



# The RoCo Times

## Special Dates of Interest

- January 31—W-2's due from Employers & 1099's due from banks, brokers and other payers.
- February 1—Employers must file annual federal unemployment tax returns.
- February 15—Office closed for Presidents Day.
- March 1—Payers must file 1099 forms with the IRS.

## Not much change in IRS inflation-adjusted tax numbers for 2010

The IRS is required to adjust many tax numbers for inflation each year. Because there was little inflation last year, there's very little change in 2010 numbers. Here are the numbers you'll need for your 2010 planning.



\* The standard mileage rate for business driving drops from 55¢ per mile to 50¢ per mile, effective January 1, 2010. The rate for medical and moving mileage drops from 24¢ per mile to 16.5¢ per mile. The general rate for charitable mileage remains at 14¢ per mile.

\* The maximum earnings subject to social security tax remains at \$106,800. The earnings limit for those under full retirement age is \$14,160. For those at full retirement age, there is no earnings limit.

\* The "nanny tax" threshold remains at \$1,700 for 2010. If you pay household workers more than this amount during the year, you're responsible for payroll taxes.

\* The "kiddie tax" threshold is unchanged for 2010. If your child under age 19 (under age 24 for students) has more than \$1,900 of unearned income this year (e.g., dividends and interest income), the excess could be taxed at your highest rate.

\* The maximum individual retirement account (IRA) contribution you can make in 2010 remains unchanged at \$5,000 if you're under age 50 and at \$6,000 if you are 50 or older.

\* The maximum amount of wages employees can put into a 401(k) plan remains at \$16,500. The 2010 maximum allowed for SIMPLE plans is \$11,500. If you are 50 or older, you can contribute up to \$22,000 to a 401(k) and \$14,000 to a SIMPLE plan.

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*The distance is nothing, It's only the first step that's important.*

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For details or for assistance as you begin your 2010 tax planning, give our office a call at 586-5236

## New rules in 2010 for Roth IRA conversions

Beginning in 2010, the rules governing Roth IRA conversions will undergo a significant change.

Traditional IRA to Roth IRA conversions will be available to everyone, creating a financial planning opportunity that didn't exist previously. Under the 2009 rules, taxpayers with income of more than \$100,000 cannot convert a traditional IRA to a Roth IRA. Tax legislation enacted in 2006 changed the rules and ends the \$100,000 income limit, effective January 1, 2010.

The Roth IRA has been a popular investment vehicle, with its ability to give taxpayers tax-free distributions once the account has been in existence for five years and the taxpayer has reached age 59½. Another Roth benefit is the lack of required minimum distributions once the owner reaches age 70½.

**The conversion to a Roth does have a cost.** When you convert a traditional deductible IRA to a Roth, you must include the entire amount converted in your taxable income.

If you do a conversion in 2010, you are allowed to report half of the income on your 2011 tax return and the remaining half on your 2012 tax return. You can also choose to pay the taxes due on the conversion on your 2010 return. While prepaying seems counterintuitive, remember that present federal tax rates are set to expire December 31, 2010. Postponing income into future years could mean a bigger tax bill.



The new conversion rules are particularly advantageous to those upper-income taxpayers who could never participate in a Roth. Now taxpayers in high tax brackets will have access to Roth IRAs.

It's important to weigh the pros and cons of a conversion in your individual situation. Please give us a call if you would like to discuss the best strategy for you.

## Homebuyer's Credit

Under prior law, an eligible first-time homebuyer could claim a maximum credit of \$8,000 for a principal residence purchased before December 1, 2009. But the credit began to phase out for single filers with a modified adjusted gross income (MAGI) above \$75,000 and joint filers above \$150,000.

Under the new law, the credit is available for home purchases made before May 1, 2010, (July 1, 2010, if a binding contract exists before May 1). Also, the phase-out threshold increases to \$125,000 of MAGI for single filers and \$225,000 for joint filers. The homebuyer credit may be elected on a 2009 tax return for a qualified purchase in 2010.

Not just for first-timers: If you buy a home after November 6, 2009, and have owned and used the previous home as your principal residence for five consecutive years in the last eight years, you may claim a credit of up to \$6,500. New limit for everyone: No credit is allowed for purchases after November 6, 2009, if the price exceeds \$800,000.

## Need financing for your small business? Look into an SBA loan

If you're a small business owner whose company needs an infusion of cash, the Small Business Administration (SBA) may be able to help. A federal agency charged with assisting small businesses, the SBA provides most of its assistance by loan guarantees to lenders. Such guarantees encourage private institutions (mostly banks and credit unions) to lend money to new or struggling businesses. SBA-backed loans, which can run from a few thousand dollars to hundreds of thousands, are very flexible. They can be used to finance working capital, equipment, furniture, build-ings, and a variety of other business needs.



The most common type of SBA loan is offered through the 7(a) Loan Program. Under this program, a business applies directly to a private lender and the SBA insures or "guarantees" a percentage of the loan. If you, as the borrower, default on the payments, the lender will recover a portion of the outstanding loan balance. By reducing the lender's risk, the SBA emboldens otherwise reluctant lenders to provide funds to risky businesses. (Be aware, however, that SBA loan guarantees do not mitigate your responsibility for making loan payments.)

To be eligible for an SBA loan, your business must meet certain eligibility requirements. Obviously, you must plan to make a profit. (Charitable groups and other not-for-profit organizations need not apply). Because the SBA mandate includes strengthening the American economy, your firm must also do business (or propose to do business) in the United States. You'll also be asked whether you have funds available from other sources. So be prepared to divulge the nitty-gritty details of your personal, as well as your business, finances.

Of course, any legitimate lender will also scrutinize your ability to pay back the loan. (If your credit history indicates that unpaid bills are your stock in trade, don't expect an easy ride.) The lender will likely review the assumptions behind your company's cash flow projections. So come prepared to explain your financial forecasts (also known as pro forma statements). In addition, lenders will want to know that your company has a committed and competent management team. To this end, they may delve into your work experience, education, and history with prior business ventures. Time to spruce up your resume and fine tune your business plan.

## Thanks! We appreciate you!

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

