



Some year-end tax moves

Time is running out to make tax-saving moves for 2010. Some ideas to consider:

- Sell appreciated stock to offset capital losses taken earlier in the year and vice versa. Any excess loss can offset up to \$3,000 of ordinary income in 2010, and losses greater than that can be carried to future years.

- Make your home more energy-efficient, and claim a tax credit of up to \$1,500 for installing energy-efficient windows, doors, roofs, and similar improvements.

- Convert an IRA to a Roth by December 31 to give yourself the option of recognizing the resulting income on either your 2010 return or splitting it between your 2011 and 2012 returns.

- Use your credit card to pay tax-deductible expenses by December 31 if you're short of cash. You can deduct the expenses on your 2010 return even though you pay your credit card bill in 2011.

- If you own a business, purchase needed equipment by December 31. For 2010, you can deduct up to \$500,000 of the cost, plus the assets may also qualify for the recently reinstated 50% bonus depreciation.

- Required minimum distributions are back this year. If you're required to take distributions from your retirement plan, do so by December 31 or you face a 50% penalty. If you just turned 70½ this year, you could wait until April 1, 2011, to take a first distribution.

For guidance in identifying the best moves to make in your particular situation, contact us now. ♦

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clientalert

winter 2010

Small Business Jobs Act is signed

On September 27, President Obama signed the *Small Business Jobs Act of 2010*, a law designed to give small businesses some tax breaks and assistance in getting loans.

The law provides a \$30 billion fund to encourage community banks to lend to small companies. The law also includes \$12 billion in tax cuts for businesses. Here's an overview of the key tax provisions.

- ▶ **Equipment purchases.** For 2010 and 2011, the Section 179 first-year expensing limit for the purchase of new or used business equipment is doubled to \$500,000. The threshold at which the maximum deduction is phased out increases to \$2 million.

The law revives 50% bonus depreciation for new equipment purchased in 2010. Certain property will qualify for bonus depreciation through 2011.

- ▶ **Real property expensing.** For the first time, certain real property

will be eligible for Section 179 first-year expensing. Qualifying property includes leasehold improvements, restaurant property, and retail improvements. The expensing limit for these properties is \$250,000.

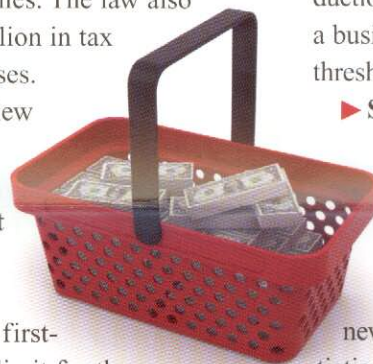
- ▶ **Business start-ups.** The law doubles to \$10,000 the maximum deduction for qualified costs of starting a business and increases the phase-out threshold for the deduction to \$60,000.

- ▶ **Self-employment taxes.** For 2010, self-employed individuals may deduct their health insurance costs in computing self-employment taxes.

- ▶ **Business cell phones.** The new law removes the strict substantiation requirements for incidental personal use of business cell phones and treats employee use as a nontaxable fringe benefit.

- ▶ **Small business stock.** Those who invest in qualified small business stock may be able to exclude 100% of the gain from the sale of the stock once it has been held for five years. This break applies to stock acquired from September 28, 2010, through December 31, 2010.

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Follow charitable contribution guidelines to save tax dollars

Making charitable contributions to qualified charities can reduce your taxes. Here are some guidelines that will ensure your contribution is legitimate and tax-deductible.

Qualified organization. Make sure that the charity is qualified to receive deductible contributions. For lesser-known or local charities, ask them for their IRS determination letter. Or you can go to the IRS website (www.irs.gov) which has a listing of most qualified organizations.

Itemized deductions. Charitable contributions reduce your taxes only if you itemize your deductions. If you are a standard deduction taxpayer, you'll likely receive no tax benefit for your contribution.

Timing. Contributions made by check are considered delivered to the organization on the date that they are mailed, regardless of when the charity actually cashes the check. Contributions made by credit card are deductible in the year of the charge, not the year that the credit card is paid.

Services. You can't deduct your time, artistic performance, professional service, or the value of permitting the charity to use your property. However you may deduct out-of-pocket expenses and mileage in the course of providing services to the charity.

Clothing, etc. Clothing and household items donated to charity must be in good used condition or better. If the total contribution of noncash

items is greater than \$500, Form 8283 must be attached to your tax return.

Vehicles. The deduction for a motor vehicle, boat, or airplane is usually limited to the amount the charity actually gets when it sells the item. If the amount of the contribution is greater than \$500, Form 1098-C must be given to you by the charity and attached to your tax return.

Cash, checks, credit cards, etc. If you make a cash contribution of less than \$250, you'll need a copy of the canceled check showing the name of the charity, plus the date and amount of the contribution. Credit card statements should show the name of the charity, the date and amount, and the transaction posting date. For payroll deductions, you should retain a pay stub, wage statement, or other document furnished by the employer showing the total amount withheld for charity. Cash contributions of \$250 or more must have a written communication from the charity showing the name of the charity and the date and amount of the contribution.

Remember that the rules for donations have one very important general requirement: If the contribution is \$250 or more, you must obtain written acknowledgment from the charity for each deductible donation (either money or property). The rules governing the deductibility of charitable donations can get tricky. If you need help with your charitable contribution planning, please call us. ♦



HAPPY HOLIDAYS

Thank you for giving us the opportunity to serve you this past year. Your business is appreciated, and your referrals are welcome. Please mention our name to friends and associates who might need our services.

