

Enclosed please find your organizer for the 2010 filing season. The organizer will assist you in gathering your tax information by showing you what was reported on your 2009 return. Below we have highlighted some year-end tax changes and reminders, if you should have any questions, please don't hesitate to call us. In addition, we have detailed information on numerous law changes that impact 2010 and 2011 at our website : [www.gillamzetzl.com](http://www.gillamzetzl.com).

### Important Tax Law Items - Individual

- The standard mileage rate for business use of a vehicle is 50.0 cents-per-mile for 2010. Beginning January 1, 2011 the rate will increase to 51.0 cents-per-mile.
- The adoption credit increased in 2010 by \$1,000 to \$13,170, and is now refundable.
- The \$8,000 (maximum) First Time Homebuyer credit which was set to expire on November 30, 2009 was extended to April 30, 2010. A first time homebuyer is generally defined as someone who has not owned a home in the three years prior to the purchase. In addition to the first time homebuyer credit, there is also a new Long Time Homebuyer credit. The long time credit applies to homebuyers purchasing a residence after November 6, 2009 and before April 30, 2010. A long time homebuyer is someone who used a prior home as their residence for 5 consecutive years during the previous 8 years. The maximum credit is \$6,500. There are numerous rules regarding these credits. If you bought, or are considering buying a home, during the periods indicated above, please call our office to discuss your possible eligibility for these credits.
- For residential (non-rentals) properties maximum alternative energy credit caps have been removed for solar hot water heaters, wind turbines and geothermal heat pumps. The alternative energy credit for 2010 equals 30% of the cost of these systems without limitation. In addition, certain improvements qualify for a credit including windows, insulation, exterior doors and certain roofing materials. Keep in mind that Indiana still has an insulation deduction available for certain energy efficient doors and windows, as well as the addition of insulation. To qualify for the federal credit the improvements must meet certain technical standards. Typically the vendor you work with will be able to assist you in making sure your purchases qualify. However, if you need assistance from us, please don't hesitate to call.
- Historically distributions from 529 were tax-free when used for tuition, room and board, fees and books. The definition has been expanded for 2009 to include computers and related software. Also keep in mind that Indiana "College Choice" plans are eligible for a credit of 20% of the contribution up to a maximum credit amount of \$1,000.
- Beginning in 2010 traditional IRA accounts can be converted to Roth type accounts regardless of your income level. The key advantages of a Roth account are that qualifying distributions (including the earnings build up) are tax exempt and there are no required minimum distribution rules. In order to convert to a Roth account you must pay the tax on the conversion amount on the conversion date. This can be a significant hurdle, but for 2010 conversions the IRS is allowing the income to be spread evenly over a two year period of 2011 and 2012. Every situation is unique, so ask us if conversion makes sense for you.
- The federal estate tax was repealed for 2010. As a result larger estates may not receive a full step-up in basis. The executor may designate up to \$1.3 million of property as eligible for basis step-up, plus an additional \$3.0 million for property passing to a surviving spouse. For amounts over these limits, the heir's basis equals the decedent's basis in the property.
- Reminder – All charitable deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity. Several recent court cases have emphasized the importance of documentation in this area.
- Beginning in 2011, flexible spending accounts cannot make tax-free reimbursements for over-the-counter medications (excluding insulin) unless prescribed by a physician.

## Business Deductions and Law Changes

The IRS has drastically stepped up their audit division in the last few years. We urge you to develop a mindset that you may be asked to produce your documentation when organizing your records this year end. That said, we thought it might be helpful to again review some of the basics. Please take a moment to review these items and please don't hesitate to contact us regarding specific questions about your business.

- The Code §179 expensing election for equipment was increased at \$500,000 for 2010. The Indiana limit, however, remains at \$25,000. Also for 2010 and 2011, up to \$250,000 of qualified leasehold improvements are eligible for §179 deductions, effectively converting 39 year life assets to an immediate expense. In addition, various "bonus" depreciation deductions may be available. We will discuss the various options with you to maximize your benefit.
- Small employers providing health insurance to employees are allowed a credit for a portion of premiums paid, subject to certain limits. See "Health Care Bill : 2010" at our website for further details.
- S corporations have historically been subject to a 10-year "built-in" gains tax from the date of conversion from a C corporation (if you were always an S corporation this does not apply to you). Under the new law the period was reduced to 7 years for 2010, and will be 5 years beginning in 2011.
- Self-employed health insurance expenses for sole-proprietors are available as a deduction against self-employment taxes (as well as income taxes) for 2010.
- **Beginning in 2011, rental property owners are required to issue 1099 forms to service providers (the same as other business owners).** Gillam & Zetzl can assist you in preparing these forms, but urges you to gather the information throughout the year as tracking down Social Security numbers and addresses at the end of the year can be very difficult. We can provide you a W-9 request form that you can ask your contractor or service provider to furnish.
- All business expenses must be ordinary and necessary to be deductible. In addition, deductions reported on an income tax return must be verifiable. To corroborate an amount a taxpayer must have a receipt that indicates the vendor, amount, date and a description of the item or service purchased. Merely having a credit card statement (including American Express) that details the charges is not enough. You must have receipts. The backup documents must be maintained for as long as the statute of limitations remains in effect. **We recommend keeping the information for a minimum of six years.**
- Business meals with clients, customers or employees may be deductible only if the meal is (1) directly related to the active conduct of your business and (2) a substantial and bona fide business discussion takes place. Proof that these requirements were met must be documented on the receipt or in a separate journal. Meals where only business owners and their families are present are only deductible when traveling away from home. "Away from home" means requiring an overnight stay.
- Reimbursements to employees for business deductions must fall under an "accountable plan." This means that employees must provide receipts to their employer for the expenses. Reimbursing an employee without substantiating the expense will require treating the amounts as wages, subject to all the related payroll tax burdens.
- The personal portion of automobiles provided to employees must be included in their compensation unless they reimburse the employer for the personal usage. **Contemporaneous logs of automobile usage are required to validate the deduction.** The log should include dates, customers/vendors visited and the business purpose for each trip as well as the total miles driven on the vehicle during the year.
- The IRS will be looking to validate year-end inventories for this filing season. Therefore, if you have not done so before, we highly encourage you to **take a physical count of your inventory** items as of December 31, 2010. Reporting "about the same as last year" may well be a red flag to the IRS.

## Other

In an effort to protect taxpayer personal information the IRS is now requiring that we obtain a written consent signed by our clients in order to release any information to a third party. We are happy to accommodate your request to release copies of tax returns, financial statements or other documents to banks, insurance companies and others, but keep in mind that we will need the consent form before processing your request.

As we write this letter Congress is attempting to act on an extension bill of numerous tax code provisions. Please watch our website for an update once passage is finalized. Thank you for the opportunity to be of service to you!

**Happy Holidays from everyone at Gillam & Zetzl, Inc.**