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Business Advisors | CPAs

Tax & Business Letter

Merry Christmas Winter 2010

Small Business Jobs Act changes 2010 tax rules

If you are a small business owner who thought all the best tax breaks were behind you, think again. The recently passed *Small Business Jobs Act of 2010* restores some familiar tax perks and adds a few new ones. The law was signed by President Obama on September 27, 2010.

Depreciation rules

The new law extends the first-year 50% bonus depreciation rule that had expired last year, and makes it retroactive to include qualified new equipment purchases made any time in 2010.

Congress also expanded the Section 179 business expensing provision to allow a deduction of up to $500,000 for purchases of new or used equipment in 2010 and 2011. The previous limit was $250,000. What's more, under the old rule, the deduction was reduced for companies with annual equipment purchases above $800,000. Now the threshold has been raised to $2 million.

Credit carryback

The *Small Business Jobs Act* expands the business tax credit carryback limitation from one year to five for private companies with gross receipts of no more than $50 million. And capital gains tax on sales of qualified small business stock will be reduced to zero for original issue stock purchased by the end of 2010. However, you still need to hold the stock for five years to qualify.

Start-up costs

If you start a new business this year, you might score an added tax perk. The annual start-up cost deduction of $5,000 was raised to $10,000 for 2010. The deduction is reduced dollar-for-dollar for any start-up expenses exceeding $60,000.

Retirement conversion

Roth IRAs are back in the news. You probably knew that a traditional IRA could be converted into a Roth in 2010 with the resulting taxable income spread equally in 2011 and 2012. Now you can do the same thing with a 401(k), 403(b) or 457(b) plan, if your retirement plan will allow it.

Cell phones

One very practical and welcome tax change is the removal of cell phones from the "listed property" category, which means you no longer have to meet strict recordkeeping requirements for your business use of a cell phone. Businesses no longer have to include the personal use of a business cell phone in an employee's income.

Information returns

Waiting for the catch to all this good tax news? Here it is. The new law calls for even more information return filing and increased penalties for failing to file such information. Beginning in 2011, rental property owners will be required to report payments of $600 or more made to goods and service providers.

The new small business tax law gives business owners a lot to think about and not much time to act. To discuss ways to maximize the benefits for your business, give our office a call today.

Inside this issue...

Talk about finances with your elderly parents

One day you may find yourself taking care of an elderly parent who is in declining physical or mental health. This can be stressful, both emotionally and financially. On the financial side, there are steps you may want to take to prepare for this situation.

Talk to your parents about their financial affairs. Parents may be reluctant to discuss their finances, but someone needs to know the names of their lawyer and accountant. Someone needs to know where their important financial papers are located. Chances are that much of the information will be in your parents' heads, or scattered in various places around their house. Here's a general overview of the topics you might want to cover with your parents.

Vital statistics

- Where are social security cards, driver's licenses, and passports kept?
- Where are marriage or divorce records and family birth certificates?
- Where are military service records and pension records?

Financial records

- Help your parents make a list of their financial assets, bank accounts, investments, etc.
- Review the beneficiaries they have designated and how accounts are titled.
- Do they have a safe deposit box? Record the location and box number.
- Find the name of their accountant and copies of tax returns.

Physical assets

- Locate mortgage records and the deed to their house or other property.
- Locate vehicle titles.

Insurance

- Locate records for home, vehicle, health, and life insurance.

Estate planning

- Do they have a will or living trust?
- What is the name of their attorney?
- Discuss any special wishes for bequests; encourage your parents to put them in writing.
- Have they set up directives for medical care (living wills)?
- Have they set up a Power of Attorney in case they become disabled?

Use the list as a starting point for a series of conversations.

James & Co. Spotlight

James & Co. Attends AICPA National Auto Dealer Conference

James & Co. Business Advisors / CPAs recently attended the AICPA (American Institute of Certified Public Accountants) National Auto Dealer Conference in full-force. Dan E. James, MBA, CPA, Debra L. Kelley, MT, CPA, Mary E. Markeson, MAcc, CPA, and Terri R. Ferran, CPA attended the three-day conference. This conference provided a comprehensive economic and legislative update and break down of policies targeted to auto dealers. World-class speakers provided insights to help you meet unprecedented challenges in the new economy. Experts presented industry updates on dealership tax issues, preventing and detecting fraud, estate planning, and other workshops relating to evolving tax and legal issues.

James & Co. specializes in dealership accounting in the western states. "We are committed to on-going professional education in order to provide innovative solutions to make our clients more successful," said Dan E. James, James & Co. President.

Congratulations to Dave Edwards, MBA, CPA!

Upon earning his Certified Public Accountant credentials, Dave has been promoted to Manager of Tax Services for James & Co.

New Face at James & Co.

We are happy to introduce Jenni Compton, who recently joined the James & Co. team as Administrative Assistant. Jenni earned a BS Degree in Human Performance Management from Weber State University. She resides in West Point with her husband Chris, and also teaches water aerobics. Jenni brings a cheerful smile and organizational skills to the team. Welcome Jenni!

For Weekly Tax Tips & Monthly Business Tips
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With low mortgage interest rates, is it time to refinance?

