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Happy Holidays! As 2010 comes to a close and the New Year begins, it's time to start thinking about taxes again. We trust 2010 has been a challenging and enlightening year for you. With the economic conditions as they are, we have all been re-evaluating our priorities. Thank you for the previous years' referrals. As always, referrals are appreciated.

The Senate and House passed tax deal with President Obama set to sign it. The package includes a two-year extension of the Bush-era tax cuts. It was passed, in my view, because of the 4 Million people who are the long term unemployed, that would have stopped receiving benefits during 2011. It also calls for a 2% decrease in social security tax paid by the employees. On the surface, this looks like a tax savings to all Americans, however, the "make work pay" tax credit will be eliminated. This is the $800 tax refundable tax credit that married people saw on their joint tax return, which was subject to phase outs of the tax credit for earners whose income was greater than $75k for single taxpayers and $150k for married filers. The social security tax reduction will replace this tax credit. Those earning on their W-2 less than $40,000 per year, will receive less than the $800. Those earning more than $40,000 will see a greater tax benefit without the phase out limitation. Also, the estate tax exemption from tax was increased to $5M and estates greater than $5M will be taxed at a lower 35% rate. With the 2 year extension, it will set the stage for the 2012 presidential election.

Year-end presents both an opportunity and a challenge when it comes to tax planning. Keep in mind that the window of opportunity for many tax saving moves closes on December 31st. Enclosed is your 2010 Tax Organizer which we will use in preparing your 2010 Tax Return(s). It summarizes your 2009 tax information and provides space for you to enter your 2010 data. As you receive your 2010 tax documents, please collect them and keep them with this organizer. These documents include such items as your W-2's, Form 1099's, K-1's, brokerage statements, etc. Your check register may also include pertinent information.

<u>The following is a quick look at everyone's tax return:</u>

<u>Income:</u>
From whatever source derived.

<u>Gifts:</u>
Gifts received are not taxable to you. Gifts paid out are not deductible by the payer. The amount in gifts you may pay out per year is $13,000 per person for tax years 2010 and 2011. This amount has stayed the same since tax year 2009. With your spouse, you may give an additional $13,000. So if you and your spouse wanted to give $13,000 each to five people, you could reduce your estate by $130,000. This strategy is for the liquid taxpayer and allows the earnings generated from the gift to be reported by the recipient at preferably a lower tax bracket.

<u>Adjustments to Income:</u>
Included are IRA's/SEP's/KEOGH's/Student Loan Interest/Medical Savings Accounts/Certain Moving Expenses, and self employed health insurance. These are all deductible. For IRA contributions, SEP's, KEOGH's for 2010, the amount must be funded on or before April 15, 2011.

<u>Deductions:</u>

STANDARD	2011	2010	2009	2000	1990
Single	$5,700	5,700	5,700	4,750	3,250
Married	11,400	11,400	11,400	7.350	5,450
Head of Household	8,350	8,350	8,350	6,450	4,750
Married File Separate	5,700	5,700	5,700	3,675	2,750

<u>Itemized Deductions:</u>

Medical - greater than 7.5% of Adjusted Gross Income
Taxes – State; Real Estate; Personal Property (Autos) or Sales Tax
Interest - Mortgage/Points/Investment Interest Expense/Mortgage Insurance (if loan was issued after Jan. 1, 2007)
Charity - Cash and/or checks (The Int. Rev. Serv. is asking for more documentation here)
<u>Non-cash items</u>: Please be able to support the value claimed. Receipts to a qualified charity should be a part of your annual tax return. For the thrift value method greater than $500, we will file form 8283, which

indicates to whom the donation was made, their address, a description of the donated items, the date acquired, the cost, and the THRIFT VALUE of the donated property.

Please include any miles driven for charitable purposes, as they are deductible at $0.14 per mile.

Miscellaneous Itemized Deductions-

Job Expenses: This amount is subject to a floor of 2% of adjusted gross income. Some clients have done very well on their tax return by claiming the status of a STATUTORY EMPLOYEE. Please call me if you have job expenses greater than $2,000. Some employers have made this change. Larger companies, in the past, have not made this change. There are other deductions enumerated in your client organizer.

