



# M S N

## MONROE SHINE NEWS

KNOWLEDGE FOR TODAY. . . VISION FOR TOMORROW

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### *Message from the President*

## FIVE TIPS FOR EFFECTIVE TAX PLANNING

On December 16, 2010, Congress passed tax relief legislation effectively extending many of the provisions from the Bush tax cuts. This means that for the next two years, many tax deductions and tax breaks will be similar as in the past few years. The year-end tax planning process is never an easy one to start, but here are five great tips on how to get started.

**1.** Getting your books in order is tedious, but necessary no matter what the outcome of tax legislation. Effective planning requires that you make sure your accounting records are up to date.

**2.** Think about setting up a retirement plan. Qualified retirement plans are a great way to shelter income, and the stipulations are not much different for 2010 than they were in 2009. You are allowed to contribute a maximum of \$49,000 to a Simplified Employee Pension plan and kill two birds with one stone—get a tax deduction and save for your retirement! Of course, business owners who do not have qualified retirement plans may obtain the necessary paperwork from their financial

institution or broker and complete it by December 31st. You will have until the extended due date of your 2010 tax return to make a contribution for the year. Please consult us for more information.

**3.** As a business owner (except for C corporations), you may deduct health coverage payments as an individual expense as opposed to a business expense. The self-employed may offset net earnings using premiums in order to reduce self-employment taxes, which include mandatory Social Security and Medicare contributions. And don't forget about Health Savings Account (HSA) plans. If your insurance coverage qualifies as a high-deductible plan, then you are allowed to deduct HSA contributions.

**4.** If you had a good year, you may desire to share the wealth through charitable contributions. For 2010, charitable contributions are more valuable to high-income taxpayers since there is no phase-out of itemized deductions.

**5.** The end of the year is the best time to upgrade your equipment. Equipment can

mean anything from your cell phone to a backhoe. This is a deduction option whether your business has had a profitable year or a tough year. It always helps to lessen your tax burden while helping your business become more efficient. If the business had a profitable year, use first-year expensing for equipment costing up to \$500,000. For equipment costs in excess of this dollar limit, you can use 50% bonus depreciation in addition to the standard depreciation allowance for new equipment placed in service through September 8, 2010. For new equipment placed in service after September 8, 2010 you can use 100% bonus depreciation. If you had a tough year, use of the bonus depreciation could create a loss and result in a carry back to generate a cash refund.



Roger Harbeson, President

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## HOW CAN COST SEGREGATION WORK FOR YOU? By: Joe Boesing



Under current tax law a commercial building is depreciated over 27.5 (residential) on 39 (nonresidential) years. The IRS allows shorter lives for certain costs identified in a cost segregation study. Cost segregation studies can identify personal property or land improvements with 5, 7 or 15 year lives which will substantially accelerate depreciation. Real property eligible for cost segregation includes buildings that have been purchased, constructed, expanded or remodeled since 1987. A study is typically cost effective for buildings purchased or remodeled at a cost of \$500,000 or more. A cost segregation study is done most efficiently for buildings recently constructed but it



can also uncover retroactive tax deductions for older buildings which can generate significant benefits from “catch up” depreciation. The major benefit to cost segregation is faster depreciation for a percentage of the building which results in reduced income taxes early in the building’s life. Reduced taxes result in increased cash flow. Our experience with cost segregation is 15% to 30% of a building’s cost is on a life less than 39 years. The IRS requires an “engineering-based” cost segregation study. Monroe Shine does not employ engineers to perform these studies but we can refer engineers that do. In these studies the engineer will analyze architectural drawings,

mechanical and electrical plans and other blue prints to segregate the structural and general building, electrical and mechanical components from those linked to personal property. The study also allocates soft costs such as architect and engineering fees to all components of the building.

We would be happy to discuss a cost segregation study with you or refer you to an expert in this area. The engineers we refer will give you an idea of how much cost can be segregated and what the cost of the study will be from a simple tour of your building.

