

# HIGHLIGHTS OF THE CHANGES AFFECTING 2010

**Roth Conversions Liberalized** – Beginning in 2010, the \$100,000 modified AGI limit on conversions of traditional IRAs to Roth IRAs is eliminated. For conversions made in 2010, the taxpayer can choose to elect to:

- Include the income on his or her 2010 return, or
- Include one-half of the conversion income in 2011 and the other half in 2012.

**The Zero Capital Gains Rate Expires After 2010** – 2010 is the final year that taxpayers will enjoy a capital gains rate of zero to the extent that their regular tax bracket is less than 25%. But before you make plans to sell everything in 2010, remember that the gain itself adds to your income, impacts income-based limitations, and possibly pushes you into a higher regular tax bracket, so it is a balancing act to take advantage of this zero rate.

**Many Tax Benefits Expired at the End of 2009** – Barring a last minute extension by Congress, there are several tax benefits that expired at the end of 2009 and are no longer available:

- Educator's \$250 above-the-line deduction for school supplies;
- \$2,000/\$4,000 above-the-line deduction of higher education expenses;
- Itemized deduction for sales tax in lieu of state/local income taxes;
- Up to \$500 (\$1,000 joint) non-itemizer's additional standard deduction for real property taxes;
- Taxpayer age 70½+ tax-free IRA distributions made directly to charity;
- \$2,000 contractor energy-efficient home credit;
- Energy-efficient commercial building credit;
- 50% bonus depreciation write-off for business property;
- 15-year life for certain restaurant property and leasehold improvements;
- Five-year carryback of net operating losses for small businesses;
- Partially tax-free unemployment; and
- Deduction of sales and excise taxes paid on the purchase cost of a new motor vehicle as part of the standard deduction or as an additional itemized deduction.

**Expanded Earned Income Tax Credit (EITC)** – 2010 is the last year for the EITC category of three or more children. This category provides for an increased credit of 45% of the earned income, providing a maximum credit for this category of \$5,666 in 2010 when the taxpayer's earned income is \$12,590.

**Required Minimum Distributions (RMD)** – The minimum required pension distribution requirement for individuals age 70½ or older returns in 2010. It was temporarily suspended in 2009.

**Minimal Inflation Rate Adjustments** – For 2010, the cost-of-living inflation adjustments are almost non-existent. As a result, tax rates, exemptions, standard deductions and phase-out thresholds and other rates that are subject to inflation adjustments, remain unchanged or only minimally adjusted.

**Home Energy-Savings Improvement Credit** – Unless Congress extends this tax benefit, 2010 is the last year for this nonrefundable tax credit. The credit equals 30% of what a homeowner spends on eligible energy-saving improvements, up to a maximum tax credit of \$1,500 for the combined 2009 and 2010 tax years. The cost of certain high-efficiency heating and air



conditioning systems, water heaters and stoves that burn biomass all qualify, along with labor costs for installing these items. In addition, the cost of energy-efficient windows and skylights, energy-efficient doors, qualifying insulation and certain roofs also qualify for the credit, though the cost of installing these items does not count.

**Residential Energy-Efficient Property Credit** – Homeowners going green can also check if they qualify for a tax credit designed to spur investment in alternative energy equipment that equals 30% of what a homeowner spends on qualifying property (such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines and fuel cell property). Generally, labor costs are included when calculating this credit. Also, no cap exists on the amount of credit available except in the case of fuel cell property. Homeowners should check the manufacturer's tax credit certification statement before purchasing or installing any of these improvements.

**Hybrid Vehicle Credits** – This tax credit is no longer available for Toyota and Honda manufactured vehicles and only available as a reduced credit for Ford manufactured vehicles through part of 2010. However, a tax credit of up to \$3,400 is still available for some makes of vehicles in 2010.

**Lean Burn Vehicle Credit** – At publication, two manufacturers (Mercedes and Volkswagen) produce vehicles that qualify for the lean burn vehicle credit, providing credits that range between \$900 and \$1,800 for 2010.

