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Tax & Business Letter

SPRING 2011

Check the new rules for 2011 tax planning opportunities

Sunset was postponed last December, at least in the world of taxes. Many existing laws, which had been due to expire, or "sunset" at the end of 2010, were extended through 2012. At the same time, new rules that can impact your tax planning came into effect. With so many changes, you'll want to make sure you understand the possibilities available to you as you finalize last year's return and look ahead to 2011. Here are some suggestions.

Business tax planning

There's a new twist on an existing option for accelerated write-off of assets you purchase from September 9, 2010, through December 31, 2011. You can choose to expense 100% of the cost of new equipment, such as machinery, some vehicles, and computers, under expanded "bonus" depreciation rules. While this sounds similar to Section 179, which also allows immediate expensing of assets you'd otherwise have to write off over several years, differences between the two methods exist.

For instance, the amount of Section 179 expensing you can claim may be limited by your income. In contrast, bonus depreciation can create an operating loss that you may be able to carry back to prior years to generate a refund.

Another depreciation break was also extended: the 15-year life for certain leasehold and retail improvements and restaurant buildings and improvements. These assets will no longer qualify for 15-year depreciation after 2011.

And what about the rules for Section 179? The expensing limit was increased to $500,000. Your deduction begins to shrink if you buy more than $2 million of assets.

Investment planning

Capital gain rates will remain at a maximum of 15% (and a minimum of 0%) through December 31, 2012. The rates apply to qualified dividends and long-term gains from investments you sell. That makes 2011 a good time to implement strategies for potential tax savings.

One example: You may be able to manage your income to stay within the 10% or 15% income tax brackets, which would allow you to take advantage of the 0% capital gain rate.

Alternatively, you could gift appreciated stock to family members in those brackets. For 2011, the cutoff for the 15% bracket is $69,000 of taxable income when you're married filing jointly ($34,500 for singles).

Estate and gift tax planning

The new rules for estates include a maximum tax rate of 35% and a $5 million exemption for 2011 and 2012. The exemption is the amount you can leave to heirs, tax-free, and it applies to lifetime gifts as well. Therefore, you and your spouse could gift up to $10 million of cash, investments, or ownership in a business without incurring gift tax. That's in addition to your annual exclusion of $13,000 per recipient.

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IRS TAX NOTES

More options for tax refunds
Last year, you could use your tax refund to purchase U.S. Series I Savings Bonds in your name. This year, there are some new options for purchasing savings bonds with your income tax refund.

You can buy savings bonds for yourself and up to two other individuals. Form 8888 is used to designate the person or persons in whose name the bonds are to be issued. The savings bonds will then be mailed to those individuals. Up to $5,000 in bonds can be purchased in $50 increments. Also this year, you may request a paper check for the balance if you prefer that to direct deposit.

Electronic deposits required
Businesses can no longer use paper coupons (Form 8109: Federal Tax Deposit Coupon) to deposit federal taxes to an authorized bank. Instead, deposits must be made using the Electronic Federal Tax Payment System (EFTPS) online or by telephone. Businesses with taxes below certain thresholds may still remit taxes due with the tax return being filed.

Filing threshold raised
Tax-exempt organizations are required to file annual reports with the IRS. Those with gross receipts below a certain threshold amount can file an E-postcard rather than a longer version of Form 990. The IRS has just raised that threshold amount to $50,000, an increase over the previous filing threshold of $25,000.

The deadline for nonprofit filings is the 15th day of the fifth month after their year-end. For calendar-year organizations, the filing deadline for 2010 reports is May 16, 2011.

TAX CALENDAR SPRING 2011

March 15 – Deadline for calendar-year corporations to elect S corporation status for 2011.

March 15 – Deadline for filing 2010 tax returns for calendar-year corporations.

March 31 – Deadline for payers who file electronically to file 2010 information returns (such as 1099s) with the IRS.

March 31 – Deadline for employers who file electronically to send copies of 2010 W-2s to the Social Security Administration.

April 18 – Deadline for filing 2010 individual tax returns.

April 18 – Deadline for filing 2010 partnership returns.

April 18 – Deadline for filing 2010 gift tax returns.

April 18 – Deadline for making 2010 IRA contributions.

April 18 – First installment of 2011 individual estimated tax is due.

May 16 – Deadline for calendar-year nonprofit organizations to file information returns.

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It's time to get your savings program back on track

Today Americans are saving substantially less than they were in the 1980s, and much less than people in some other developed countries are saving.

How can you ramp up your savings? Clearly, cutting back on cable television channels, packing a lunch once a week, or dropping a magazine subscription won't generate substantial savings. If you're really committed to building wealth, it's essential to focus on the big stuff. For many Americans, that means attacking household debt with a vengeance.

If your credit card payment is big, your car payment bigger, and your mortgage payment even bigger, your savings accounts may be starved. And without enough cash to cover emergencies, many folks resort to credit cards and lines of credit to cover unforeseen expenses. So the cycle continues.

