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MONROE SHINE NEWS
KNOWLEDGE FOR TODAY ... VISION FOR TOMORROW

2011

Message from the President The Debt, The Gang, and The Ugly



By: Roger Harbeson
President, CPA, CFE

Almost a full month after Congress and President Obama passed the Budget Control Act, most people are still unaware of the full impact the bill will have on Americans. The news has been a flurry of rumors and speculation. Can and/or will the “Super Committee” increase our taxes? Does the U. S. debt downgrade have anything to do with the action taken or more to do with the inaction in Washington? Will the markets stabilize, or will a volatile market become the norm? What long-term impact will the U.S. debt downgrade have on individual Americans? With all these questions floating around, no one inside or outside the Beltway really seems able to offer any definite answers. So far, it seems the best advice out there is simply not to do anything- do not panic. It is unclear what changes may be made to the Tax Code due to heightened concern over the potential long-term impact of the debt crisis and the economic issues in other parts of the world. However, the deficit reduction debate has resulted in greater momentum for tax reform.

President Obama and the so-called “Gang of Six” in the Senate have brought forth certain tax reform proposals being considered in this debate that would be fundamental changes to the Tax Code. Certain of the major changes to the Tax Code proposed during the course of the deficit reduction debate include:

1. Three individual income tax brackets possibly as low as 8, 14, and 23 percent
2. An increase in the capital gains rate
3. Repeal of the alternative minimum tax for individuals
4. Reduction of key individual tax deductions such as mortgage interest, charitable contributions and medical expenses as well as repeal of deductions for state and local taxes and all miscellaneous itemized deductions
5. A single corporate tax rate possibly as low as 23 percent
6. Reduction in certain deductions including elimination of LIFO inventory accounting
7. A switch from a worldwide to a territorial based tax system whereby U.S. domestic companies would only be taxed on profits generated by income earned in the U.S.

The Administration and President Obama have stood firm that Americans must work together to weather this financial storm saying, “we have to ask the wealthiest Americans and biggest corporations to pay their fair share”. Others who seek smaller government see this debate as an opportunity to lower tax rates and improve the economy, thus increasing revenues through growth. Generally, the Administration defines the wealthiest Americans as families with incomes above \$250,000. Of course, many small business owners fall into this category and stand to be impacted by fundamental tax reform. We will be monitoring the various proposals as the debate continues this fall as we begin to consider 2011 year-end tax planning.

Not Your Average Year-End Bonus



By: Mike Carroll, CPA

Although there has been quite a bit of talk about “Bonus Depreciation” over the last several years we think it is worthwhile to revisit the subject before year end. The special bonus depreciation rules, which allow taxpayers to

write off 50 to 100% of qualified assets at the time of purchase, have been extended on assets placed in service before January 1, 2013 and, for some projects, before January 1, 2014.

The 100% write off of qualifying assets is available for purchases made after September 8, 2010 and before January 1, 2012, while the available direct expensing is decreased to 50% for qualifying purchases made after December 31, 2011 and before January 1, 2013.

In order for property to qualify for bonus depreciation, certain criteria need to be met. These include:

- A recovery period of 20 years or less (ie: the depreciation life)
- Must be placed in service after September 8, 2010 and before January 1, 2013
- Original use must commence with the purchaser (ie: new not used purchases)

Properties that sometimes may be overlooked when

considering bonus depreciation include heavy SUVs and leasehold improvements. SUVs that are rated at more than 6000 pounds gross (loaded), are built on a truck chassis, and are used at least 50% for business are eligible for bonus depreciation. Also a special classification of “Qualified Leasehold Improvements” meets the criteria of eligible assets. Many, but not all, improvements made under a lease meet the requirements for being qualified leasehold improvement property. These requirements include, but are not limited to:

- Cannot enlarge the building
- Must be made to nonresidential property
- Not attributable to internal structure framework (weight bearing walls, common areas, elevator)
- Not placed in service until the building has been in service longer than three years
- Placed in service after September 8, 2010 and before January 1, 2013

You must keep in mind, bonus depreciation simply accelerates your deductions, which allows you to defer taxes and lessen the current cash outflow for taxes. It does not create any new deductions. We can help you look at your current budget for capital expenditures, and determine if any of your buying plans should be accelerated and if doing so makes sound business sense.

