



2010–2011

# *Tax Planning Guide*

Year-round strategies to make the tax laws work for you





# For tax planning, the only certainty is uncertainty

As our country starts to recover from the recession, we're confronted with a great deal of uncertainty in tax laws, the economy and our personal finances. While some new, but temporary, tax breaks have gone into effect this year, others have expired — but could still be extended. Perhaps even more significant, many tax rates are scheduled to go up in 2011 if Congress doesn't take action.

Consequently, saving as much tax as possible will require constant attention to these changes and a highly proactive approach to tax planning. The more familiar you are with various tax planning strategies, the easier it will be to take advantage of them.

To this end, we are pleased to offer this overview of new and proven ways to minimize your tax liability. While we've tried to include the tax law changes and strategies most likely to apply to your situation, there are others we don't have room to cover here. So please check with your tax advisor to find the best ways to save tax in these uncertain times.

## Contents

<b>Deductions &amp; AMT</b>	<b>2</b>
Chart 1: Tax deductions vs. credits: What's the difference?	
<b>Family &amp; Education</b>	<b>4</b>
Case Study 1: Tax-free savings for education add up	
<b>Investing</b>	<b>6</b>
What's new! Low capital gains and qualified-dividend rates set to expire Dec. 31	
Case Study 2: With possible rate increases, deferring a loss could save you taxes	
<b>Business</b>	<b>8</b>
What's new! SBJA extends and expands many business breaks	
What's new! New breaks available for hiring workers	
What's new! Health care act provides new tax credit to certain small businesses	
Chart 2: Tax differences based on business structure	
<b>Retirement</b>	<b>12</b>
Chart 3: No increase in retirement plan contribution limits for 2010	
What's new! AGI limits lifted on Roth IRA conversions	
<b>Estate Planning</b>	<b>14</b>
Chart 4: Transfer tax exemptions and highest rates	
What's new! Step-up in basis changes could increase income taxes for heirs	
<b>Tax Rates</b>	<b>16</b>
Chart 5: 2010 individual income tax rate schedules	
Chart 6: 2010 corporate income tax rate schedule	



# Minimizing taxes requires smart use of deductions

Since the 16th Amendment was added to the Constitution in 1913, our income has been subject to federal tax. What started as a simple idea has become very complicated, with continually changing tax laws and a multitude of limits and exceptions. To keep your income taxes to a minimum, one important strategy is to make smart use of deductions.

## The AMT

Before taking steps to maximize deductions, consider the alternative minimum tax (AMT) — a separate tax system that limits some deductions and doesn't permit others, such as:

- ♦ State and local income tax deductions,
- ♦ Property tax deductions, and
- ♦ Miscellaneous itemized deductions subject to the 2% of adjusted gross income (AGI) floor, including investment advisory fees and employee business expenses.

You must pay the AMT if your AMT liability exceeds your regular tax liability. See Chart 5 on page 16 for AMT rates and exemptions, and work with your tax advisor to project whether you could be subject to the AMT this year or next. You may be able to time income and deductions to avoid the AMT, or at least reduce its impact.

## Home-related breaks

These valuable tax breaks go beyond just deductions:

**Homebuyers credit.** If you purchased a home before May 1, 2010 (Oct. 1 if a binding contract was in place before May 1), you may

be eligible for a credit of up to \$8,000 as a “first-time” homebuyer or \$6,500 as a “long-time” homeowner. The credit starts to phase out for joint filers with modified adjusted gross incomes (MAGIs) exceeding \$225,000 (\$125,000 for single filers). It's completely eliminated for joint filers with MAGIs exceeding \$245,000 (\$145,000 for single filers).

**Property tax deduction.** Before paying your bill early to accelerate the itemized deduction into 2010, review your AMT situation. If you're subject to the AMT, you'll lose the deduction for the prepayment.

**Mortgage interest deduction.** You generally can deduct interest on up to a combined total of \$1 million of mortgage debt related to your principal residence and a second residence. Points paid related to your *principal* residence also may be deductible.

**Home equity debt interest deduction.** Interest on home equity debt used to improve your principal residence — and interest on home equity debt used for any purpose (debt limit of \$100,000) — may be deductible. So consider using a home equity loan or line of credit to pay off credit cards or auto loans, for which interest isn't

deductible. But beware of the AMT: If the home equity debt isn't used for home improvements, the interest isn't deductible for AMT purposes.

**Home sale gain exclusion.** When you sell your principal residence, you can exclude up to \$250,000 (\$500,000 for joint filers) of gain if you meet certain tests. **Warning:** Gain on the sale of a principal residence generally isn't excluded from income if the gain is allocable to a period of nonqualified use. Generally, this is any period after 2008 during which the property isn't used as your principal residence. There's an exception if the home is first used as a principal residence and then converted to nonqualified use.

Losses on a principal residence aren't deductible. But if part of your home is rented or used exclusively for your business, the loss attributable to that portion will be deductible, subject to various limitations.

Because a second home is ineligible for the exclusion, consider converting it to rental use before selling. It will be considered a business asset, and you may be able to defer tax on any gain through an installment sale or Sec. 1031 (“like-kind”) exchange. Or you may be able to deduct a loss, but only to the extent attributable to a decline in value *after* the conversion.

**Debt forgiveness exclusion.** Homeowners who receive debt forgiveness in a foreclosure or a mortgage workout for a principal residence generally don't have to pay federal income taxes on that forgiveness.

**Rental income exclusion.** If you rent all or a portion of your principal residence or second home for less than 15 days, you don't have to report the income. But expenses associated with the rental aren't deductible.

**Energy-related breaks.** A wide variety of breaks designed to encourage energy efficiency and conservation are available, many of which have been expanded. Consult your tax advisor for details.

### Health care breaks

If your medical expenses exceed 7.5% of your AGI, you can deduct the excess amount. Eligible expenses include:

- ◆ Health insurance premiums,
- ◆ Medical and dental services, and
- ◆ Prescription drugs.

Consider "bunching" nonurgent medical procedures and other controllable expenses into one year to exceed the 7.5% floor. But keep in mind that for AMT purposes only

medical expenses in excess of 10% of your AGI are deductible.

Also remember that expenses that are reimbursed (or reimbursable) by insurance or paid through one of the following accounts aren't deductible:

**HSA.** If you're covered by qualified high-deductible health insurance, a Health Savings Account (HSA) allows contributions of pretax income (or deductible after-tax contributions) up to \$3,050 for self-only coverage and \$6,150 for family coverage. Account holders age 55 and older can contribute an additional \$1,000. (The same limits will apply in 2011.)

HSAs bear interest or are invested and can grow tax-deferred similar to an IRA. Withdrawals for qualified medical expenses are tax free, and you can carry over a balance from year to year.

**FSA.** You can redirect pretax income to an employer-sponsored Flexible Spending Account (FSA) up to an employer-determined

limit. The plan pays or reimburses you for medical expenses not covered by insurance. What you don't use by the end of the plan year, you generally lose. If you have an HSA, your FSA is limited to funding certain "permitted" expenses.