Mortgage interest rates are at historic lows. According to the Mortgage Bankers Association, the average interest rate for 30-year, fixed-rate mortgages dropped to 4.25% in September, 2010, and the average rate for 15-year mortgages fell to 3.73%. These are the lowest rates in almost 50 years.

If you're currently paying mortgage interest at a higher rate, you may be tempted to refinance your existing mortgage, even if you already refinanced once or twice before. But should you do it? The decision may not be as simple as it first seems. Comparing interest rates is not enough. Here are some other factors to consider before you refinance.

Compare apples to apples.
Always request a good-faith cost estimate from any lender. This report should disclose all the fees and closing costs, such as points, credit report fees, inspection fees, private mortgage insurance, and appraisal fees. Use this information to evaluate competing loan proposals.

Calculate your breakeven period.
This is the length of time it takes you to recover the costs a lender typically charges to refinance your mortgage. To do this, divide your refinancing costs by your monthly savings (your current loan payment minus your new loan payment). If you plan on selling your home in the near future, refinancing may not save you money because it usually takes several years to recover refinancing costs through a lower monthly payment.

Analyze the loan term.
To save interest, avoid stretching out your total loan period when you refinance. Let's say you've been paying for ten years on a 30-year loan. If you take out a new loan with a 30-year term, you will increase your total payoff period to 40 years. Instead, consider making your new loan term coincide with the remaining term of your old loan (in this example, 20 years). Another alternative is to continue making the same monthly payment toward your new 30-year loan. If you do that, you'll pay off your loan in a shorter period of time. This could save you a substantial amount of interest.

Check for prepayment penalties.
Before you pay off your existing loan, check for an early payment penalty clause. Your note agreement will spell out the exact terms of the prepayment penalty, if any, or you can check with your lender. A prepayment penalty will lengthen your breakeven period.

Take taxes into account.
In evaluating a refinancing, don't overlook the potential tax deductions.

• *Loan points.* Most lenders charge points, also known as a loan origination fee, on home loans. If you itemize deductions on your tax return, you can generally deduct points paid on a refinancing, but not all in the first year. Instead you must spread your deduction pro rata over the life of the new mortgage.

When you pay off a prior refinancing, you can immediately deduct any remaining points from the previous mortgage.

If you use part of the refinanced loan to make improvements to your home, points attributable to the home improvement portion can be deducted immediately. Any remaining points must be deducted pro rata over the loan's term.

• *Other deductions.* If you are charged a prepayment penalty for paying off the previous loan early, you can generally deduct the penalty. Most other closing costs, such as appraisal or title insurance fees, are not deductible. However, you should bring your loan documents to your tax appointment because there could be additional deductions.

Other factors may also come into play. For instance, after you refinance, you may have to adjust your tax withholding or estimated tax payments to reflect a lower interest deduction. And lenders now require more detailed financial information and documentation. We can help you with the paperwork and with making the best choices in your particular circumstances.

Mission Statement

Our firm is committed to excellence in consulting, tax and audit services for the upscale business community in Utah and the western states.

Our friendly and talented team of professionals approach client services with a caring, responsive and proactive style.

Our clients personify success and have demonstrated a commitment to growth and prosperity.

OUR ULTIMATE GOAL IS OUR CLIENTS' SUCCESS.

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Happy Holidays

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**Making You More Successful
for More Than 25 Years**

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Health reform changes in 2011

Here are three tax law changes resulting from health care reform that will take effect January 1, 2011.

Limited health plan reimbursements. New rules apply to your withdrawals from health savings accounts (HSAs), Archer medical savings accounts (MSAs), health flexible spending arrangements (FSAs), and health reimbursement arrangements (HRAs).

Beginning January 1, you'll no longer be able to use funds in these accounts to pay for over-the-counter medicines or drugs unless you have a prescription from your doctor. Insulin and certain medical devices and supplies continue to qualify for tax-free reimbursement.

Tip: Depending on your plan, you may be able to request reimbursement in 2011 for over-the-counter items purchased by December 31, 2010.

Higher penalties on nonqualified distributions.
Starting on January 1, the penalty for nonqualified distributions from your HSA or Archer MSA increases to 20% of the amount you withdraw.

Optional health coverage reporting. Reporting the value of health benefits you provide to employees is optional for the year ending December 31, 2011, instead of mandatory.

You can choose to report the premiums paid for benefits such as health insurance, prescription drug coverage, and dental and vision plans on Forms W-2 for 2011. The reported value is not taxable income to employees.

Call our office for up-to-date information about new tax laws affecting you and your business.

Merry Christmas

from the James & Co. Team

During the holiday season, we wish you and your family all the best for a very Merry Christmas and a bright New Year. We are grateful for your business and your friendship!

TAX CALENDAR WINTER 2010

January 18, 2011 – Fourth installment of 2010 individual estimated tax is due.

January 31 – Employers must furnish W-2 statements to employees. 1099 information statements must be furnished by banks, brokers, and other payers.

January 31 – Employers must file 2010 federal unemployment tax returns and pay any tax due.

February 28 – Payers must file information returns (such as 1099s) with the IRS.*

February 28 – Employers must send W-2 copies to the Social Security Administration.*

March 1 – Farmers and fishermen who did not make 2010 estimated tax payments must file 2010 tax returns and pay taxes in full.

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

March 15 – 2010 calendar-year corporation income tax returns are due.

*March 31 if filing electronically