**American Opportunity Education Credit** – Barring an extension, 2010 is the second and last year for the American Opportunity credit, which replaces the Hope education credit. Unlike the Hope credit which only applies to the first two years of post-secondary education, this credit applies to the first four years of post-secondary education. In addition, the credit has been increased to 100% of the first \$2,000 of qualified expenses and 25% of the next \$2,000 of qualified expenses. Generally, credits only reduce one's tax liability to zero and any excess is lost. However, up to 40% of the American Opportunity credit is refundable, providing a real benefit for lower-income taxpayers.

**Casualty Losses** – For 2010, the casualty deduction per event floor has been returned to \$100 (was temporarily increased to \$500 in 2009). In addition, the 10% of AGI overall loss floor is again applicable (was suspended for disaster losses in 2009).

**Standard Deduction** – For 2010, the standard deduction returns to the conventional standard without add-ons for disaster casualty losses, property taxes, and new vehicle sales or excise taxes.

**First-Time Homebuyers** – The 2010 credit for first-time homebuyers is \$8,000 (\$6,500 for buyers that qualify as "long-time residents"). The maximum credit is reduced by one-half for married individuals filing separate returns. The credit is only available for purchases before May 1, 2010 (July 1, 2010 if the taxpayer had entered into a binding contract before May 1, 2010). For U.S. Service members, the credit is extended for one additional year. No credit is allowed for a purchase that exceeds \$800,000. A "long-time resident" is someone (including spouse if married) who has owned the same principal residence for any 5 consecutive years during the 8-year period ending on the date of purchase of a subsequent principal residence.

## \$1 LUMP SUM AT VARIOUS RATES COMPOUNDED ANNUALLY

(Future Value of \$1)

Interest Rate	5th Year	10th Year	15th Year	20th Year	25th Year	30th Year
4%	1.217	1.480	1.801	2.191	2.666	3.243
6	1.338	1.791	2.397	3.207	4.292	5.743
8	1.469	2.159	3.172	4.661	6.848	10.063
10	1.611	2.594	4.177	6.727	10.835	17.449
12	1.762	3.106	5.474	9.646	17.000	29.960

**Example:** If you invest \$10,000 at an interest rate of 8%, what amount will you have in 30 years? By referring to the table, you find that \$1 invested today at 8% would grow by a factor of 10.063 in 30 years. The future value of the \$10,000 investment would therefore be \$100,630 (\$10,000 multiplied by 10.063).

## \$1 PER YEAR AT VARIOUS RATES COMPOUNDED ANNUALLY

(Future Value of an Annuity of \$1)

Interest Rate	5th Year	10th Year	15th Year	20th Year	25th Year	30th Year
4%	5.416	12.006	20.024	29.778	41.646	56.085
6	5.637	13.181	23.276	36.786	54.865	79.058
8	5.867	14.487	27.152	45.762	73.106	113.283
10	6.105	15.937	31.772	57.275	98.347	164.494
12	6.353	17.549	37.280	72.052	133.334	241.333

**Example:** If you put \$1,000 at the end of each year in an investment paying 6% a year compounded annually, at the end of the 30th year, you will have \$79,058 saved (\$1,000 x 79.058).

## TAXABLE-EQUIVALENT YIELD OF MUNICIPAL BONDS BASED ON VARIOUS FEDERAL INCOME TAX BRACKETS

Tax Bracket	Tax-Free Yield								
	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
10%	2.2	2.8	3.3	3.9	4.4	5.0	5.6	6.1	6.7
15	2.4	2.9	3.5	4.1	4.7	5.3	5.9	6.5	7.1
25	2.7	3.3	4.0	4.7	5.3	6.0	6.7	7.3	8.0
28	2.8	3.5	4.2	4.9	5.6	6.2	6.9	7.6	8.3
33	3.0	3.7	4.5	5.2	6.0	6.7	7.5	8.2	9.0
35	3.1	3.8	4.6	5.4	6.2	6.9	7.7	8.5	9.2

**Example:** A taxpayer in the 25% tax bracket would have to purchase a taxable investment yielding more than 5.3% to outperform a 4.0% tax-free investment.

### DISCLAIMER

The information provided is an abbreviated summary of tax and financial information for the 2010 tax year and only includes law changes through November 15, 2009. Pending tax legislation could alter contents of this brochure. The accuracy and completeness of this information is not guaranteed. Specific questions relating to your specific tax or financial situation should be directed to your tax and financial advisors. CB2010 ©ClientWhys, Inc.