### Charitable donations

Donations to qualified charities are generally fully deductible. For large donations, discuss with your tax advisor which assets to give and the best ways to give them. For example:

**Appreciated assets.** Publicly traded stock and other securities you've held more than one year are long-term capital gains property, which can make one of the best charitable gifts. Why? Because you can deduct the current fair market value and avoid the capital gains tax you'd pay if you sold the property. **Warning:** Donations of such property are subject to tighter deduction limits. Excess contributions may be carried forward for up to five years.

**CRTs.** For a given term, a charitable remainder trust (CRT) pays an amount to you annually (some of which may be taxable). At the term's end, the CRT's remaining assets pass to one or more charities. When you fund the CRT, you receive an income tax deduction. If you contribute appreciated assets, you also may be able to avoid capital gains tax. You can name someone other than yourself as income beneficiary or fund the CRT at your death, but the tax consequences will be different. **Warning:** Special rules may apply in 2010; check with your tax advisor for details.

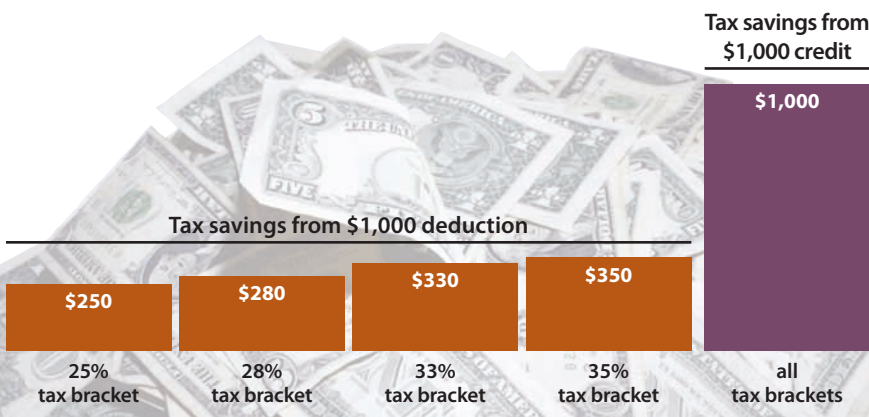
### Sales tax deduction

As of this writing, the break allowing you to take an itemized deduction for state and local sales taxes in lieu of state and local income taxes isn't available for 2010. If you live in a state with no or low income tax or if you've purchased major items, such as cars or boats, check with your tax advisor to see if this break has been extended. ◆

**Chart 1**  
Tax deductions vs. credits: What's the difference?

Both deductions and credits can be powerful tax-saving tools, but they work differently. A tax *deduction* reduces the amount of income that's taxed and thus becomes more valuable the higher the tax bracket. A tax *credit* reduces the actual tax you owe dollar-for-dollar, providing much more tax savings than a deduction of an equal amount. But many deductions and credits are subject to income-based limits that reduce or eliminate the tax savings for higher-income taxpayers.

Let's take a look at how the tax savings can differ, assuming that no income-based limits apply:



# Have children. Save money.

If you think those two sentences can't possibly go together, think again. Many tax breaks are available to families. Whether it's a tax credit or tax-advantaged savings opportunity, or it's for child care or education expenses, there's something for just about everybody.

## Child-related tax breaks

Parents have several ways to save tax dollars, whether for themselves or their kids, including these favorites:

**Tax credits.** Tax credits reduce your tax bill dollar-for-dollar. (See Chart 1 on page 3.) So make sure you're taking every credit you're entitled to.

For each child under age 17 at the end of 2010, you may be able to claim a \$1,000 credit. But the credit phases out for higher-income taxpayers; check with your tax advisor for details.

For children under age 13 (or other qualifying dependents), you may be eligible for a credit for child or dependent care expenses. The credit is limited to either \$3,000 or \$6,000, depending on the number of children or dependents. The credit is reduced but doesn't phase out altogether for middle- and higher-income taxpayers.

If you adopt in 2010, you may be able to take a credit or use an employer adoption assistance program income exclusion; both are \$13,170 per eligible child. An income-based phaseout also applies.

**FSA.** You can redirect up to \$5,000 of pretax income to an employer-sponsored child and dependent care Flexible Spending Account (FSA). The plan then pays or reimburses you for child and dependent care expenses. You can't claim a tax credit for expenses reimbursed through an FSA.

**Employing your children.** If you own a business, consider hiring your children. As the business owner, you can deduct their pay, and other tax benefits may apply. They can earn as much as \$5,700 (the 2010 standard deduction for singles) and pay zero federal income tax. They can earn an additional \$5,000 without paying current tax if they contribute it to a traditional IRA. **Warning:** They must perform actual work and be paid in line with what you'd pay nonfamily employees for the same work.

**Roth IRAs for teens.** Roth IRAs can be perfect for teenagers because they likely have many years to let their accounts grow tax free. The 2010 contribution limit is the lesser of \$5,000 or 100% of earned income, reduced by any traditional IRA contributions. (For more on Roth IRAs, see "Roth accounts" on page 12.)

## The "kiddie tax"

The income shifting that once — when the "kiddie tax" applied only to those under

age 14 — provided families with significant tax savings now offers much more limited benefits. Today, the kiddie tax applies to children age 18 and younger, as well as to full-time students under age 24 (unless the students provide more than half of their own support from earned income).

For children subject to the kiddie tax, any unearned income beyond \$1,900 (for 2010) is taxed at their parents' marginal rate rather than their own, likely lower, rate. Keep this in mind before transferring assets to them.

## Education savings

If you're saving for education, paying higher education expenses or paying off a student loan, you may enjoy tax breaks:

**529 plans.** You can either secure current tuition rates with a prepaid tuition program or create tax-advantaged savings plans to fund college expenses. In addition:

- ♦ For federal purposes, contributions aren't deductible, but plan assets grow tax-deferred and distributions used to pay for qualified expenses — such as tuition, mandatory fees, books, equipment, supplies and, generally, room and board — are income-tax free. (State treatment varies.)
- ♦ For 2010, qualified expenses also include computers, computer technology and Internet service. As of this writing, this expanded definition expires after 2010; check with your tax advisor to see if it's been extended.

- ◆ The plans typically offer high contribution limits, and there are no income limits for contributing.
- ◆ There's generally no beneficiary age limit for contributions or distributions.
- ◆ You remain in control of the account — even after the child is of legal age.
- ◆ The plans provide estate planning benefits: A special break for 529 plans allows you to front-load five years' worth of annual gift tax exclusions and make a \$65,000 contribution (or \$130,000 if you split the gift with your spouse).

The biggest downsides may be that your investment options — and when you can change them — are limited.

**ESAs.** Like those for 529 plans, for federal purposes Coverdell Education Savings Account (ESA) contributions aren't deductible, but plan assets grow tax-deferred and distributions used to pay qualified education expenses are income-tax free.

Perhaps the biggest ESA advantage is that you have direct control over how and where your contributions are invested. Another significant advantage has been that tax-free distributions aren't limited to college expenses; they also can fund elementary and secondary school costs.

However, if Congress doesn't act to extend this treatment, distributions used for pre-college expenses will be taxable starting in 2011. Additionally, the annual ESA contribution limit per beneficiary is only \$2,000 for 2010, and it will go down to \$500 for 2011 if Congress doesn't act. (Check with your tax advisor for the latest information.) Contributions are further limited based on income.