Personal Exemptions stayed the same from 2009 at $3,650. Personal exemptions are projected to increase to $3,700 in 2011. There are phase-outs of deductions across the board. You taxpayers know who you are.

Kiddie Tax Credits remain the same at $1,000 per child under 17 years old for 2010. The income limitations to receive the tax credit at $110k for Married Filing Joint and $75k for single taxpayers.

Tax Rates:

For your information, the top bracket in 1944 and 1945 was 94%. From 1954-1963, the top rate was 70%. From 1982-1986 the top rate was 50%. Between the tax reform act of 1986 and now 2008, the rates are as follows:

Years						
1987	11%	15%	28%	35%	38.5%	None
2000	None	15%	28%	31.0%	36.0%	39.6%
2002	10%	15%	27%	30.0%	35.0%	38.6%
2003-2011	10%	15%	25%	28.0%	33.0%	35.0%
2012-beyond	None	15%	28%	31.0%	36.0%	39.6%

The Quick Ten: Please attach (enclose) the following if applicable

1.) ***Forms*** - W2
2.) ***Form*** - 1099 & 1098 - Self-Employed; Dividends; Interest & Mortgage Interest. Debt forgiveness may be a taxable event. Please make sure you provide us with all of the details.
3.) ***Stock Trades***: The brokerage statements for the active trader for December 2009 through January 2011. For sales on accounts that were purchased outside the window above, we will need the purchase date and price. Stock trades default to first in first out unless you specifically designate the stocks. You may want to include your broker's name and telephone number for better clarification if needed.
4.) ***Interest Income***: For seller-financed mortgages, please supply the name, address, and Social Security number.
5.) ***Estimated Tax Payments*** (Please include):
Date   To Whom Paid   Tax Year   Amount
Please remember that state tax payments remitted in 2010 are federally tax-deductible in 2010.
6.) ***Retirement Contributions***: SEP's/IRA's/ROTH IRA's/401K's/403b's/etc. We would like to assist you and your broker (if applicable) in calculating the above contributions for you. In certain instances, your contributions may be limited. Please call for clarification.
7.) ***Dependents***: Name; Date of Birth; Social Security Number; and months lived with you during 2010.
8.) ***Childcare Credit***: We are required to report the Name; Address; and I.D. number of the provider, as well as the amount paid.
9.) ***Principle Residence***: In addition to the mortgage interest received by the lender, please supply the closing statements of the purchase, sale and refinancing statement if these transactions occurred during 2010.
10.) ***Flow-Throughs***: K-1's from corporations, partnerships, trusts and LLC's.

Year End Tax Planning for Individuals:

You can charge deductible expenses on your credit card. For example, charge medical bills and charitable donations on your credit card before 12/31/10. Although paid in 2011, they are deductible for tax year 2010.

Prepay state estimated taxes on or before December 31, 2010 year-end. This is your state est. tax payment due 01/15/11 for 2010.

Prepay your January mortgage payment in December 2010. The interest is deductible when paid. If you choose to prepay the January mortgage payment, please keep a copy of the check as it should have been received by the mortgage company in 2010, otherwise send the payment return receipt requested on or before December 31, 2010.

Keep boats and vacation homes in your personal name. Out of pocket costs incurred at the time of business entertainment is deductible.

Sell stock losses before year-end. This will benefit you in two ways. It will offset capital gains and you can take an additional loss of $3,000 on your 2010 tax return. Please avoid the (Wash-Sale Rule). If you sold a stock at a loss and bought it back within 31 days, the loss is disallowed. Please do not overlook Capital Gains from mutual funds when calculating your gains for the year.

Please review your 1099's issued by investment firms. If you have stock losses in prior years and you are not sure of the carry forward amount, please call the office.

Non-Cash and Cash contributions:

Non-Cash Contributions before year-end consists of personal items wherein you can deduct the fair market value of the items donated and appreciated long-term stock instead of cash. When donating appreciated securities, you get to deduct the full fair market value of the shares and you will not owe capital gains tax on the build up in value since you bought it. Non-cash charitable contributions are generally deductible up to 35% of the cost of the donated property. This is referred to as the thrift value method. The internal revenue service has added the term "good used condition" for items donated. Please be prepared to prove the items meet the conditions test or exception.