We wish you a happy holiday season and a prosperous 2011!



Understand breakeven for higher profits

The figures on an income statement report the sales, expenses, and net profit or loss of a business. But these figures can be helpful in another way. They can be used to compute the breakeven point for the business. Knowing your breakeven point can help you run your operations more efficiently and profitably.

Simply put, the breakeven point is the sales volume at which the business generates just enough revenue to cover its expenses. While a business that's breaking even doesn't have a profit, it's not losing money either.

■ How to determine breakeven

To calculate your breakeven point, you'll need to know three things: an item's sales price, an item's variable cost, and your total fixed costs. Variable costs are those that fluctuate with the number of items sold, such as the cost of materials and sales commissions. Fixed costs do not fluctuate with sales volume (i.e., rent, insurance, and property taxes).

Calculating the breakeven point involves two steps. First, it's necessary to figure out the amount left over from each sales

dollar after the variable expenses have been subtracted. This is known as the gross profit percentage. Then divide your fixed expenses by your gross profit percentage to get the breakeven point.

■ How to use breakeven

How can you benefit from knowing your breakeven point? First, you'll be able to manage your business better once you know the sales volume needed to turn a profit. Second, by monitoring your sales, you can accurately predict whether you're on course to reach your profit goals. Third, you'll be able to take corrective action more quickly.

There are other benefits too. Using breakeven analysis, you can calculate the sales volume you'll need to cover the costs of a proposed new product or service. Plus, if you have a desired profit, you can add it to your fixed expenses and calculate the precise sales volume you need to achieve that targeted profit.

Call us if you would like assistance in using breakeven analysis to improve your business. ♦

financial alert

Should you sell or hold that stock?

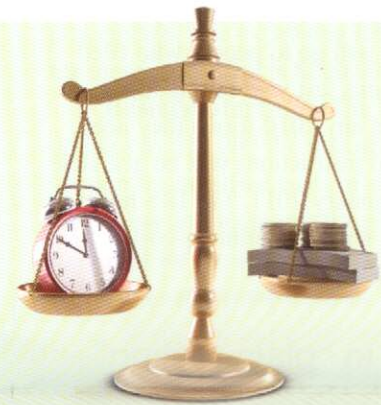
Deciding when to buy a stock is often easier than determining when to sell. If you're reviewing your portfolio at year-end, you should analyze the reasons for selling a stock. Don't let yourself be overly influenced by year-end tax considerations.

Here are some situations that may indicate it's the right time to sell.

- ▶ **To offset some gains.** If you have some losing positions, you might want to use them to offset taxable gains.
- ▶ **When there are no tax consequences.** If you hold stock in a retirement fund, you may want to cash in some gains without any tax impact.
- ▶ **To take some money off the table.** If a stock has had a nice run, you

might want to sell a portion to recoup part of your investment. You can continue to invest in the stock but with locked-in gains.

- ▶ **A shift in the fundamentals.** If the economy changes or an entire industry becomes vulnerable due to negative news, it might be time to sell.
- ▶ **When you've given up on a stock.** If a stock has been declining or flat-lining for an extended period, it might be time to get out. Sometimes you have to sell low in order not to sell even lower later on.
- ▶ **When something else catches your eye.** You might want to take advantage of another opportunity by selling one stock to buy another.



- ▶ **To take a contrarian position.** If the market has gotten a little frothy and all the news is optimistic, it might be time to harvest gains.
- ▶ **When cash becomes attractive.** If the economic outlook is gloomy, it might be time to increase your cash reserves.

The wise investor knows it's important to have a disciplined stock selling strategy. Be sure you give as much thought to selling a stock as to buying it. ♦

what the IRS is up to

No IRS tax packages

This year the IRS won't be sending individuals and businesses tax form booklets for filing 2010 tax returns. Postcards will go to people who filed paper returns last year telling them how to get any 2010 forms they need. Forms and instructions will be available in early January 2011. The IRS hopes this move will save printing costs and encourage e-filing.

Say it in "plain writing"

In late September, Congress passed the *Plain Writing Act of 2010*, a law requiring government agencies, including the IRS, to write public documents in "plain writing." Plain writing is defined as language that is "clear, concise, well-organized, and follows other best practices appropriate to the subject or field

and intended audience." The cost to implement and enforce the law is estimated at \$5 million a year.

New rule for over-the-counter medicines

You might want to stock up on over-the-counter drugs before December 31 if you pay for them with dollars in a tax-advantaged account.

Starting in 2011, over-the-counter medications cannot be purchased with funds from tax-advantaged health accounts, such as flexible spending accounts (FSAs), health reimbursement accounts (HRAs), health savings accounts (HSAs), and medical savings accounts (MSAs). Exceptions to this new rule: insulin and over-the-counter drugs for which the taxpayer has a prescription. ♦

This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.



Important DATES

WINTER 2010-11

- **January 18, 2011**
Due date for the fourth installment of 2010 individual estimated tax.
- **January 31**
Employers must furnish W-2 statements to employees. 1099 information statements must be furnished by payers. (Deadline for 1099B and consolidated statements is February 15.)
- **January 31**
Employers must file 2010 federal unemployment tax returns and pay any tax due.
- **February 28**
Payers must file information returns (such as 1099s) with the IRS.*
- **February 28**
Employers must send W-2 copies to the Social Security Administration.*
- **March 1**
Farmers and fishermen who did not make 2010 estimated tax payments must file 2010 tax returns and pay taxes in full. ♦

*March 31 if filing electronically.