Generally, contributions can be made only for the benefit of a child under age 18. Amounts left in an ESA when the beneficiary turns 30 generally must be distributed within 30 days, and any earnings will be subject to tax.

### Case Study 1

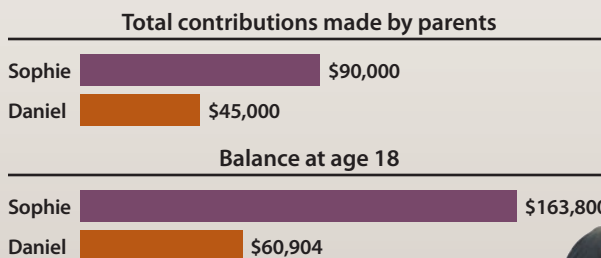
## Tax-free savings for education add up

529 savings plans don't offer a federal deduction for contributions, and the plans come with a lot of restrictions. Are their tax-deferred growth and tax-free distributions really worth it? They can be — especially if you start early:

When Sophie is born, her parents fund a 529 savings plan with a \$5,000 contribution, and they put in another \$5,000 on her birthday each year through age 17.

Daniel is born on the same day as Sophie, but his parents wait until his ninth birthday to start putting money into a 529 plan. They then make the same annual \$5,000 contributions through age 17 as Sophie's parents do.

When Sophie and Daniel turn 18, Sophie's plan has nearly \$103,000 more than Daniel's — even though her parents contributed only \$45,000 more. And the \$73,800 of growth in Sophie's plan will be completely tax free, as long as all distributions are used to pay for qualified education expenses. Daniel's plan provides a much smaller tax benefit — only \$15,904 of tax-free growth.



*Note: This example is for illustrative purposes only and isn't a guarantee of future results. The figures presume a 6% rate of return.*



**Education credits.** When your child enters college, you may be able to claim the American Opportunity credit (an expanded version of what was previously known as the Hope credit). It covers 100% of the first \$2,000 of tuition and related expenses and 25% of the next \$2,000 of expenses. The maximum credit is \$2,500 per year for the first four years of postsecondary education, but an income-based phaseout applies.

The credit is scheduled to expire after 2010 but may be extended. Check with your tax advisor for the latest information.

If you're paying postsecondary education expenses beyond the first four years, check whether you're eligible for the Lifetime Learning credit (up to \$2,000 per tax return). An income-based phaseout also applies.

Both a credit and tax-free 529 plan or ESA distribution can be taken as long as expenses paid with the distribution aren't used to claim the credit.

If you don't qualify for one of these credits because your income is too high, your child might. Or you might be eligible to deduct up to \$4,000 of qualified higher education tuition and fees — if this break is extended for 2010. (Check with your tax advisor for the latest information.) The deduction is limited to \$2,000 for taxpayers with incomes exceeding certain limits and is unavailable to taxpayers with higher incomes.

**Student loan interest deduction.** If you're paying off student loans, you may be able to deduct up to \$2,500 of interest (per tax return). An income-based phase-out applies. ◆

# Taxes may take a more prominent role in decisions this year

Numerous factors must be considered before making an investment decision — your goals, time horizon and risk tolerance plus various factors related to the investment itself. Tax considerations are also important, but they shouldn't be the primary driver of investment decisions. Still, with rates potentially increasing next year, taxes may take a more prominent role.

## Capital gains tax and timing

While time, not timing, is generally the key to long-term investment success, timing can have a dramatic impact on the tax consequences of investment activities. The 15% long-term capital gains rate (which also applies to qualified dividends) is 20 percentage points lower than the highest ordinary-income rate of 35%. It generally applies to investments held for more than 12 months. Holding on to an investment until you've owned it more than a year may help substantially

cut tax on any gain. **Warning:** You have only through 2010 to take advantage of the 15% rate, unless Congress extends it. (See "What's new!" below.)

To determine capital gains tax liability, realized capital gains are netted against realized capital losses. First, short-term gains are netted with short-term losses and long-term gains with long-term losses. Then if, for example, you have a net short-term gain but a net long-term loss, you can use the long-term loss to offset the short-term gain. This can

save more taxes because you're reducing or eliminating gain that would have been taxed at your higher ordinary-income rate.

Here are some other tax-saving strategies related to timing:

**Mind your mutual funds.** Mutual funds with high turnover rates can create income taxed at ordinary-income rates. Choosing funds that provide primarily long-term gains can save you more tax dollars because of the lower long-term rates.

**See if a loved one qualifies for the 0% rate.** The long-term capital gains rate is 0% for gain that would be taxed at 10% or 15% based on the taxpayer's ordinary-income rate. If you have adult children in one of these tax brackets, consider transferring appreciated or dividend-producing assets to them so they can enjoy the 0% rate, which also applies to qualified dividends. The 0% rate is also scheduled to expire at the end of the year (see "What's new!" at left), so you may want to act soon.

**Warning:** If the child is under age 24, first make sure he or she won't be subject to the kiddie tax. (See "The 'kiddie tax'" on page 4.) Also, consider any gift tax consequences. (See page 14.)

**Use unrealized losses to absorb gains.** If you've cashed in some big gains during the year and want to reduce your 2010 tax liability, before year end look for unrealized losses in your portfolio and sell them to offset your gains. But keep in mind those losses could be more valuable next year if

## What's new!

Low capital gains and qualified-dividend rates set to expire Dec. 31

**Who's affected:** Investors holding appreciated or dividend-producing assets.

**Key changes:** As of this writing, the 15% long-term capital gains rate is scheduled to return to 20% in 2011. Congress might take action to extend the 15% rate, but extending it for only the middle brackets (and the 0% rate for the lower brackets) has been discussed. The 15% rate also applies to qualified dividends, and, without Congressional action, in 2011 these dividends will return to being taxed at your marginal ordinary-income rate — which could then be as high as 39.6%. (Check with your tax advisor for the latest information.)

**Planning tips:** If as year end approaches it's looking like tax rates will increase next year, consider whether you should sell highly appreciated assets you've held long-term by year end. For some taxpayers it may make sense to recognize gains now rather than risk paying tax at a higher rate next year. If you hold dividend-producing investments, you'll also want to consider whether you should make any adjustments to your portfolio in light of their higher tax cost.

tax rates are higher and you have capital gains again. (See Case Study 2 at right.)

**Avoid wash sales.** If you're trying to achieve a tax loss with minimal change in your portfolio's asset allocation, keep in mind the wash sale rule. It prevents you from taking a loss on a security if you buy a substantially identical security (or option to buy such a security) within 30 days before or after you sell the security that created the loss. You can recognize the loss only when you sell the replacement security.

Fortunately, there are ways to avoid the wash sale rule. For example, you may immediately buy securities of a different company in the same industry or shares in a mutual fund that holds securities much like the ones you sold. Or, you can wait 31 days to repurchase the same security. Alternatively, you can double your purchase and then wait 31 days to sell the original portion.

**Swap your bonds.** With a bond swap, you sell a bond, take a loss and then immediately buy another bond of similar quality and duration from a different issuer. Generally, the wash sale rule (see above) doesn't apply because the bonds aren't considered substantially identical. Thus, you achieve a tax loss with virtually no change in economic position.