Please enclose your log of items with the fair market values for non-cash donations when you send in your information. When deducting cash or appreciated securities with a value of greater than $250, you will need to get an acknowledgement from the charity. If you donate a vehicle and the charity or agent sells it, the value of the donation for tax purposes is limited to the sales proceeds. Charities must report to you and the Internal Revenue Service the amount of sales proceeds. To maximize your deduction, contribute your car to an organization that intends to use it in its charitable activities.

Exhaust flexible spending accounts (FSAs)

If you have a medical or dependent-care FSA at work, spend all of your contributions to it by year-end. **You can no longer use your FSAs for purchasing over-the-counter medications in 2011.** However, if you obtain a prescription from your doctor for the over-the-counter medications you can then use your FSA account. You may be able to use expenses up through March 15, 2011 to absorb your 2010 balance. Check with your employer in that it is at their discretion. Otherwise, if not spent by December 31, 2010, the remaining funds are forfeited.

Health Savings Accounts (HSAs):

For those who are covered by a high deductible health plan: $1,200 single persons and $2,400 for families, you and/or your employer, on your behalf, can make tax-deductible contributions to an HSA. Funds accrue tax deferred. Withdrawals for medical expenses not covered by insurance are tax-free. After age 65, funds can be withdrawn and used for non-medical purposes, subject to income tax. The maximum funding to the accounts for 2010 is $3,050 for single persons and $6,150 for families. These limits are projected to stay the same for 2011. People who are least 55 years old can contribute an extra $1,000. **As with the FSA, you can no longer use your HSAs for purchasing over-the-counter medications in 2011. Stock up on your over the counter medications now.** However, if you obtain a prescription from your doctor for the over-the-counter medications you can then use your HSA account.

Adoptions:

To encourage individuals to adopt, the tax law provides a personal tax credit. The amount of the credit is 100% of "qualifying expenses" up to $13,170 in 2010 and is projected to be $13,360 in 2011.

The Kiddie:

There are no tax or filing requirements for children, who are less than 18 years of age, when their income is less than or equal to $900. The most effective way to control income for the child is to place a certificate of deposit in the child's name and using the child's social security number. There is a lower rate for income between $900 and $1,900; thereafter, the rate charged for the dependent child will be at the "allocable parental tax" rate.

The **529 plans**, which are the education funds for your dependents, are deductible on the state return capped at $2,000 per child. This is a government-monitored program that I have not been a fan of in the past nor am I currently a fan of this investment tool because use of the funds available for investment are generally highly restrictive.

Also, children who own series EE bonds can accrue the earnings while they are in the lower tax brackets described in the Kiddie tax calculations. When converting from the cash basis to the accrual basis, the catch-up years must be taxed currently, subsequent years must be reported.

Seniors, between 62.5 and 65, who are collecting Social Security benefits and continuing to work can earn up to $14,160 in 2009 and 2010 without any loss of benefit. For individuals continuing to work and having reached full retirement age, there is not an earned income limit.

As **reverse-equity mortgages** gained in popularity in recent years, please be advised that the interest charges incurred may not be tax-deductible. They become deductible when paid. This assisted in the collapse of the real estate market.

An annual **Social Security benefit statement** is available to you. You should be receiving this information annually. You can get this information by calling 800-772-1213 or visiting their web site at www.ssa.gov. It is called a Personal Earning Statement.

Selected Tax Law Changes for 2010:

If you were a first time homebuyer that was under contract before April 30, 2010 and closed by September 30, 2010 and have not already claimed your $8,000 tax credit, please supply us with your purchase contract and settlement statement to claim the credit on your 2010 return. In addition to the $8,000 tax credit for first-time homebuyers the credit has also been expanded to include a "long-time resident" credit of up to $6,500 to others who do not qualify as "first-time homebuyers;" to qualify this way, a buyer must have owned and used the same home as a principal or primary residence for at least five consecutive years of the eight-year period ending on the date of purchase of a new home as a primary residence. **Don't forget, if you bought a home in 2008** and took the first-time homebuyer credit, the recapture of that credit starts this year. The $7,500 credit must be repaid over 15 years with your 2010 tax return.

