit a small portion of your portfolio to gold as a hedge.

10. Insure your future. Having adequate insurance—with policies for health, life, cars, your home, and long-term care—can protect you and your loved ones from unforeseen events, and early in the year is a great time to review your coverage and make needed adjustments.

11. Make sure credit cards are your financial allies, not enemies. Plastic is almost a necessity these days, and there's nothing wrong with using a credit card for online purchases or to keep tabs on your expenses. But unless you pay off balances every month, you could spend a small fortune on interest charges—even now, when most rates are low. And if you have old credit card debt, why not come up with a plan for retiring it as soon as possible? We could help with this or with any other smart financial moves you're considering this year.●

rules, many RIAs faced little or no regulatory scrutiny from the SEC, and by dividing the task among 50 states' regulators, the hope is that routine reviews of RIAs and investigations of possible wrongdoing will become more frequent.

SEC protection. In conjunction with these other changes, the SEC no longer has to comply with requests for information from the public, including those filed under the Freedom of Information Act. It is exempt from disclosing records or information derived from "surveillance, risk assessments, or other regulatory and oversight activities." Congress and federal agencies can request information, but the public can't. So, while disclosure to investors has increased on other fronts, in this area some kinds of information will be harder to come by.

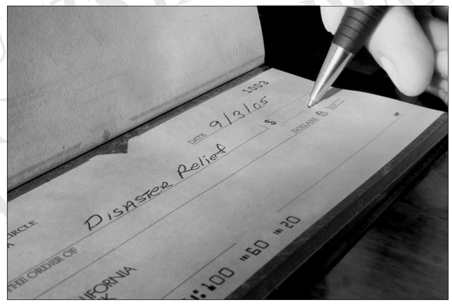
Amid these changes, we remain committed to maintaining the highest ethical standards and would be pleased to provide you with information about how we do business. ●

Donor-Advised Funds Gain In Recession

Though a private foundation can be a great, hands-on way to fulfill your philanthropic intentions, it can also be expensive and time-consuming, and the recession has left many foundations with diminished portfolios and burdensome costs. Moreover, if your business is struggling, you may have fewer hours to devote to running foundation operations. Under the pressure of today's financial realities, another charitable giving vehicle—the donor-advised fund—could be an appealing alternative.

With a donor-advised fund, you contribute cash or property to a special account managed by a sponsoring charitable organization or an investment company. Then you make recommendations about how and when to distribute the funds in your account. Although you can't legally require distributions to be made to the charities you designate, the money will normally go to your suggested recipients unless there's a legal reason it can't.

A donor-advised fund may require a minimum contribution to set up an account, and you'll likely pay an annual administrative fee based on a percentage of the assets in your account. Still, compared with a private foundation, a donor-advised fund may deliver more of your charitable dollars to your intended recipients at a lower cost, as private foundations have higher annual filing and tax preparation expenses. And whereas private foundations must publicly disclose some information about the foundation and its grant recipients, gifts through a donor-advised fund can be made anonymously.



There may also be tax advantages. You get an immediate write-off for contributing to a donor-advised fund, even if your money is distributed to charitable recipients in later tax years, and the maximum deductible donation may be higher with a donor-advised fund than if it were made through a foundation. Contributed real estate is deductible at its fair market value through a donor-advised fund, whereas you can deduct only the property's cost basis if you donate it through your foundation. Finally, there are no mandatory distributions with a donor-advised fund. A foundation must distribute at least 5% of its net assets every year.

If you already have a private foundation, you could convert it to a donor-advised fund. There are strict IRS rules you must follow if you're dismantling a private foundation, however, and you'll also need to comply with state laws. If you're establishing your donor-advised fund through a charity or a financial company, that entity may be able to provide guidance for making the transition. But you'll also need to consult an experienced attorney. We can work with you and your other advisors to oversee the change, file the necessary paperwork, and handle other issues. ●

Top Tax Breaks

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extended through 2011, but the credit is limited to 10% of the cost of improvements (it had been 30%) and a maximum of $500.

12. Offspring benefit. The child tax credit of $1,000 per child was going to lapse after 2010; now it will be in force through 2012.

13. Help with adoption costs. The new law extends the credit for adoption expenses—now a maximum of $12,170, down from $13,170 in 2010—through 2012.

14. Money for hiring. The Work Opportunity Tax Credit, available to businesses for employing workers from "target" groups, now won't expire as planned on August 31, 2011, but will stay in force through 2012.

15. Reward for taking the bus. The maximum monthly $230 tax-free benefit for transit passes, scheduled to decrease to $120 after 2010, is extended through 2011.

16. A renewed deduction for corporate largesse. Enhanced deductions for companies' contributions of food inventory, books and computer equipment, which expired after 2009, are retroactively extended through 2011.

17. Option to deduct sales tax. The chance to write off sales tax, rather than state and local income taxes, ended after 2009 but now is back for 2010 and 2011.

18. Deduction for IRA transfers to charity. The ability to direct an annual maximum of required IRA distributions to charitable organizations, which had expired after 2009, is retroactively extended through 2011.

19. Generous estate tax rules. Following the temporary repeal of the tax for 2010, it's reinstated but with a $5 million exemption and a top tax rate of only 35% and the reunification of estate and gift taxes through 2012. And heirs will again benefit from a step-up in basis on inherited assets.

20. A break on generation-skipping tax (GST). The new law coordinates the GST with the estate tax rules through 2012, with the same maximum exemption of $5 million. ●

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