### Loss carryovers

If net losses exceed net gains, you can deduct only \$3,000 (\$1,500 for married taxpayers filing separately) of the net losses per year against ordinary income (such as wages, self-employment and business income, interest, and dividends).

You can carry forward excess losses to future years indefinitely. Loss carryovers can be a powerful tax-saving tool in future years if you have a large investment portfolio, real estate holdings or a closely held business that might generate substantial future capital gains.

It could, however, take a long time to fully absorb a large loss carryover. So, from a tax

### Case Study 2

## With possible rate increases, deferring a loss could save you taxes

Let's say your portfolio includes \$20,000 of a technology stock that you paid only \$10,000 for. You'd like to sell it to diversify your portfolio, but you're concerned about the capital gains tax. You also have \$5,000 of an auto industry stock that you paid \$15,000 for. You're thinking about selling both stocks so your \$10,000 loss on the auto stock can offset your \$10,000 gain on the tech stock. But you may want to think twice.

If you may have more big gains to recognize next year, you could be better off holding on to the auto stock and paying capital gains tax on the tech stock sale. Why? The tech stock gain will be taxed at 15%, so offsetting it with the auto stock loss will save you \$1,500. But if you wait until Jan. 1 to sell the auto stock and use it to offset a \$10,000 gain next year and your capital gains rate is 20%, it will save you \$2,000 in taxes.

*Note: The figures presume that the share prices stay the same regardless of whether the sale is in 2010 or 2011.*

perspective, it may not make sense to sell an investment at a loss if you won't have enough gains to absorb most of it. Plus, if you hold on to the investment, it may recover the lost value.

But if you're ready to divest yourself of a poorly performing stock because you think it will continue to lose value — or because your investment objective or risk tolerance has changed — don't hesitate solely for tax reasons. The *nontax* reasons for the sale may outweigh the possible downside of it taking many years to absorb the loss.

### Other important rules

For some types of investments, special rules apply, so you have more tax consequences to think about than just gains and losses:

**Bonds.** The tax treatment of bond income varies:

- ♦ Interest on U.S. government bonds is taxable on federal returns but generally exempt on state and local returns.
- ♦ Interest on state and local government bonds is excludible on federal returns. If the bonds were issued in your home state, interest also may be excludible on your state return.

- ♦ Tax-exempt interest from certain private-activity bonds can trigger the alternative minimum tax (AMT) in some situations.
- ♦ Corporate bond interest is fully taxable for federal and state purposes.
- ♦ Bonds (except U.S. savings bonds) with original issue discount (OID) build up "interest" as they rise toward maturity. You're generally considered to earn a portion of that interest annually — even though the bonds don't pay this interest annually — and you must pay tax on it.

**Stock options.** Before exercising (or postponing exercise of) options or selling stock purchased via an exercise, consult your tax advisor about the complicated rules that may trigger AMT liability so you can plan accordingly. ♦





## BUSINESS

# Is your company doing all it can to save tax?

No business wants to pay more tax than it has to, yet many do just that. Some don't take advantage of all the breaks available to them, missing out on valuable deductions and credits. Others fail to plan, paying tax that could be deferred or falling into tax traps. Don't be among them — review these ideas with your tax advisor today.

### Projecting income

Projecting your business's income for this year and next will allow you to time income and deductions to your advantage. It's generally better to defer tax. So if you expect to be in the same or a lower tax bracket next year, consider:

**Deferring income to next year.** If your business uses the cash method of accounting, you can defer billing for your products or services. Or, if you use the accrual method, you can delay shipping products or delivering services.

**Accelerating deductions into the current year.** If you're a cash-basis taxpayer, you may want to make an estimated state tax payment before Dec. 31, so you can deduct it this year rather than next. But consider the alternative minimum tax (AMT) consequences first. Both cash- and accrual-basis taxpayers can charge expenses on a credit card and deduct them in the year charged, regardless of when paid.

**Warning:** Think twice about these strategies if you're experiencing a low-income year. Their negative impact on your cash flow may not be worth the potential tax benefit.

And, if it's likely you'll be in a higher tax bracket next year, the opposite strategies (accelerating income and deferring deductions) may save you more tax. Keep in mind that some income tax rates may go up in 2011. Check with your tax advisor for the latest information.

### Depreciation

For assets with a useful life of more than one year, you generally must depreciate the cost over a period of years. In most cases you'll want to use the Modified

Accelerated Cost Recovery System (MACRS), instead of the straight-line method, to get a larger deduction in the early years of an asset's life.

But if you make more than 40% of the year's asset purchases in the last quarter, you could be subject to the typically less favorable mid-quarter convention. Careful planning during the year can help you maximize depreciation deductions in the year of purchase.

Other depreciation-related breaks and strategies also are available:

**Section 179 expensing election.** Business owners can use this election to deduct (rather than depreciate over a number of years) the cost of purchasing such things as new equipment, furniture and off-the-shelf computer software. For 2010 and 2011, the expensing limit has increased to \$500,000,

## What's new!

### SBJA extends and expands many business breaks

**Who's affected:** Many businesses and their owners.

**Key changes:** The Small Business Jobs Act of 2010 (SBJA) extends and expands various tax breaks for businesses, many of which are discussed elsewhere in this guide. Here are some additional changes to be aware of:

- ◆ New five-year carryback of the general business credit,
- ◆ Increase in the start-up expenditures deduction,
- ◆ Shortening of the S corporation built-in gains period,
- ◆ Exclusion of 100% of gain on certain small business stock, and
- ◆ Removal of cell phones from the definition of "listed property" that's subject to tighter substantiation requirements and special depreciation rules.

**Planning tips:** Work with your tax advisor to ensure you take advantage of every SBJA benefit you're entitled to.

## What's new!

### New breaks available for hiring workers

**Who's affected:** Businesses that have hired or are considering hiring workers in 2010.

**Key changes:** Under the Hiring Incentives to Restore Employment (HIRE) Act of 2010, payroll tax forgiveness essentially exempts qualified employers from having to pay the 6.2% Social Security tax on certain new hires through the end of 2010. Additionally, a tax credit for retaining such new hires can provide qualified employers future tax savings of up to \$1,000 per qualified worker.

To qualify for payroll tax forgiveness, a worker must be hired after Feb. 3, 2010, and before Jan. 1, 2011, and generally must have been unemployed for the 60-day period ending on his or her start date. Because wages in excess of \$106,800 aren't subject to the Social Security payroll tax, the maximum value of the break per employee is \$6,621.60. Of course, in most cases the wages will be lower, and thus the value of the break will be lower.

The retention credit applies to workers who are qualified for the purpose of the payroll tax forgiveness and who are retained for 52 consecutive weeks. The tax savings per qualified retained worker are equal to the lesser of 6.2% of the wages paid to the worker during the 52-week retention period or \$1,000.

**Planning tips:** If you've hired workers this year, see if you're eligible for these breaks. If you've been considering hiring new workers but have been hesitating to do so, these new tax-saving opportunities may provide a reason to move forward. Many rules and limitations apply, however, so it's important to work closely with your tax advisor.

and up to \$250,000 of that amount can be for qualified leasehold-improvement, restaurant and retail-improvement property. You can claim the election only to offset net income, not to reduce it below zero. Also, the break begins to phase out dollar for dollar when total asset acquisitions for the tax year exceed \$2 million.

