

2010 Year-End Tax Planning for Individuals Presents Unique Challenges

As the end of 2010 quickly approaches, individual taxpayers should start to execute valuable year-end tax strategies. However, **year-end tax planning for 2010 is unique and a bit more complicated due to the current uncertainty looming over a number of expiring tax cuts.**

Certain deductions, credits, and exemptions, as well as reduced tax rates for long-term capital gains and qualified dividends, are scheduled to expire at the end of 2010. Moreover, the marginal income tax rates for most taxpayers – especially individuals in the top two income tax brackets – are scheduled to rise.

☛ Take Advantage of Lower Income Tax Rates Through 2010

Unless Congress acts, the current tax rates are scheduled to increase effective January 1, 2011. As things stand now the tax rate brackets will be: 15%, 28%, 31%, 36%, and 39.6%. The 10% rate will disappear entirely.

In light of the scheduled rate increases, individuals affected by the higher tax rates may want to consider opportunities to accelerate taxable income into 2010 – and to defer deductions into 2011 – to help ease the impact of the scheduled tax rate increases. Deductions may be more valuable in 2011, when the tax rates may be higher for many individuals, particular higher-income taxpayers. For example, consider postponing charitable giving until 2011, or delay making your mortgage payment until January 1, 2011 or later if your grace period allows.

However, higher-income taxpayers considering deferring deductions until 2011 need to weigh the potential benefit of using these deductions



to help offset potentially higher taxable income with the pitfall of the re-emergence of the limit on itemized deductions.

Always consult your tax advisor about the benefits and pitfalls of using these techniques in your particular situation.

☛ Sell Investments at Lower Capital Gains Rates

The favorable tax rates for capital gains and qualified dividends will also revert to higher levels beginning in 2011. This means the maximum tax rate on long-term capital gains will increase to 20%, and qualified dividends will be taxed at ordinary income tax rates, which could be as high as 39.6%.

If you have appreciated investments that you have been considering selling, now may be the time to do so in light of the increased capital gains rates.



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Meals & Entertainment HOT AUDIT ISSUES

Meals, entertainment and gifts are hot audit issues with the IRS, mainly because most taxpayers don't keep the documentation required to substantiate the deduction, which can result in the entire amount being disallowed even if the expense is legitimate.

In order to be deductible, meals and entertainment must be either directly related or associated with business. So what does that actually mean?

☛ Directly Related

The main purpose of the combined business and entertainment activity was the active conduct of business.

☛ Associated with Business

The meal or entertainment must be either directly preceding or following a substantial and bona fide business discussion.

To deduct the expenses, you must have appropriate documentation.

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Personalizing Your Year-End Plan



As of the time of this printing, it's still too early to know exactly how the midterm elections will affect open tax issues for 2010 and 2011. Specifically, the "lame-duck" Congress must decide whether to "patch" the Alternative Minimum Tax (AMT) for 2010 and whether to retroactively extend a number of tax provisions that expired at the end of 2009.

The tax provisions in question include:

- **research credit for businesses**
- **itemized deductions for State and local general sales taxes**
- **standard deduction for State and local real property taxes**
- **Bush tax cuts: whether or not to extend them.**

Without Congressional action, individuals will face higher tax rates on income and capital gains in 2011. In addition, the estate tax (which isn't in effect this year) will return next year with a 55% top rate.

At Casey, Neilon & Associates we've compiled a checklist of actions that can help you save tax dollars **if you act before year-end**. These moves may benefit you regardless of what Congress decides to do.

We'll meet with you to narrow down the specific actions that will benefit you the most. **Contact us at your earliest convenience** so that we can advise you on **which tax-saving moves make the most sense for you.**

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Contribute to your retirement plan

Individuals with a traditional IRA or an employer-sponsored retirement plan should consider making a contribution to the plan before year-end as this will reduce your taxable income since funds are contributed before tax.

Roth IRA conversions

If you want to convert your traditional IRA into a Roth before the end of the year, you will need to determine whether recognizing all the income in 2010 or spreading it between 2011 and 2012 will garner you a better tax result.

AMT planning

Unfortunately, planning for the Alternative Minimum Tax (AMT) is complicated due to Congress's inaction on passing a 2010 AMT patch as of the time of this printing. Consequently, Taxpayers should begin planning with the 2010 amounts in the alternative.

Tax breaks not available in 2010

Certain tax breaks that you may have taken in 2009 are not available this year because they expired December 31, 2009 and have not been extended by Congress. While Congress may act to retroactively extend some (or all) of these incentives, you should still be aware that there's a possibility the following tax breaks may not be available for your 2010 tax return:

- The additional standard deduction for state and local property taxes for non-itemizers;



- The deduction for qualified tuition and fees of up to \$4,000 for higher education (the higher education expense deduction);
- The deduction of up to \$250 in classroom supplies (available to teachers, other educators);
- The election to itemize state and local sales taxes in lieu of state and local income taxes (mainly benefits individuals in states without state income taxes); and
- The exclusion from gross income of up to \$2,400 of unemployment benefits.

Despite the complexity caused by the uncertain state of the tax law, individuals can take a number of steps to help minimize their tax liability this year. Depending on your particular situation, you may be able to employ one or more of the planning opportunities discussed above. Contact us today to schedule your tax planning appointment.