## IRA’s– INDIVIDUAL RETIRMENT ACCOUNTS By: Dale Gettelfinger



As I ponder tax season 2011 considerations, I find the United States income and estate tax situation the most uncertain since I was first introduced to taxes in a serious way while in college. My tax season 2010 was dominated by two client questions: Do I have enough to make it? Do you know a job for \_\_\_? These questions illustrate for me an unusual uncertainty among our clients. Uncertain tax situation. Uncertain economy. Uncertain investment environment. What are the implications of this uncertainty for IRA’s, quite often a client’s largest

readily available asset for current consumption? RMD’s– required minimum distributions: The IRS has rules that require distributions from IRA’s under specific circumstances; that is the IRS requires you to take money out of your IRA and pay income tax on the amount withdrawn. Unfortunately, at this date, the rules on this are not certain. You need to know how to minimize RMD’s if that is what your financial plan requires; that is preserve your IRA assets for the future. If you do have to withdraw funds from your IRA, you

need to evaluate arranging your financial affairs to take advantage of the zero and low federal income tax rates. While we are working on year 2010 income tax returns serious thought should be given to IRA planning for 2011. IRA’s often are a significant portion of an estate. The final distribution of your IRA at death should not only accomplish your personal desires but be done in a way to maximize tax planning opportunities for your beneficiaries.

## DEDUCTIBLE MILEAGE IN 2011

By: Julia Meredith



Standard mileage rate is defined as the amount the Internal Revenue Service allows as a deduction for the cost of operating a vehicle for business, medical or charitable purposes.

Beginning January 1, 2011, the rates allowable as a deduction are as follows:

Business miles	51 cents
Medical miles	19 cents
Moving miles	19 cents

### Charitable miles 14 cents

A taxpayer may use the business standard mileage rate times business miles to substantiate a deduction for an automobile in lieu of the actual expenses paid.

Parking fees, tolls, interest and taxes may still be deducted as separate items.

The standard mileage rate may not be used by any business utilizing four or more vehicles simultaneously. It also cannot be used for any vehicle for which depreciation has been claimed in excess of straight line.

To deduct travel expenses, the miles must be substantiated with adequate records or other sufficient evidence, or by providing the miles to an employer. Employers reimbursing at the IRS rate have an acceptable allowance

arrangement and all payments are treated as nontaxable. If an employee receives an expense allowance or some amount in excess of expenses, the plan is deemed non-accountable and all amounts paid under the plan are includible as wages on the employees W-2 and subject to withholding and employment taxes. Employment taxes should be calculated periodically, no less frequently than quarterly.



*Business Miles — \$0.51*

*Medical Miles — \$0.19*

*Moving Miles — \$0.19*

*Charitable Miles — \$0.14*

## QUICKBOOKS QUICK TIP

By: Jessica Kessinger

Did you know you can set your company file to remind you to automatically backup? Making a regularly scheduled backup will give you peace of mind that in case of data failure or other computer problems you have an up to date copy of your company file. To set up an automatic reminder go to the File drop down menu and select Save Copy of Backup. Click the

Backup copy radial button and then select Next. On the next screen, select the Options button and tell the program the default location to save your backups to, how many backup copies to keep on hand and how often to remind you to backup upon closing the company file. Click OK and you'll return to the option of making a current backup

file. Follow the prompts to do so.

*"...in case of data failure... you have an up to date copy of your company file."*





On December 16, 2010, Congress passed legislation that includes a two-year extension of many Bush-Era tax cuts, payroll tax relief, and an estate tax compromise. Although temporary, The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 gives taxpayers some certainty for the next two years, particularly concerning individual income tax rates, capital gains/dividend tax rates and the estate tax.

### **Highlights of Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010:**

- One year payroll tax cut for employees
- Favorable capital gain/dividends rates stay in place
- 100% bonus depreciation for 2011 and 50% bonus depreciation for 2012
- An AMT "patch"
- Federal estate and gift tax rate of 35 percent with a \$5 million exclusion

### **INDIVIDUAL INCENTIVES**

Individual income tax rates will remain at the current levels, set under the Economic Growth and Tax Relief Reconciliation Act of 2001, until 2012.

### **What Bush era tax cuts will be extended until December 31, 2012?**

- Marriage Penalty Relief, which increased the basic standard deduction for a married couple filing jointly to twice the amount for a single individual
- \$1,000 Child Tax Credit is extended for children under age 17. The credit continues to phase out for taxpayers with adjusted gross incomes starting at \$110,000 for joint filers.
- Earned Income Tax Credit
- Adoption Credit
- Dependent Care Credit which applies to taxpayers who incur expenses to care for a child under age 13 or an incapacitated dependent or spouse
- Employer-Provided Child Care credit equals 25% of qualified expenses for employee child care plus 10% for child care resources and referral services.
- Education Assistance Exclusion allows employers to deduct up to \$5,250 annually for qualified employee education expenses.
- Student Loan Interest Deduction and Coverdell Education Saving Account are both extended until December 31, 2012.