**50% bonus depreciation.** This provision offers a special allowance for certain property, generally if acquired and put into service in 2010. The special depreciation amount is equal to 50% of the property's adjusted basis. Eligible property includes tangible property with a recovery period of 20 years or less, computer software, water utility property, and qualified leasehold improvement property.

Bonus depreciation isn't subject to any asset purchase limits, so businesses ineligible for Sec. 179 expensing can take advantage of it. And businesses that qualify for Sec. 179 expensing can take bonus depreciation on asset purchases in excess

of the \$500,000 Sec. 179 limit. Of course, they'll also want to keep in mind the \$2 million Sec. 179 phaseout threshold.

**Cost segregation study.** If you've recently purchased or built a building or are remodeling existing space, consider a cost segregation study. It identifies property components and related costs that can be depreciated much faster and dramatically increase your current deductions. Typical assets that qualify include decorative fixtures, security equipment, parking lots, landscaping, and architectural fees allocated to qualifying property.

The benefit of a cost segregation study may be limited in certain circumstances — for example, if the business is subject to the AMT or located in a state that doesn't follow federal depreciation rules.

## Tax credits

Tax credits reduce your business's tax liability dollar-for-dollar. So they're particularly valuable.

The Research and Development credit, as of this writing available only through 2009 but likely to be extended or made permanent, generally is equal to a portion of qualified research expenses. It's complicated to calculate, but savings can be substantial, so consult your tax advisor.

The Work Opportunity credit, available through Aug. 31, 2011, benefits businesses hiring employees from certain disadvantaged groups, such as ex-felons, food stamp recipients and disabled veterans. Last year the eligible groups were expanded to include unemployed veterans and disconnected youth, generally if hired in 2009 or 2010. The credit equals 40% of the first \$6,000 of wages paid to qualifying employees (\$12,000 for wages paid to qualified veterans).

You can't take both the Work Opportunity credit and the payroll tax forgiveness offered under the HIRE Act (see "What's new!" at left) for the same employee for the same year. You can, however, elect to pay the Social Security tax so that you can take the credit if, for example, the credit would provide a greater tax benefit.



## Manufacturers' deduction

The manufacturers' deduction, also called the Section 199 or domestic production activities deduction, has now been fully phased in, and for 2010 it's 9% (up from 6% in 2009) of the lesser of qualified production activities income or taxable income. The deduction is also limited by W-2 wages paid by the taxpayer that are allocable to domestic production gross receipts.

The deduction is available to traditional manufacturers and to businesses engaged in activities such as construction, engineering, architecture, computer software production and agricultural processing. The deduction isn't allowed in determining net earnings from self-employment and generally can't reduce net income below zero. But it can be used against the AMT.

## Auto-related tax breaks

Business-related vehicle expenses can be deducted using the mileage-rate method (50 cents per business mile driven in 2010 — down from 55 cents for 2009) or the actual-cost method (total out-of-pocket expenses for fuel, insurance and repairs, plus depreciation).

If you buy or lease hybrid or lean-burn-technology vehicles, you may be able to claim tax credits, but these credits phase out once a certain number of a particular vehicle has been sold.

Under Sec. 179 expensing, you can deduct up to \$25,000 of the purchase price of a new SUV or truck that weighs more than

## What's new!

### Health care act provides new tax credit to certain small businesses

**Who's affected:** Businesses with fewer than 25 full-time equivalent employees (FTEs) with average annual wages of less than \$50,000.

**Key changes:** The Patient Protection and Affordable Care Act represents a sweeping overhaul of the U.S. health care system. It also includes many tax provisions, most of which don't go into effect until 2013 or later. But starting this year, the act provides many small businesses a new tax credit for purchasing group health coverage. For tax years 2010 to 2013, the maximum credit is 35% of the premiums paid by the employer. To get the credit, the employer must contribute at least 50% of the total premium or of a benchmark premium.

The full credit is available for employers with 10 or fewer FTEs and average annual wages of less than \$25,000. Partial credits are available on a sliding scale to businesses with fewer than 25 FTEs and average annual wages of less than \$50,000.

**Planning tips:** If you aren't providing health care coverage, this tax credit might make doing so affordable — and help you attract and retain the best workers. If you're already providing coverage, it might reduce your 2010 tax bill, freeing up cash to reinvest in the business.

6,000 pounds but no more than 14,000 pounds. The normal Sec. 179 expensing limits generally apply to vehicles weighing more than 14,000 pounds.

## Employee benefits

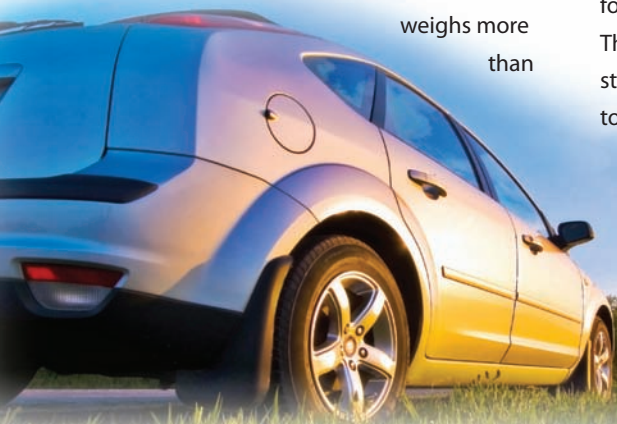
Offering a variety of benefits can help you not only attract and retain the best employees, but also manage your tax liability:

**Qualified deferred compensation plans.** These include pension, profit-sharing, SEP and 401(k) plans, as well as SIMPLEs. You can enjoy a tax deduction for your contributions to employees' accounts, and the plans offer tax-deferred savings benefits for employees. Small employers (generally those with 100 or fewer employees) that create a retirement plan may be eligible for a \$500 credit per year for three years. The credit is limited to 50% of qualified startup costs. (For more on the benefits to employees, see page 12.)

**HSAs and FSAs.** If you provide employees with qualified high-deductible health insurance, you can also offer them Health Savings Accounts (HSAs). Regardless of the type of health insurance you provide, you also can offer Flexible Spending Accounts (FSAs). (See "Health care breaks" on page 3.)

**Fringe benefits.** Some fringe benefits, such as group term-life insurance (up to \$50,000), health insurance, parking (up to \$230 per month) and employee discounts, aren't included in employee income. Yet the employer still receives a deduction and typically avoids payroll tax as well. Certain small businesses providing health care coverage to their employees may be eligible for a new tax *credit* beginning in 2010. (See "What's new!" above.)

**NQDC.** Nonqualified deferred compensation (NQDC) plans generally aren't subject to nondiscrimination rules, so they can be used to provide substantial benefits to key employees. But the employer generally doesn't get a deduction for NQDC plan contributions until the employee recognizes the income.



## NOLs

A net operating loss (NOL) occurs when operating expenses and other deductions for the year exceed revenues. Generally, an NOL may be carried back two years to generate a refund. Any loss not absorbed is carried forward up to 20 years.

Carrying back an NOL may provide a needed influx of cash. But carrying the entire loss forward can be more beneficial in some situations.