The AMT exemption amount is increased to $47,250 ($72,450 if married filing jointly or a qualifying widow(er); $36,225 if married filing separately).

State of Georgia – Tax Planning:
There are credits available in the state, which consist of the Disabled Person Home or Retrofit Credit, Georgia National Guard/Air National Guard Credit, Qualified Caregiving Expense Credit, Driver Education Credits, Rural Physicians Credit and Disaster Assistance Credit, Child and Dependent Care expense credits, conservation credit for qualified donations of real property. Please call our office or include the expended amounts with your information.

Deductions and credits often overlooked:

- **Sales tax deduction.** State tax deduction is the higher of state income tax or state sales tax paid. Please don't forget any tax paid on major purchases inclusive of motorized vehicles.
- **Job** search expenses: Includes costs of resume preparation, outplacement agencies and travel to job interviews.
- **Medical insurance.** Self-employed taxpayers can finally deduct 100% of medical insurance premiums.
- **Treatment** for alcoholism, smoking and drug abuse.
- **Investment** advisors fees.
- **Interest** on margin accounts with a brokerage firm. In May of 2003, most stock dividends (called "qualified dividends"), were changed from being taxed as ordinary income to the capital gains rate of 15%, if you're in the 15% or lower tax bracket, your tax hit is softened to only 5%. This was great for most investors; however, if you have margin interest expense, it is only deductible up to interest income and certain dividend levels. **Tactic**: To get a deduction for the excess interest expense now, rather than carrying it forward, you can elect to treat an amount of tax favored capital gains and dividends as income taxed at ordinary rates, then deduct the excess investment interest against it.
- **Safe deposit box fees**, if the box is used to hold savings bonds, stock certificates or other investments.
- **Labor union dues.**
- **Subscriptions to trade** publications related to your job.
- **Penalties on early withdrawal** of certificate of deposits.
- Your state's **personal property taxes** on cars and boats.
- **Medical and Moving mileage** has been increased for 2010 and is deductible at **19 cents** per mile.
- **Student Loan interest**.
- **College tuition** tax credits.
- If you acquired a plug-in **electric vehicle**, you may qualify for a credit of $2,500-7,500. See your electric vehicle dealer for more information. There are also credits available for **hybrid** automobiles purchased in 2010. These credits vary based on the make and model of the vehicle and are phased out after certain quantities have been sold. Check with your dealer or visit www.fueleconomy.gov .
- Non-reimbursed employee business expenses.

Estate Tax Planning
There is no estate tax due for individuals that passed away in 2010. In 2011, the exclusion will be set at $5 million and a 35% tax rate.

YEAR END TAX PLANNING FOR BUSINESSES:

- If you **pay an individual** for services rendered, this is inclusive of household workers, make sure you either prepare a 1099 for non-employee compensation or a W-2 for an employee's wages. If you own a rental property, effective 2011, this requirement also applies to you. We are available to assist in this process.
- Set up a **retirement plan** before year-end. We should have already discussed this option. Please call me if you think we need to chat further.
- Retirement accounts, defined benefit plans, etc. can now be **vested** over a 7-year period as opposed to the previous 6-year limit.
- For **cash basis taxpayers**, pay all outstanding bills before December 31, 2010 year-end.
- **Write off obsolete inventory as of year end** so your business can take a write down this year.
- For **accrual basis taxpayers**, write off non-collectible account receivables.
- **Change your tax status from a C-Corporation** to an **S-Corporation,** or vice-versa. We should have already discussed this option. You have 75 days from year-end to make this change to be effective in the coming tax year.
- Employers can **reimburse employee business expenses** before year-end when the employer has an "accountable plan". This can reduce salaries and create savings on payroll taxes, while also reducing the employee's taxable income.