### **Other Individual Incentives:**

- State and local sales tax deduction
- Higher education tuition deduction
- Teacher's classroom expense deduction
- Charitable contribution of IRA proceeds
- Charitable contribution of appreciated property for conservation purpose

### **Capital Gains/Dividends**

Capital Gains/Dividends tax rates will remain at the current maximum of 15%. Equally as important for taxpayers is the continuation of the 0% rate for taxpayers in the 10-15% income tax bracket. Subject to the 0% rate, if combined capital gains, dividends, and taxable income do not exceed the 15% tax bracket, then those capital gains and dividends are essentially tax-free.

Gifts of appreciated securities to taxpayers in that rate bracket might also continue to be a worthwhile technique to maximize the value of such gifts.

### **Alternative Minimum Tax**

The 2010 Tax Relief Act creates an AMT "patch" which is intended to protect middle-income taxpayers by providing higher exemption amounts and other targeted relief for 2010 and 2011. Without the patch, exemption rates in 2010 and 2011 would have dropped to \$33,750 for unmarried individuals and \$45,000 for married couples.

The Tax Relief Act actually increases the 2009 patch exemption amounts to \$47,450 for individuals and \$72,450 for married couples.

#### **Payroll Tax Cut**

The Tax Relief Act decreases the employee-share of Social Security taxes by 2%. Unlike the Making Work Pay credit, this 2% reduction is available to all wage earners regardless of income. Employer's share of the Social Security tax remains unchanged at 6.2% in 2011. However, for 2010, certain employers may be eligible for payroll tax forgiveness under the HIRE Act, which is not extended by the Tax Relief Act.

#### **DEPRECIATION**

The bill boosts 50% bonus depreciation to 100% for qualified investments made between September 8, 2010 and January 1, 2012. This is one of the most expansive provisions for businesses and is not limited to use by smaller businesses or capped at a certain dollar level. 50% bonus depreciation is also made available for qualified property placed in service after December 31, 2011 and before January 1, 2013. In addition, certain long-lived property and transportation property is eligible for 100% expensing if placed in service before January 1, 2013.

Congress has repeatedly increased the dollar and investment limits under Code Sec. 179 to encourage business spending, and the Small Business Jobs Act increases that dollar and investment limits to \$500,000 and \$2 million for 2010 and 2011 respectively. This will have a major impact for businesses considering the thresholds were scheduled to revert to \$25,000 (2011) and \$200,000 (2012).

The Act also extends the accelerated depreciation allowance for qualified leasehold improvements, restaurant buildings, and retail improvements over a 15-year recovery period, as opposed to a 39-year recovery period enacted under the Emergency Economic Stabilization Act of 2008.

#### **FEDERAL ESTATE TAX**

The Tax Relief Act reinstates the estate tax for decedents dying after December 31, 2009 at a significantly higher level than was scheduled for after 2010. The maximum estate tax rate is 35% with an exclusion amount of \$5 million. The new rate and exclusion represent a significant reduction from the 45% rate and \$3.5 million exclusion applicable for 2009. The Tax Relief Act gives estates of decedents dying between December 31, 2009 and January 1, 2011 the option to elect not to come under the revived estate tax. With IRS approval, those estates will have the option to either apply the estate tax based on the new 35% top rate and \$5 million exemption or to apply no estate tax and modified carryover basis rules.

#### **Portability**

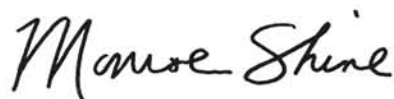
Portability allows surviving spouses to take advantage of the unused portion of the estate tax exclusion of his or her predeceased spouse, thus allowing the surviving spouse a larger exclusion amount. Available after December 31, 2010, portability coupled with careful estate planning can effectively shield up to \$10 million from estate taxes.

#### **Gift Tax**

Gifts made in 2010 will be subject to gift tax having a top tax rate of 35% and a maximum applicable exclusion amount of \$1 million. After 2010, the gift tax will be reunified with the estate tax with a top gift rate of 35% and a maximum applicable exclusion amount of \$5 million.

Please give us a call to discuss your particular circumstances. While this letter provides a general review of several tax planning opportunities, there may be other techniques that can be used depending on your individual circumstances. It may also be that some of the above ideas would not work in your particular circumstance. We look forward to hearing from you.

Sincerely,



Monroe Shine & Co., Inc.