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Tax Update - 2010

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CAPITAL GAINS TAX RATES

The 0% and 15% reduced capital gains and qualified dividends tax rates are set to expire on December 31, 2010. It is important that any closely held C-Corp pay dividends using the reduced rates. In addition, planning may be necessary to sell appreciated stocks or mutual funds prior to this expiration.

ENERGY CREDITS

2010 is currently the last year to save up to \$1,500 on energy improvements made to your primary home. Equipment must be placed in service by December 31, 2010 in order to claim the credit in 2010. For detailed specifications, you can go to the website: www.energystar.com.



Small Business Health Care Tax Credit

Included in the health care reform legislation signed by President Obama on March 23, 2010, is a Small Business Health Care Tax Credit designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have. In general, the credit is available to small employers that pay **at least half** the cost of single coverage health insurance for their employees. The maximum credit is 35% of premiums paid in 2010 by eligible small business employers and increases to 50% in 2014. It is generally available to employers that have fewer than 25 full-time equivalent (FTE) employees paying wages averaging less than \$50,000 per employee per year. Because the eligibility formula is based in part on the number of FTEs, not the number of employees, many businesses will qualify even if they employ more than 25 individual workers. The maximum credit goes to the smaller employers – those with 10 or fewer FTEs – paying annual average wages of \$25,000 or less.

Example: Auto Repair Shop with 10 Employees

Employees: 10
Wages: \$250,000 total or \$25,000 per worker
Employee Health Care Costs: \$70,000

2010 Tax Credit: \$24,500 (35% x 70,000)



Federal Estate Tax

It has been said that only death and taxes are certain. But the federal estate tax law is anything but certain now. As most of us are aware, the federal estate tax was repealed for 2010 meaning that no estate tax exists for 2010. Right up until the end of 2009, most tax professionals and estate tax attorneys expected Congress to step in and reinstate the federal estate tax. This didn't happen and now doubts have arisen about whether Congress can agree on a fix. The entire law expires after December 31, 2010. This means that the provisions of the 2001 Economic

Growth & Relief Reconciliation Act will no longer be effective on January 1, 2011 and the tax structure, as it existed in 2001, will take effect again. If this occurs, federal estate tax for 2011 will be assessed on property in excess of \$1 million with a maximum tax rate of 55%. We will continue to monitor changes in this as we get closer to January 1, 2011.



HIRE Act Credit*

The new tax incentives for businesses to hire unemployed workers include a payroll tax exemption of the employer's share of Social Security taxes on wages paid to these workers after March 18, 2010 and an employer tax credit of up to \$1,000 per worker.

The new employees must meet these criteria in order to qualify for the business tax credits:

- Hired between February 2, 2010 and January 1, 2011
- Newly-hired employee was unemployed during the 60 days prior to starting work, or worked fewer than 40 hours during the 60 day period.
- Certifies on W-11 Form that they have been employed for 39 hours or less in the 60 days prior to hire
- Does not replace a terminated employee unless voluntary termination
- Is not a related party to the employer (relative, dependent, majority owners)

Payroll tax exemption: You as the employer get payroll tax forgiveness on the employer's 6.2% OASDI. This is only the employer's OASDI **not** what is withheld from the employee. The Medicare rate of 1.45% withheld and matched by the employer is **NOT** affected. You elect to do this on an employee by employee election. Qualified individuals can be full time or part time. The maximum savings per qualified individual is $(\$106,800 \times 6.2\%) = \$6,622$. Previously laid off workers qualify if laid off 60 days or more. The credit is claimed on your Form 941 and used to reduce your payroll tax deposits.

Employer tax credit: The last item with the HIRE Act is a maximum \$1,000 tax credit for keeping a new HIRE qualified individual for 52 weeks. The wages must be subject to FICA to qualify. The credit is the lesser of \$1,000 or 6.2% of wages for the 52 weeks. So to get the max \$1,000 credit, the employee must have wages of at least \$16,129 in a year. Since the 52 weeks won't happen until 2011 the credit will be taken on the 2011 tax return.

Work Opportunity Tax Credit (WOTC)*

The Work Opportunity Tax Credit, has been around a couple of years. We have talked about it in our newsletters previously. However, we want to be sure everyone that qualifies has been utilizing this excellent credit. The credit is currently available until August 31, 2011 and the credit can be as much as \$2,400 per employee. It is based on qualified wages paid to the new employee for the first year of employment. Generally, qualified wages are capped at \$6,000. The credit is 25% of qualified first-year wages for those employed at least 120 hours and 40% for those employed 400 hours or more.

In our area, we qualify for this credit as a Rural Renewal County. Examples of some of the counties included are Kossuth, Emmet, Clay, Hancock, Humboldt, Palo Alto, and Winnebago. New employees must be between the ages of 18 and not yet 40, cannot be a dependent or relative of the employer, and be expected to work at least 120 hours in the first twelve months of employment. The employee must complete ETA Form 9061 and IRS Form 8850 at the date of hire. All complete forms need to be mailed to Iowa Workforce Development **within 28 days** after the employee's start date.

*The key to this is that the paperwork needs to be done BEFORE hiring is completed. Keep in mind you can only use either the WOTC or HIRE for each employee, but the choice is per employee. For example: An employee qualifying for both credits and earns \$15,000 in 2010. WOTC: $\$6,000 \text{ wage} \times 40\% = \$2,400 \text{ tax credit}$. HIRE: $\$15,000 \text{ wage} \times 6.2\% = \930 tax credit plus a potential \$1,000 tax credit in 2011. All forms are available at our office and we can assist you in filling these out. Please give us a call if you are hiring or plan to hire and have questions.

2010 Roth Conversion

Starting in 2010, taxpayers with modified adjusted gross income of more than \$100,000 will be allowed to convert a traditional IRA to a Roth IRA. This change applies to all years beyond 2010 - and the income taxes due on the 2010 conversion can be spread over two years. So the 2010 conversion amount may be included as taxable income in 2011 and 2012 - helping to spread out the tax bite. Conversion in subsequent years are included in income during the tax year in which the conversion is completed.