## 2010 INCOME TAX RATE SCHEDULE – INDIVIDUALS

### MARRIED TAXPAYERS\* – Joint/Surviving Spouse (SS)

Taxable Income				
Over	But Not Over	Pay	Plus	Of the Amount Over
-0-	\$16,750	-0-	10%	-0-
\$16,750	\$68,000	\$1,675.00	15%	\$16,750
\$68,000	\$137,300	\$9,362.50	25%	\$68,000
\$137,300	\$209,250	\$26,687.50	28%	\$137,300
\$209,250	\$373,650	\$46,833.50	33%	\$209,250
\$373,650		\$101,085.50	35%	\$373,650

\* Married separate (MS) use 1/2 of the joint dollar amounts.

### SINGLE TAXPAYERS

Taxable Income				
Over	But Not Over	Pay	Plus	Of the Amount Over
-0-	\$8,375	-0-	10%	-0-
\$8,375	\$34,000	\$837.50	15%	\$8,375
\$34,000	\$82,400	\$4,681.25	25%	\$34,000
\$82,400	\$171,850	\$16,781.25	28%	\$82,400
\$171,850	\$373,650	\$41,827.25	33%	\$171,850
\$373,650		\$108,421.25	35%	\$373,650

### HEAD OF HOUSEHOLD

Taxable Income				
Over	But Not Over	Pay	Plus	Of the Amount Over
-0-	\$11,950	-0-	10%	-0-
\$11,950	\$45,550	\$1,195.00	15%	\$11,950
\$45,550	\$117,650	\$6,235.00	25%	\$45,550
\$117,650	\$190,550	\$24,260.00	28%	\$117,650
\$190,550	\$373,650	\$44,672.00	33%	\$190,550
\$373,650		\$105,095.00	35%	\$373,650

## STANDARD DEDUCTIONS

Joint, SS	MS	Single	Head of Household
\$11,400	\$5,700	\$5,700	\$8,400

An additional standard deduction of \$1,100 is allowed for each married elderly (age 65 and over) or blind individual. If elderly and blind, the additional standard deduction is \$2,200. Single individuals (elderly or blind) are allowed an additional standard deduction of \$1,400.

### REDUCTION OF ITEMIZED DEDUCTIONS

The high-income reduction of itemized deductions expires after 2009. Thus, without late Congressional action, the reduction will not apply to 2010 returns.

## PERSONAL & DEPENDENCY EXEMPTIONS

\$3,650

### REDUCTION OF EXEMPTIONS

The high-income reduction of exemptions expires after 2009. Thus, without late Congressional action, the reduction will not apply to 2010 returns.

## ALTERNATIVE MINIMUM TAX (AMT)

26% of AMT income to.....	\$175,000*
28% of AMT income over.....	\$175,000*
* <b>\$8,750 for married taxpayers filing separately</b>	

Filing Status	Exemption Amount (Reduced as AMT income exceeds phase-out base.)	Phase-Out Threshold	Full Phase-Out
Joint Return	\$70,950	\$150,000	\$433,800
Single and HH	\$46,700	\$112,500	\$299,300
Married Separate	\$35,475	\$75,000	\$216,900

**Note:** The exemption amounts shown are the 2009 amounts. Although not guaranteed, it is anticipated that Congress will adjust the 2010 exemptions and phase-out thresholds for inflation as they have done for several years. The adjustments are expected to be minimal since other tax inflation adjustments for 2010 have been extremely small. If Congress fails to make the inflation adjustments, the exemptions for 2010 would revert to the year 2000 amounts: \$33,750 for unmarried taxpayers, \$45,000 for married taxpayers filing jointly and \$22,500 to married taxpayers filing separately.

## STANDARD MILEAGE DEDUCTIONS

**Note:** These are the rates in effect during 2010.

Type	Amount Per Mile
Business	\$0.50
Charitable	\$0.14
Medical	\$0.165
Moving	\$0.165

## PER DIEM RATES\*

	High-Cost Locality	Low-Cost Locality
Meals and incidental expenses (M & IE)	\$ 58	\$ 52
Lodging and M & IE	\$ 256	\$ 163

\*Reflects rates in effect since 10/01/2009, using the simplified method of determination.