Tax Breaks for Grandparents

More and more individuals are finding themselves in a position where they are raising their grandchildren. Recently-released IRS Publication 4694 highlights various tax breaks that may be available to an individual who is raising a grandchild. These include:

- head of household filing status
- exemption for the child
- earned income credit (EIC)
- child tax credit (CTC)
- credit for child and dependent care expenses
- credits or deductions for qualified education expense
- deductions for medical and dental expenses

What is a Worker Classification Audit?

In the first quarter of 2010, the IRS kicked off the **Employment Tax National Research Project**, where 6,000 randomly selected businesses will be audited over the next three years to determine whether workers treated as independent contractors are properly classified. This is *in addition to* the businesses selected for worker classification audits under the IRS's general audit program.

It is now more crucial than ever that employers who use independent contractors as a part of their workforce be prepared to demonstrate to the IRS that their worker classifications are correct.

Annually, 2,000 audits will be initiated based on *Forms 941, Employer's Quarterly Federal Tax Returns*, distributed equitably across the different types of business entities filing those returns. Using a broad scope, a legion of specially trained IRS auditors will build their cases.

If an auditor determines that an employer has indeed misclassified its workers, and the employer is unable to convince him or her otherwise, the traditional classification settlement



and appeals processes will be set into motion.

In general, there is no definitive determination of whether an individual is an employee or independent contractor. Classification is based on how much, and what type, of control is placed on the worker by the employer. An employer-employee relationship is generally found to exist when the employer has the "right to control and direct" a worker not only as to the result of the work, but as to the manner in which that result is accomplished.

Documentation is key to surviving one of these audits, and there is some relief available under *safe harbor rules*. If in doubt, call us to help you determine if you have the proper documentation *before* being selected for audit.

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Office Hours:
Monday - Friday: 8:00am - 5:00pm

👤 Head of Household Filing Status

An individual who is considered unmarried and has a qualifying child may be eligible to use the more favorable head of household filing status. A grandchild is considered to be a qualifying child.

👤 Earned Income Credit (EIC)

A grandparent (even age 65 or over) who works and has a qualifying child living with him/her may be able to take the EIC. This could generate a refund even if the grandparent owes little or no tax.

👤 Exemption for the Child

A grandparent who has a child living with him or her may be able to claim the child as a dependent and, if so, qualify for other tax breaks.

👤 Child Tax Credit (CTC)

A grandparent raising a grandchild may be able to take the CTC, and under specific circumstances, the additional CTC. The latter may provide a refund even if no federal income taxes are owed. For 2010, individuals may claim a

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Meals & Entertainment HOT AUDIT ISSUES



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You must keep a written record of the amount of the expense (estimates are never sufficient) plus the name, location of the person entertained, the business relationship and the business discussion. In addition, if the expense is in excess of \$75, you must have the receipt.

👤 **Note: a cancelled check or credit card statement alone is not adequate documentation.**

Most meals and entertainment are only deductible at 50% of the allowable cost. However, if an employer provides meals and drinks to employees, these costs may be deductible at 100% (eg: providing coffee or soda at the office, holiday office parties, company picnics, or the occasional meal provided to employees on premises because of a particularly heavy workload.)

👤 Expense Allowances

Some employers provide employees with an expense allowance for entertaining clients. Remember that if the employee does not provide receipts to substantiate the expenses, this is considered income and must be included in the employee's taxable wages.

This is just a brief synopsis of some of the rules surrounding the deductibility of meals and entertainment. Contact us to determine the deductibility based on the facts and circumstances of your situation.

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Don't Overlook Tax Breaks for Grandparents

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maximum \$1,000 CTC for each qualifying child. The child must be under 17 and a U.S. citizen or resident alien.

Credit for Child Care Expenses

This credit may be available if a grandparent pays someone to care for a qualifying individual (i.e., a dependent under age 13), or his or her spouse, or a dependent who is physically or mentally not able to care for himself or herself, while the grandparent works or looks for work.

Qualified Education Expense

There are several tax breaks that may be available to a grandparent who pays his or her grandchild's education costs. These include:

- Education Credits
- Coverdell Education Savings Accounts
- Qualified Tuition Programs
- Higher Education Exclusion for Savings Bond Income
- Deduction for Interest on Qualified Education Loans

Medical and Dental Expenses

An individual who itemizes can deduct the amount by which certain unreimbursed medical and dental expenses paid during the year for himself or herself, his or her spouse, and his or her dependents exceed 7.5% of his adjusted gross income.

If you are a grandparent raising a grandchild, contact us to learn more about which tax breaks apply to your particular situation.



Meet Our Staff! Manager Suzanne Olsen

Suzanne Olsen has been with Casey, Neilon and Associates since the company's inception. She has worked in both the

public and private accounting sectors for the past 14 years, and holds a Bachelors degree in Business Administration from the University of Phoenix with an emphasis in Accounting.

Suzanne's experience includes working as a CFO/ Controller in the fields of marketing, retail, public accounting, and with a local non-profit agency. Over the last five years, Suzanne has worked on local governmental and small business audits, primarily related to self-insurance groups and captives. She is especially skilled in preparing complex business and individual tax returns.

In her free time, Suzanne enjoys spending time with her husband and three sons, traveling, and reading.