## Business structure

Income taxation and owner liability are the main factors that differentiate one business structure from another. Many businesses choose entities that combine flow-through taxation with limited liability, namely limited liability companies (LLCs) and S corporations. (See Chart 2 below to compare the tax treatment.) Sometimes it makes sense to change business structures, but there may be unwelcome tax consequences.

Some tax differences between structures may provide planning opportunities, such as those related to salary vs. distributions:

**S corporations.** To reduce their employment tax, shareholder-employees may want to keep their salaries relatively low and increase their distributions of company income (which generally isn't taxed at the corporate level). But to avoid potential back taxes and penalties, shareholder-employees must take a "reasonable" salary. What's considered "reasonable" is determined by the specific facts and circumstances, but it's generally what the company would pay an outsider to perform the same services.

**C corporations.** Shareholder-employees may prefer to take more income as salary (which is deductible at the corporate level) because the overall tax paid by both the corporation and the shareholder-employee may be less.

**Warning:** The IRS is cracking down on misclassification of corporate payments

to shareholder-employees, and Congress also has been looking at this issue, so tread carefully.

## Selling the business

Here are a few key tax considerations:

**Asset vs. stock sale.** With a corporation, sellers typically prefer a stock sale for the capital gains treatment and to avoid double taxation. Buyers generally want an asset sale to maximize future depreciation write-offs.

**Taxable sale vs. tax-deferred transfer.** A transfer of ownership of a corporation can be tax-deferred if made solely in exchange for stock or securities of the recipient corporation in a qualifying reorganization. Although it's generally better to postpone tax, there are some advantages to a taxable sale:

- ♦ The seller doesn't have to worry about the quality of buyer stock or other business risks of a tax-deferred transfer.
- ♦ The buyer receives a stepped-up basis in its acquisition's assets and doesn't have to deal with the seller as a continuing equity owner.
- ♦ The parties don't have to meet the technical requirements of a tax-deferred transfer.

**Installment sale.** A taxable sale may be structured as an installment sale, due to the buyer's lack of sufficient cash or the seller's desire to spread the gain over a

number of years, or when the buyer pays a contingent amount based on the business's performance. But an installment sale can backfire. For example:

- ♦ Depreciation recapture must be reported as gain in the year of sale, no matter how much cash the seller receives.
- ♦ If tax rates increase, the overall tax could wind up being more. (Remember, the favorable 15% rate on long-term capital gains is scheduled to end after Dec. 31, 2010. Check with your tax advisor for the latest information.)

Of course, tax consequences are only one of many important considerations when planning a sale.

## The self-employed

If you're self-employed, you can deduct 100% of health insurance costs for yourself, your spouse and your dependents. This above-the-line deduction is limited to the net income you've earned from your trade or business. (For 2010, you can also deduct these costs for self-employment tax purposes.)

Half of the self-employment tax paid on self-employment income and all contributions made to a retirement plan and HSA for yourself are also deducted above-the-line. And you may be able to deduct home office expenses against your self-employment income. ♦

**Chart 2**  
Tax differences based on business structure

Pass-through entity or sole proprietorship	C corporation
One level of taxation: The business's income flows through to the owner(s).	Two levels of taxation: The business is taxed on income, and then shareholders are taxed on any dividends they receive.
Losses flow through to the owner(s).	Losses remain at the corporate level.
Top individual tax rate is 35%.	Top corporate tax rate is generally 35% <sup>1</sup> . Dividends are generally taxed at 15%.

<sup>1</sup> See Chart 6 on page 16 for exceptions.



## RETIREMENT

# Ensuring your retirement dreams materialize

Whatever your age, you must plan carefully to ensure your retirement dreams materialize. This means leveraging tax-advantaged savings opportunities. Starting contributions early can make a big difference; older taxpayers may need to save more to make up for lost time. It also means avoiding early withdrawals and being tax-smart with required minimum distributions.

### 401(k)s and other employer plans

Contributing to an employer-sponsored defined-contribution plan, such as a 401(k), 403(b), 457, SARSEP or SIMPLE, is usually the best first step in retirement planning:

- ◆ Contributions are typically pretax, so they reduce your taxable income.
- ◆ Plan assets can grow tax-deferred — meaning you pay no income tax until you take distributions.
- ◆ Your employer may match some or all of your contributions — also on a pretax basis.

Chart 3 shows the 2010 limit for employee contributions to 401(k), 403(b), 457 and SARSEP plans. If you're age 50 or older, you may be able to make an additional "catch-up" contribution. If your employer offers a match, contribute at least the amount necessary to get the maximum employer match and avoid missing out on that "free" money.

Unfortunately, many employers (if their plans allow) have suspended matching contributions to reduce costs. If yours is among them, don't use that as an excuse to suspend your own contributions. Doing

so will only exacerbate the negative impact on your retirement nest egg — plus your taxable 2010 income will increase compared to what it would be if you had contributed to the plan.

If your employer provides a SIMPLE, it's required to make contributions (though not necessarily annually). But the employee contribution limits are lower than for other employer-sponsored plans. (Also see Chart 3.)

### More tax-deferred options

In certain situations, other tax-deferred savings options may be available:

#### If you're a business owner or self-employed.

You may be able to set up a plan that allows you to make much larger contributions. Depending on the plan, you might not have to make 2010 contributions, or even set up the plan, before year end. Check with your tax advisor for details.

#### If your employer doesn't offer a retirement plan.

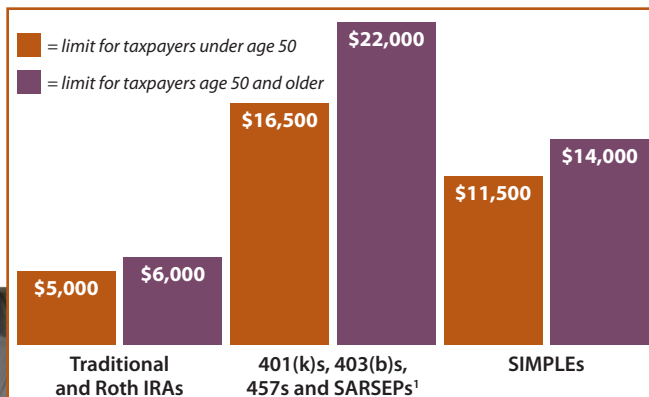
Consider a traditional IRA. You can likely deduct your contributions, though your deduction may be limited based on your adjusted gross income (AGI) if your spouse participates in an employer-sponsored plan. You can make 2010 contributions as late as April 15, 2011.

### Roth accounts

A potential downside of tax-deferred saving is that you'll have to pay taxes when you make withdrawals at retirement. Two retirement plan options allow tax-free distributions; the tradeoff is that

Chart 3

## No increase in retirement plan contribution limits for 2010



<sup>1</sup> Includes Roth versions where applicable.

Note: Other factors may further limit your maximum contribution.

Source: U.S. Internal Revenue Code



## What's new!

### AGI limits lifted on Roth IRA conversions

**Who's affected:** Taxpayers with adjusted gross incomes (AGIs) exceeding \$100,000.

**Key changes:** Before 2010, you couldn't convert a traditional IRA to a Roth IRA if your AGI was more than \$100,000. This limit has been eliminated. The converted amount is taxable in the year of the rollover. But for conversions made in 2010, the income can be deferred in equal installments to 2011 and 2012.