## SOCIAL SECURITY, MEDICARE & SELF-EMPLOYMENT TAXES

	Social Security OASDI*	Medicare	Total
Employee	6.20%	1.45%	7.65%
Self-Employed**	12.40%	2.90%	15.30%

Wage Base for Soc. Sec. & Self-Employment Tax – \$106,800\*\*\*

Wage Base for Medicare Hospital Insurance – no limit

\* Old age, survivor and disability insurance portion of social security tax.

\*\* Self-employed individuals are allowed to take an income tax deduction for 50% of the self-employment tax.

\*\*\* Subject to automatic yearly adjustment based on changes in wage levels.

## SOCIAL SECURITY

### EARNINGS TEST

Social security benefits received by an individual who has earned income are reduced when an earnings limit is exceeded. The limit for 2010 is:

Worker, under the full retirement age	\$ 14,160
Worker, full retirement age and over	No limit

### TAXATION THRESHOLDS

A certain percentage of an individual's social security benefits are subject to taxation when his or her provisional income\* exceeds certain threshold amounts:

	Up to 50% Taxed	Up to 85% Taxed
Married/Joint	\$32,000 - \$44,000	Over \$44,000
Single	\$25,000 - \$34,000	Over \$34,000

\*Provisional income generally includes adjusted gross income plus nontaxable interest plus one-half of social security benefits.

## RETIREMENT PLAN CONTRIBUTION LIMITS

**Self-Employed Defined Contribution Plans:** Lesser of 25%\* of compensation or \$49,000.

**Simplified Employer Pension (SEP) Plans:** Lesser of 25%\* of compensation or \$49,000.

*Caution: Previously adopted plans that have not been modified may be limited to 15%\*\* of compensation. Contributions to self-employed plans can be made up to the due date of the return, including extensions*

\* Effectively 20% of net self-employment income.

\*\* Effectively 13.04% of net self-employment income.

### 401(k) and 403(b) Plans:

Dollar limitation is \$16,500. (\$22,000 for individuals age 50 and over)

### Simple Plans:

Maximum elective deferral is \$11,500. (\$14,000 for individuals age 50 and over)

## TRUST & ESTATE INCOME TAX RATES

Taxable Income				
Over	But Not Over	Pay	Plus	Of the Amount Over
-0-	\$2,300	-0-	15%	-0-
\$2,300	\$5,350	\$345.00	25%	\$2,300
\$5,350	\$8,200	\$1,107.50	28%	\$5,350
\$8,200	\$11,200	\$1,905.50	33%	\$8,200
\$11,200		\$2,895.50	35%	\$11,200

## UNIFIED ESTATE & GIFT TAX SCHEDULE

The Tax Act of 2001 began phasing out the Estate Tax by raising the exemption amount and reducing the tax rates through 2009 and eliminating Estate Taxes altogether in 2010.

**Note:** Gift Tax is not phased out and will remain with a \$1,000,000 exemption.

**CAUTION:** The Tax Act of 2001 included a Sunset provision that, without Congressional change, will reinstate the Estate Tax in 2011 and have the tax rates for both Gift and Estate Taxes revert to the pre-2002 levels but with a \$1,000,000 exemption.

Year	Estate Tax		Gift Tax	
	Exemption (Millions \$)	Top Tax Rate	Exemption (Millions \$)	Top Tax Rate
2007	2.0	45%	1.0	45%
2008	2.0	45%	1.0	45%
2009	3.5	45%	1.0	45%
2010	n/a	n/a	1.0	35%
2011	1.0	55%	1.0	55%

### 2010 ANNUAL GIFT TAX EXCLUSION \$13,000

Each individual is allowed an annual gift tax exclusion of \$13,000 per donee for 2010, with no limit to the number of donees. These gifts are not deductible to the giver nor are they taxable to the donee. Gifts in excess of the exclusion must be reported on a gift tax return. Gifts in excess of the exclusion are taxable but are offset with the Unified Estate and Gift Tax Credit until that credit is used up. Any amounts used to offset the gift tax will reduce the amount of credit available for the giver's estate tax.