- **S-Corporation** owners who need additional capital (loans) should borrow the funds individually and then lend them directly to the corporation. Since most small companies' debt requires a personal guarantee, this process will add to the basis of the company for wherein certain losses can be recognized.
- **New per diem rates.** The US General Services Administration has announced per diem travel rates for the continental US effective October 1, 2010 – September 30, 2011. The standard rates ($70 for hotel and $46 for meals and incidental expenses per day) have remained the same from the prior fiscal year; also, there are about 400 locations with new higher per diem rates. To view the new per diem rates, go to www.gsa.gov and click on "per diem rates" under "Travel Resources".
- The IRS does not require receipts for cash expenses of less than $75 if you record them in your business diary at the time they were incurred.
- **Deposits in bank for cash basis taxpayers** are taxable when deposited and recorded in your checkbook.
- **For equipment placed in service** in 2010, if your capital acquisitions are less than $2,000,000 you can expense up to $500,000. Assets that will be acquired in early 2011 can be acquired and placed in service in 2010 to utilize the additional deduction. If you have purchased new assets in 2008, 2009 or 2010 you may also be entitled to a 50% bonus depreciation deduction in addition to the $500,000 deduction mentioned above thanks to the "Small Business Jobs Act of 2010."
- The **default** method for depreciation in 2010 is the 50% accelerated write-off method.
- **For business travel**, meals and entertainment expenses, please document **who, what, where, and when.**
- **Employers, who provide health insurance benefits to their employees and have ten or fewer employees,** may be eligible for a credit of up to 35% of eligible premiums.
- **If you hired unemployed workers during the year,** you can claim a payroll tax exemption.
- **Auto mileage** for business use of a car and truck expenses in 2010 is deductible at 50 cents per mile. The business portion of parking fees and tolls may be deducted in addition to the standard mileage rate. For 2011, the rate was increased to 51 cents per mile.
    - **Generally,** if you drive 20,000 business miles, the standard mileage deduction may be greater than actual expenses incurred. In 2010, the standard mileage deduction would be $10,000 versus actual expenses of maybe $8,270. If you drive 10,000 business miles, the standard deduction would be $5,000 versus actual expenses of $8,270. These are averages, and different vehicles would generate different deduction amounts.

Social SecurityTaxable Cap: For 2010 the cap was $106,800 and it has remained unchanged for 2011.

Retirement Planning:

	401K Deferral Cap:	**Simple IRA's (for Businesses)**	**IRA's (Indiv.)**
Year	Amount	Amount	Amount
2010	16,500	11,500	5,000
2011	16,500	11,500	5,000

For those taxpayers who are 50 years of age or older at December 31, 2010, a **"catch-up" contribution** is available for tax year 2010. For 401K plans, this contribution is $5,500 in 2010; For Simple IRA's, this would be $2,500 for 2010; and finally, for traditional IRA's the catch-up contribution for 2010 is $1,000.

The maximum contribution for a **SEP** plan in 2010 is $49,000. The maximum 401k contribution in 2010 is $49,000 inclusive of the $16,500 elective contribution.

For other closely held companies, generally the one owner/one employee company, the **412i** plan will be able to fund a retirement plan for up to the actuarial limits per annum. The contribution can be as much as $300k-$400k per year. This retirement option is made up of annuities and life insurance.

Some taxpayers may want to consider converting to a Roth IRA from a traditional IRA if your retirement account is still down from 2008 and 2009. You can convert your traditional IRA to a Roth IRA in 2010 without any penalties, no AGI limits. You have to pay ordinary income tax on the original contributions and any gains up to that point, but any contributions made after the conversion can be withdrawn tax free after five years and the earnings accumulate tax free. In 2010, any tax liability due from the conversion will be averaged over 2011 and 2012. There may be tax-legislation changes in the upcoming years that could affect the value of the Roth IRA. Please consult with us before making this conversion.

For your year-end board meeting, which may be in Hawaii, please discuss and reference in your memorandum the following items:

Charitable Contributions;
Year-end bonuses and or profit sharing arrangements;
Reasons why earnings are being retained; and,
Any changes to the business organizational structure.