A conversion can allow you to turn tax-deferred future growth into tax-free growth. It also can provide estate planning benefits: No Roth IRA distributions are required during your life, so you can let the entire balance grow tax free over your lifetime. If you name your child as beneficiary, he or she will be required to start taking distributions upon inheriting the Roth IRA. But they'll be tax free and spread out over his or her lifetime, and funds remaining in the account can continue to grow tax free. (See page 14 for more on estate planning.)

**Planning tips:** Whether a conversion will make sense for you depends on a variety of factors, such as your age, whether you can afford to pay the tax on the conversion, your tax bracket now and expected tax bracket in retirement, and whether you'll need the IRA funds in retirement.

contributions to these plans don't reduce your current-year taxable income:

**1. Roth IRAs.** In addition to tax-free distributions, an important benefit is that, unlike other retirement plans, Roth IRAs don't require you to take distributions during your lifetime. This can provide income tax and estate planning advantages.

But Roth IRAs are subject to the same low annual contribution limit as traditional IRAs (see Chart 3), and your Roth IRA limit is reduced by any traditional IRA contributions you make for the year. It may be further limited based on your AGI.

If you have a traditional IRA, consider whether you might benefit from converting it to a Roth IRA. (See "What's new!" above.)

**2. Roth 401(k)s and Roth 403(b)s.** If the plan allows it, you may designate some or all of your contributions as Roth contributions. (Employer matches aren't eligible.) There are no AGI limits on designating such Roth contributions, so these plans may be especially beneficial for higher-income earners who are ineligible to contribute to Roth IRAs. Under new legislation, you may be able to make a rollover from your

traditional account to a Roth account under the same plan, but there will be tax consequences similar to those of a Roth IRA conversion.

### Early withdrawals

If you're facing financial challenges this year, it may be tempting to make withdrawals from your retirement plans. But generally this should be a last resort. With a few exceptions, retirement plan distributions made before age 59½ are subject to a 10% penalty, in addition to income tax.

This means that, if you're in the top federal tax bracket of 35%, you can lose close to half of your withdrawal to federal taxes and penalties. Even if you're in a lower bracket, you can lose a substantial amount to taxes and penalties. Additionally, you'll lose the potential tax-deferred future growth on the amount you've withdrawn.

If you must make an early withdrawal and you have a Roth account, you may be better off withdrawing from that. You can withdraw up to your contribution amount free of tax and penalty. Another option to consider, if your employer-sponsored plan allows it, is to take a loan from the plan. You'll have to

pay it back with interest, but you won't be subject to current taxes or penalties. Keep in mind that, with both these options, you'll still be losing out on the potential for tax-advantaged growth on those assets.

Early distribution rules are also important to be aware of if you change jobs or retire and receive a lump-sum distribution from your employer's retirement plan. To avoid the early-withdrawal penalty and other negative income tax consequences, request a direct rollover from your old plan to your new plan or IRA.

Otherwise, you'll need to make an indirect rollover within 60 days to avoid tax and potential penalties. **Warning:** The check you receive from your old plan may be net of 20% federal income tax withholding. If you don't roll over the gross amount (which will require you to make up for the withheld amount with other funds), you'll likely be subject to income tax, and potentially the 10% penalty, on the difference.

### Required minimum distributions

Normally once you reach age 70½ you must take annual required minimum distributions (RMDs) from your IRAs (except Roth IRAs) and defined contribution plans. If you don't comply, you can owe a penalty equal to 50% of the amount you should have withdrawn but didn't. (Note that the 2009 suspension of RMD rules hasn't been extended to 2010.) You can avoid the RMD rule for a Roth 401(k) or Roth 403(b) by rolling the funds into a Roth IRA.

So, should you take distributions between ages 59½ and 70½, or more than the RMD after age 70½? Distributions in any year your tax bracket is low may be beneficial. But also consider the lost tax-deferred growth and, if applicable, whether the distribution could cause your Social Security payments to become taxable.

If you've inherited a retirement plan, consult your tax advisor regarding the distribution rules that apply to you. ♦



**ESTATE PLANNING**

# Estate tax law uncertainty makes planning a challenge

A one-year repeal of the estate and generation-skipping transfer (GST) taxes went into effect Jan. 1, but these taxes are scheduled to return in 2011 — at higher levels than in 2009. As of this writing, the repeal is still in effect, but Congress is expected to make estate tax law changes. This all adds up to much uncertainty and many planning challenges.

**Tax rates and exemptions**

The gift tax remains in effect for 2010 — at a top rate of 35% (down from 45% in 2009). But top rates for the gift tax as well as the estate and GST taxes will jump to 55% in 2011 if Congress doesn't take action. (Check with your tax advisor for the latest information.)

Because the estate and GST tax repeal is temporary, taking steps to minimize these taxes is as important as ever. Fortunately, exemptions and other breaks are available to help you do just that:

**Gift and estate tax exemptions.** During your lifetime, the gift tax exemption allows

you to transfer up to \$1 million of taxable gifts without paying gift tax. When the estate tax is in effect, transfers at death up to the estate tax exemption amount minus any gift tax exemption used can be made free of estate tax. (See Chart 4 below for estate tax exemption amounts.)

**Annual gift tax exclusion.** You can exclude certain gifts of up to \$13,000 per recipient each year (\$26,000 per recipient if your spouse elects to split the gift with you, or you're giving community property) without using up any of your gift tax exemption. If you gift more than \$13,000 during the year to one person, you must file a gift tax return, even if no tax is due.

**Unlimited marital deduction.** Your estate generally can deduct the value of all assets that pass from you to your spouse at your death, provided he or she is a U.S. citizen. Gifts to your spouse are also tax free, but a limit applies to noncitizens.

**GST tax exemption.** Except during the repeal, the GST tax generally applies to transfers (both during life and at death) made to people two generations or more below you, such as your grandchildren, but an exemption is available. (See Chart 4 for GST exemption amounts.)

**Charitable deduction.** There's no limit on this deduction. If you bequeath your entire estate to charity, no estate tax will be due even if you die while the estate tax is in effect. (For more on charitable giving, see "Charitable donations" on page 3.)

**Warning:** State gift and estate tax laws vary, so state tax could be due even when there's no federal liability.



**Chart 4**  
Transfer tax exemptions and highest rates

Year	Gift tax exemption	Estate and GST tax exemptions <sup>1</sup>	Highest estate, GST and gift tax rates
2009	\$1 million	\$3.5 million	45%
2010 <sup>2</sup>	\$1 million	(repealed)	35% (gift tax only)
2011 <sup>2</sup>	\$1 million	\$ 1 million <sup>3</sup>	55% <sup>4</sup>

<sup>1</sup> Less any gift tax and generation-skipping transfer (GST) tax exemptions, respectively, already used during life.  
<sup>2</sup> As of this writing, Congress is expected to take action that could change some or all of these figures. Check with your tax advisor for the latest information.  
<sup>3</sup> The GST tax exemption is indexed for inflation.  
<sup>4</sup> The benefits of the graduated gift and estate tax rates and exemptions are phased out for gifts/estates over \$10 million.  
**Source:** U.S. Internal Revenue Code

## What's new!

### Step-up in basis changes could increase income taxes for heirs

**Who's affected:** Anyone whose estate could include appreciated assets — or who might inherit such assets.

**Key changes:** A tax law change that's paired with the 2010 estate tax repeal could substantially increase *income* taxes for heirs. Previously, the income tax basis of most inherited property was "stepped-up" to its date-of-death fair market value. This meant that recipients of such property could sell it immediately without triggering capital gains taxes.