How can you get ahead of the curve? First, build up an emergency fund before life's inevitable crises happen. How much should you set aside? The general rule is enough to cover three to six months of living expenses. As a first step, track your expenses for a month. Then project those expenses out three to six months.

Next, look at your income. How stable is your job? Do you have one or two salaries? How long might it take to find another job in your field? Use those factors to determine the target for your emergency account. Finally, stash your savings where the funds will be available – without withdrawal penalties or tax consequences – when you need them. A money-market or interest-paying savings account may be a good choice.

How can you stay on track? Once you have an emergency fund, follow these steps to keep your savings plan on track.

Treat your savings as your most important monthly bill. Write a check to savings first, or have your savings automatically deducted from your checking account or paycheck.

Tax-deferred retirement accounts offer a smart way for you to save money for retirement. If your employer offers

a 401(k) or SIMPLE retirement plan, contribute the maximum amount allowed. If your employer offers no plan, contribute to an individual retirement account (IRA). Your contribution can reduce your taxable income and grow tax-free until withdrawn.

When it comes to saving, think "control." For example, control the use of your credit cards. The amount you pay each month in finance charges could go to savings instead. Also, control the use of your ATM card. Give yourself a regular cash allowance, and try to live with it.

Congratulations Stephen A. Wade

James & Co. is proud to acknowledge our client Stephen Wade, a multi-franchise dealer from St. George, Ut. and Chico, CA. who was recently appointed chairman of the National Automobile Dealers Association (NADA). Wade said that he is looking forward to working with manufacturers, regulators and Congress to ensure that the nation's economic recovery continues as vehicle sales rebound this year.

"It finally feels like we're headed in the right direction," Wade said. "Manufacturers are producing great product. Sales are picking up. And consumer credit is improving."

James & Co. specializes in automotive dealerships, and Dan E. James attended the NADA Annual Convention & Expo February 5-7 in San Francisco. The convention drew about 18,000 total attendees.

Angela James, Johnny Rodgers & Dan E. James
National Auto Dealer Association Convention

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Estates of persons who died in 2010 have the option of applying the restored estate tax rules and receiving a step-up in basis on property passing to heirs or having no estate tax but using a carryover of the decedent's basis in property.

The December tax law contains other provisions that offer planning opportunities – almost all of which are temporary. Please give us a call for details and planning guidance.

Business success comes with good planning

Many prospective entrepreneurs regard business plans as annoying academic exercises, useful only to provide file stuffing for potential lenders or investors. Ironically, lenders and investors who receive such plans are apt to view them the same way and move on to the next applicant.

- **A real business plan should be regarded as a useful and dynamic tool.** It should be able to help guide business decisions and serve as a yardstick for measuring outcomes. If external events invalidate some aspect of the plan, it should be revised to conform to the new evidence. Thus, the plan can continue to serve as a relevant guide while remaining ready for use as a reference for providers of capital.

- **A useful plan must be grounded in reality.** Start by defining a significant customer problem that your proposed product or service can solve. The problem's existence should be supported by real evidence such as surveys, verifiable interviews, or marketing research studies. These sources should also help clarify your prospective customer base; i.e., the group that actually has the problem your product or service will solve.

Next, explain how you'll reach your customer base and motivate these people to buy. Once again, your assertions should be based on hard evidence, such as surveys and interviews of actual prospects. You should also include any secondary evidence, such as published studies, that supports the size and accessibility of your market.

Wherever possible, your surveys or interviews should be conducted using actual members of your prospective customer base. This means you must either conduct the research yourself or hire an outside professional to do the legwork.

Every business has particular factors that are vital to success, such as location, owner or employee skills, or access to essential materials. Your plan should identify the vital factors applicable to your business and explain how you will meet their requirements.

- **Be careful to ensure that your financial projections are as realistic as possible.** Revenue projections should be supported by market research to the extent possible. Projected cost categories can be compiled from published materials, but realistic dollar costs should be determined through contacts with prospective suppliers. Try to identify potential pitfalls (such as seasonal revenue variations or inventory shortages) and provide concrete and supportable contingency plans for dealing with them. If you'd like help with developing your business plan, contact our office.

James & Co. Spotlight

James & Co. Business Advisors / CPAs Receives Top Rating In Peer Review

James & Co Business Advisors / CPAs recently received a top rating for conforming with professional standards in all material respects, which supports the firms quality of value-added services. The AICPA (American Institute of Certified Public Accountants) requires its member firms to undergo a periodic outside review. The peer review provides reasonable assurance that the accounting audit work being done by the firm is quality work that can be relied upon in making business, personal or financial decisions. Serving the community for more than 25 years, James & Co. is consistently recognized with this top rating.

"Our firm is committed to a high-level of professional development. This ensures that James & Co. is well informed on changing tax laws and is able to provide the best possible strategies for our clients."

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