## INCOME TAX RATES – CORPORATIONS

Taxable Income			% on Pay + Excess	Of The Amount Over
Over	But Not Over			
\$ 0	\$ 50,000	0	15	0
50,000	75,000	7,500	25	50,000
75,000	100,000	13,750	34	75,000
100,000	335,000	22,250	39	100,000
335,000	10,000,000	113,900	34	335,000
10,000,000	15,000,000	3,400,000	35	10,000,000
15,000,000	18,333,333	5,150,000	38	15,000,000
18,333,333		6,416,667	35	18,333,333

## LIFE EXPECTANCY\*

Current Age	Remaining Years	Current Age	Remaining Years
25	57.0	55	28.6
30	52.2	60	24.2
35	47.3	65	20.0
40	42.5	70	16.0
45	37.7	75	12.5
50	33.1	80	9.5

Assume a planned retirement age of 60. Based on average statistics, you will need to accumulate retirement assets by age 60 to last for 24.2 yrs.

\* Life expectancy rates based on the IRS Unisex Single Life Tables.

## REGULAR IRA – MAXIMUM DEDUCTION LIMITS

Single individual that is NOT a participant in an employer-sponsored plan:  
**\$5,000 (\$6,000 if age 50 & older)**

Married individual that is NOT a participant in an employer-sponsored plan, but whose spouse IS a participant in an employer plan.

Adjusted Gross Income:	Maximum Deduction Is:
Less than \$167,000	\$5,000 (\$6,000 if age 50 & older)
\$167,000 - \$176,999	Phased out
\$177,000 and Over	No deduction

Individual that IS a participant in an employer-sponsored plan.

Adjusted Gross Income	Joint	Single	Maximum Deduction Is:
Less than \$89,000	Less than \$56,000	\$5,000 (\$6,000 if age 50 & older)	
\$89,000 - \$108,999	\$56,000 - \$65,999	Phased out	
\$109,000 and Over	\$66,000 and Over	No deduction	

Contributions must be made by the due date of the tax return, NOT including extensions.

## ESTIMATED TAX PAYMENTS

To avoid possible underpayment penalties, taxpayer is required to deposit by payroll withholding or estimated tax payments an amount equal to the lesser of:

1. 90% of current year tax liability, OR
2. One of the following amounts:
  - a. If the taxpayer's AGI exceeds \$150,000\*, 110% of the prior year's tax liability.
  - b. Otherwise, 100% of the prior year's tax liability.

\*\$75,000 for taxpayers filing married separate.

## BUSINESS ASSET EXPENSING

Each year, an amount of the cost of certain eligible personal property purchased during the year and used in the active conduct of a trade or business can be expensed. For 2010, the maximum that can be expensed is \$134,000.\*

\*The limit is reduced when more than \$530,000 of property (excluding real estate) is placed into service.

## EDUCATION BENEFITS

**American Opportunity Credit** – This tax credit (replacing the Hope credit in 2010) is for qualified higher education tuition and related expenses for four years of college for each qualified student who attends a qualified institution of higher education. The credit for 2010 is:

- 100% of the first \$2,000 of qualified expenses, and
- 25% of the next \$2,000 of qualified expenses.

40% of the credit is refundable, provided the taxpayer is not: (1) a child under the age of 18 or (2) under the age of 24, a full-time student and is not self-supporting.

**Lifetime Learning Education Credit** – This credit is allowed for qualified higher education tuition and related expenses for all qualified students of the taxpayer who attend qualified institutions of higher education. The annual credit is:

- 20% of the first \$10,000 of qualified expenses.

The Lifetime credit phases out ratably for taxpayers with modified AGI of \$50,000 to \$60,000 (\$100,000 to \$120,000 for joint filers).

**Student Loan Interest Deduction** – Taxpayers can annually deduct qualified higher education loan interest above-the-line.

- The annual limit is: \$2,500.

The deduction phases out ratably for taxpayers other than joint filers with modified AGI between \$60,000 and \$75,000. The phase-out range is \$120,000 – \$150,000 for joint filers.

## 2010 TAX CALENDAR

January 15.....	4th Quarter 2009 Estimate Due
April 15.....	2009 1040 or Extension Due
April 15.....	1st Quarter 2010 Estimate Due
June 15.....	2nd Quarter 2010 Estimate Due
August 2.....	Pension Plan (Form 5500) Returns Due
September 15.....	3rd Quarter 2010 Estimate Due
October 15.....	2009 1040 Extension Returns Due