Indiana Tax Update: House Enrolled Act



By: Phillip Beaman, CPA

As reported in *Vol. 1, Issue 2* of our newsletter, on May 10, 2011 Governor Mitch Daniels signed House Enrolled Act 1001 (Act), which redefines Indiana adjusted gross income by providing modifications to federal adjusted

gross income. It was recently reported that the Act is effective retroactively to taxable years beginning after December 31, 2009. The modifications that were adopted retroactively for 2010 and 2011 may be reported on the 2011 individual or corporate income tax return. Taxpayers do not need to file an amended return for 2010 to report the required modifications, although filing an amended return is allowed. (Indiana Commissioner’s Directive 40, 09/01/2011.)

The modifications that were adopted retroactively for

2010 and 2011 included the following:

- Charitable distribution from an individual retirement plan is taxable
- Qualified tuition and education expense deduction is disallowed
- \$250 deduction for certain expenses of elementary and secondary school teachers is disallowed
- Student loan interest deduction is limited
- Employer provided commuter transportation in excess of \$100 and employer-provided education assistance is subject to tax
- 15 year depreciable life available for any qualified leasehold improvement property is not allowed
- Expensing of start-up expenditures is limited to \$5,000

For more information on how these provisions affect your current tax situation, give your Monroe Shine & Co., Inc. contact a call to discuss.

Your Energy Credit May Be All Used Up



By: Jacob Dukes

Before heading off to your favorite hardware store to purchase the newest energy efficient home improvement gadget, be sure you understand the tax benefit available to you in 2011. The amount of the credit is 10 percent of your purchase with a lifetime maximum of \$500 on qualifying energy efficiency property. The \$500 lifetime

maximum is broken down into the following categories:

- \$200 for windows*
- \$50 for a main air circulating fan
- \$150 for a natural gas, propane, or oil furnace
- \$300 for other items of energy efficient property

This credit was also available in 2006, 2007, 2009, and 2010. You may have already exceeded your lifetime limit, so check with your tax advisor to see if you still qualify for any benefit in 2011.

* *Total for windows cannot exceed \$200*

Monroe Shine Welcomes Two New Staff Accountants

Please join Monroe Shine in welcoming our two new staff accountants: Adam Dicken and Drew Haynes!

Both Adam and Drew are working in our New Albany office preparing tax returns for a variety of individual and business clients as well as assisting with various audits performed by the firm.

Prior to joining Monroe Shine, Adam was an undergraduate student at Indiana University,

Bloomington. Adam is a resident of Louisville, KY and holds Bachelor degrees in both Accounting and Finance. Drew Haynes is a graduate of The University of Louisville, where he was a star member of the baseball team. Drew resides in New Albany, IN and holds a Bachelor degree in Accounting.

Both accountants are studying diligently to sit for all four parts of the CPA exam prior to the 2013 tax season.

... and Two Senior Accountants!

Additionally, Monroe Shine congratulates Tyler Blake, CPA and Josh Stevens, CPA who were recently promoted to Senior Accountant from Staff Accountant.

Blake, a graduate of Indiana University, Bloomington, holds bachelor degrees in Finance and Accounting. He began his career with Monroe Shine in 2009 as a Staff Accountant, and works primarily with corporate tax and audit. Blake is a member of the IU Alumni Association and is involved in the Louisville community. He has recently joined the Home Builders Association of Louisville, and hopes to serve as an advisor to the

member contractors.

A 2009 graduate of Indiana University, Bloomington, Stevens holds bachelor degrees in Accounting and Business Economics and Public Policy. He began his career with Monroe Shine as an Intern in 2008 and became a Staff Accountant in 2009. Stevens is part of Monroe Shine's Financial Institutions Team, and is active in the Southern Indiana community. He particularly enjoys volunteering as a High School Ambassador on behalf of the Indiana CPA Society.



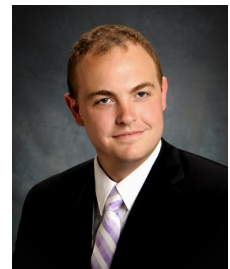
Adam Dicken



Drew Haynes



Tyler Blake, CPA



Josh Stevens, CPA