The Biggest Loopholes of All – Now:
-Buy an SUV or truck that weighs **more** than 6,000 pounds for your business and write off up to $25,000 in additional depreciation expense. If the SUV or truck is bought "new" then you can deduct an additional 50% after taking the 25,000 deduction above. For example, if you buy a **new** SUV over 6,000 pounds for $50,000 you would be able to deduct $40,000 in 2010.
-When you are involved in a personal injury lawsuit, make sure any settlement agreement made compensates you for physical injuries, not emotional injuries. Physical injuries are not taxable.
-Maximize your companies' deduction for bad debt by writing off old accounts receivables.
-Donate excess inventory or depreciable business property to charity. Companies that do this can deduct the cost plus 50% of the unrealized appreciation in the goods or equipment. (Sorry Gang, only C-Corporations)

ENERGY-SAVINGS HOME IMPROVEMENT TAX CREDITS FOR 2009 & 2010

Improvements must be made to your principal residence only and placed in service from 2009-2010. Tax credits are available at 30% of the cost, up to $1,500 total for all home improvements, for the following items (go to www.energystar.gov/taxcredits for efficiency requirements): Windows and Doors, Insulation, Roofs, HVAC, Water Heaters (non-solar), Biomass Stoves.

Tax credits are available at 30% of the cost, with no upper limit through 2016 (for existing homes & new construction) for: Geothermal Heat Pumps, Solar Panels, Solar Water Heaters, Small Wind Energy Systems, Fuel Cells. (See website above)

EDITORIALS FROM YOUR CPA, THIS AND A QUARTER WILL NOT EVEN BUY YOU A CUP OF COFFEE
It is difficult to tell what real estate is really worth today. With owners refinancing and selling their properties, it is difficult to compete with financial institutions selling properties at deep discounts. With 1 of 3 home sales a foreclosure and sold by financial institutions, a normal homeowner has lost 27% of their value. **Historically,** the rate of foreclosures in the US has been 5-6% and had accounted for 1-2% of total annual sales. **First time homebuyers** are in the driver's seat again this year. **Commercial real estate** continues to have negative absorption. Owner occupiers of commercial real estate are winning big. Investors are acquiring properties at deep discounts, but in most instances, the ability to lease the property is limited.
Review your 2010 Real Property Tax Bill. You have appeal rights as to the arbitrary value assessed by your county. This is a first quarter of 2011 project. Property values are decreasing. It is a relatively painless process. Let us know if we can assist you.
Interest rates are at historic lows. I am concerned that interest rates will increase. But in order for the economy to revitalize, interest rates should remain low. However, the conservative approach is to consolidate your debt at as low a rate as possible. In this consolidation, you should include consumer debt from credit cards, automobiles, etc. and roll this into a deductible mortgage. Who ever is in an Adjustable Rate Mortgage, should lock in a rate.
Continue to fund your retirement accounts. If your employer has a match, meeting the match is just math. It is part of your compensation. The individual retirement account allows $5,000 per year, plus those over 50 are allowed to contribute an additional $1,000. This is the very basic next level of deferred compensation. Please make sure you are deferring at this IRA allowed amount.
During these troubling economic times, review your life insurance and disability plans. Some of you may have not reviewed these plans in some time.
Let's all be smart with our portfolios. Cash is an investment vehicle in that it is not negative. Put automatic sales orders in your stock portfolio's if the market value of a stock or a mutual fund goes below XX%. The older you are, the more conservative you should be.
The best person to pick a stock is you, the consumer. You know what you buy. Interest rates are low, yet there is substantial risk in equity markets. I would not suggest placing any funds into the stock market that you will need to access within the next ten years. For any funds not needed within that time frame, I would suggest investing the same dollar amount in consistent intervals (weekly, monthly, quarterly) in order to "dollar-cost average" your investments.

For 2010 my stock picks averaged a 18.7% return. This was above the Dow which had an overall 1 year gain of 11%. Generally, between my gut instincts and discussions with my broker, I have been able to have a fairly decent return. Brokers do monitor these markets everyday. I do have an automatic selling feature with my stocks and mutual funds. As the market has increased in 2010, I have raised the bar for the automatic sale. I shoulda, coulda and woulda done something different in the past, but here you go for 2011.

Technology: Apple (AAPL); a keeper for several years – apple was the jewel from my last year picks again this year
Energy: Southern Co.(SO) - a keeper for several years; Transocean, Ltd.(RIG); Chevron (CVX)
Consumer Goods: Atria (MO) a keeper from last year, I got rid of the other 4 in this sector adding Coke(KO)
Commodities: Energy (XLE); Food & Beverage (MOO); Precious Metals (GLTR).

Seasons Greetings! See y'all soon.

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