During the estate tax repeal, however, the *automatic* step-up in basis is eliminated. Instead, estates can allocate only up to \$1.3 million to increase the basis of certain assets plus up to \$3 million to increase the basis of assets left to a surviving spouse.

For people who die during the repeal with substantial amounts of appreciated assets, the potential income tax liabilities imposed on their heirs may offset some or even all of the estate taxes saved because of the repeal.

**Planning tips:** Consider leaving highly appreciated assets to your spouse or donating them to charity and leaving other assets that are less highly appreciated to your family. But first consult with your tax advisor for the latest information on the status of the estate tax.

### Gifting

One way to reduce your taxable estate is to start giving away assets now. Consider maximizing your annual exclusion gifts and perhaps also using part or all of your \$1 million gift tax exemption. Here are some additional strategies for tax-smart giving:

**Choose gifts wisely.** Take into account both estate and income tax consequences and the economic aspects of any gifts you'd like to make. For example, to minimize *estate tax*, gift property with the greatest future appreciation potential.

To minimize *your beneficiary's income tax*, gift property that hasn't already appreciated significantly since you've owned it.

And if you want to minimize *your own income tax*, don't gift property that's declined in value. Instead, sell the property so you can take the tax loss and then gift the sale proceeds.

**Plan gifts to grandchildren carefully.** Annual exclusion gifts are generally exempt from the GST tax, so they also

help you preserve your GST tax exemption for other transfers. Except during the GST tax repeal, for gifts that don't qualify for the exclusion to be completely tax free, you generally must apply both your GST tax exemption and your gift tax exemption.

**Gift interests in your business.** If you own a business, you can leverage your gift tax exclusions and exemption by gifting ownership interests, which may be eligible for valuation discounts. So, for example, if the discounts total 30%, you can gift an ownership interest equal to as much as \$18,571 tax free because the discounted value doesn't exceed the \$13,000 annual exclusion in 2010. **Warning:** The IRS may challenge the value; a professional appraisal is strongly recommended.

**Gift FLP interests.** If you don't own a business but you'd like to benefit from valuation discounts, you can set up a family limited partnership (FLP). You fund the FLP and then gift limited partnership interests. **Warning:** The IRS is scrutinizing FLPs, so be sure to set up and operate yours properly.

**Pay tuition and medical expenses.** You may pay these expenses for a loved one without the payment being treated as a taxable gift, as long as the payment is made directly to the provider.

### Trusts and insurance

Trusts can provide significant tax savings while preserving some control over what happens to the transferred assets. Here are some trusts you may want to consider:

- ♦ A credit shelter (or bypass) trust can help minimize estate tax by taking advantage of both spouses' estate tax exemptions.
- ♦ A qualified domestic trust (QDOT) can allow a non-U.S.-citizen spouse to benefit from the unlimited marital deduction.
- ♦ A qualified terminable interest property (QTIP) trust is good for benefiting first a surviving spouse and then children from a prior marriage.
- ♦ A qualified personal residence trust (QPRT) allows you to give your home to your children today — removing it from your taxable estate at a reduced tax cost (provided you survive the trust's term) — while you retain the right to live in it for the trust's term.
- ♦ A grantor-retained annuity trust (GRAT) works similarly to a QPRT but allows you to transfer other assets; you receive payments from the trust for a certain period.
- ♦ A GST or dynasty trust can help you leverage your GST tax exemption.

Along with protecting your family's financial future, life insurance can be used to pay estate taxes, equalize assets passing to children who aren't involved in a family business, or pass leveraged funds to heirs free of estate tax. Proceeds are generally income-tax free to the beneficiary. And with proper planning, you can ensure proceeds aren't included in your taxable estate. ♦

**Chart 5**  
2010 individual income tax rate schedules

Regular tax brackets				
Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
10%	\$ 0 – \$ 8,375	\$ 0 – \$ 11,950	\$ 0 – \$ 16,750	\$ 0 – \$ 8,375
15%	\$ 8,375 – \$ 34,000	\$ 11,950 – \$ 45,550	\$ 16,750 – \$ 68,000	\$ 8,375 – \$ 34,000
25%	\$ 34,000 – \$ 82,400	\$ 45,550 – \$ 117,650	\$ 68,000 – \$ 137,300	\$ 34,000 – \$ 68,650
28%	\$ 82,400 – \$ 171,850	\$ 117,650 – \$ 190,550	\$ 137,300 – \$ 209,250	\$ 68,650 – \$ 104,625
33%	\$ 171,850 – \$ 373,650	\$ 190,550 – \$ 373,650	\$ 209,250 – \$ 373,650	\$ 104,625 – \$ 186,825
35%	Over \$ 373,650	Over \$ 373,650	Over \$ 373,650	Over \$ 186,825

AMT brackets				
Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
26%	\$ 0 – \$ 175,000	\$ 0 – \$ 175,000	\$ 0 – \$ 175,000	\$ 0 – \$ 87,500
28%	Over \$ 175,000	Over \$ 175,000	Over \$ 175,000	Over \$ 87,500

AMT exemption <sup>1</sup>				
	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
Exemption	\$ 33,750	\$ 33,750	\$ 45,000	\$ 22,500
Phaseout <sup>2</sup>	\$ 112,500 – \$ 247,500	\$ 112,500 – \$ 247,500	\$ 150,000 – \$ 330,000	\$ 75,000 – \$ 165,000

<sup>1</sup> As of this writing, Congress is expected to take action that could change some or all of these figures. Check with your tax advisor for the latest information.  
<sup>2</sup> The alternative minimum tax (AMT) income ranges over which the exemption phases out and only a partial exemption is available. The exemption is completely phased out if AMT income exceeds the top of the applicable range.  
**Note:** Consult your tax advisor for AMT rates and exemptions for children subject to the kiddie tax.  
**Source:** U.S. Internal Revenue Code

**Chart 6**  
2010 corporate income tax rate schedule

Tax rate	Tax bracket
15%	\$ 0 – \$ 50,000
25%	\$ 50,001 – \$ 75,000
34%	\$ 75,001 – \$ 100,000
39%	\$ 100,001 – \$ 335,000
34%	\$ 335,001 – \$10,000,000
35%	\$10,000,001 – \$15,000,000
38%	\$15,000,001 – \$18,333,333
35%	Over \$18,333,333



**Note:** Personal service corporations are taxed at a flat 35% rate.  
**Source:** U.S. Internal Revenue Code

This publication was developed by a third-party publisher and is distributed with the understanding that the publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters and recommend you consult an attorney, accountant, tax professional, financial advisor or other appropriate industry professional. This publication reflects tax law as of Sept. 30, 2010. Some material may be affected by changes in the laws or in the interpretation of such laws. Therefore, the services of a legal or tax advisor should be sought before implementing any ideas contained in this publication. ©2010