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Dear Clients and Friends,

Health Care Reform, Wall Street Reform, and the Small Business Tax Bills signed into law in 2010 mark 4,000 plus pages of legislation that could impact you and your family. And to top it off, many tax provisions have expired in 2009 and many more are due to change automatically at the end of 2010. The only thing for certain is that the changes are not done. So how can you make sense out of this and plan your financial future? It's tough, other than to plan for possibilities and make smart decisions wherever possible. This issue of the *Client Advisor* outlines some of the major tax changes in 2010, recaps the key tax provisions in the recently passed Small Business legislation, and reviews the Making Work Pay Credit established in 2009. In addition, there is information on the recent implementation of the Health Care Reform Bill and some basic advice regarding employee stock ownership. Please review this edition of the *Client Advisor* and don't hesitate to call if you have questions or wish a review of your situation.

EVERYDAY ADVICE

"Of death and taxes . . . both are certain . . . but only taxes can get you an automatic extension."

Unknown

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KEY 2010 TAX CHANGE ALERT

With so many tax provisions expiring in 2009 and 2010, it makes planning your tax obligation difficult. It becomes even more complicated when bills to extend these provisions languish in Congress for months. The difficulty increases when you need to retain records throughout the year in order to take a potential deduction. What should you do? Outlined here are some of the key changes impacting 2010, including some suggestions to remain flexible if and when the law changes:



- ▶ **Deduction and Exemption Phase-out Eliminated.** For 2010, your personal exemptions and deductions will not be subject to phase-out based on your income. The phase-outs are re-established in 2011.
- ▶ **Alternative Minimum Tax.** The exemption levels drop back down in 2010 unless Congress acts to sustain higher exemption levels. For the past

SMALL BUSINESS BILL ADDS TAX INCENTIVES

In late September, 2010 the Small Business Bill was signed into law. The bill includes an estimated \$12 billion in tax incentives for small businesses. Chief among them are:

Section 179 Expensing. For qualified capital purchases in 2010 and 2011, businesses may expense (versus depreciate) up to \$500,000 in new purchases. In addition, qualified leasehold investment property, restaurant property, and retail improvements may now be expensed up to \$250,000. The expense option phases out when total qualified purchases exceed \$2 million.

Bonus Depreciation. The bill extends the special 50% first-year bonus depreciation for new (not used) qualified property placed in service in 2010.

Cell Phone Bookkeeping. You no longer need to keep a log of business use of cell phones. The bill de-lists cell phones as "listed property" requiring less substantiation to qualify cell phone expense as a reasonable business deduction.

The bill also includes many provisions to help stimulate lending money to small businesses. If you are looking to expand your business it pays to review the new lending possibilities with your lender. Should you have any questions regarding your situation, please call.



ARE YOU TOO INVESTED IN YOUR EMPLOYER?

Like many employees, you may have the option to purchase stock in your company through your 401(k) or other investment program. While believing in the company you work for is a good thing, having two of your top financial assets--your job and your investments--tied to the success of one business can be a risky financial gamble.

Many employees at Enron and WorldCom learned this lesson the hard way when they lost both their jobs and their life savings as their company's stock plummeted. Your company may also place restrictions on your ability to buy or sell stock, particularly if you acquired the stock through the company's 401(k) matching program.

So what should you do?



Set a goal for the amount of company stock you wish to own. This can be a percent of your portfolio (like no more than 10%) or as a factor of your annual income (one to three times your annual pay).



Experts generally recommend that you keep the value of any one company's shares below 10% of your total investment portfolio, although there can be exceptions.



Take advantage of employee stock purchase plans wherever possible. These plans often provide an opportunity to purchase shares at a beneficial rate or through share builder programs. If you are at your company ownership target amount, then sell the excess shares after you acquire them.



Diversify your retirement plans. If you currently purchase stock automatically through your 401(k), check to see whether you can redirect the money to other investment options. If the company retirement plan provides limited investment options, consider developing a supplemental plan somewhere else.

Remember, while loyalty to your company is important, protecting your retirement must also be one of your top priorities.



HEALTH CARE REFORM

Patient Bill of Rights Enacted

The Departments of Labor, Treasury and Health and Human Services issued regulations to implement a new Patient's Bill of Rights as part of the Health Care Reform Act. This new Patient's Bill of Rights applies to health coverage issued on or after September 23, 2010.

The goal of the Patient's Bill of Rights is to "Put American consumers back in charge of their health coverage and care." The initial provisions include:

1 Pre-Existing Condition Exclusions for Children under age 19. Insurance plans can no longer deny coverage to children based upon a pre-existing condition. This limit applies to both specific coverage denials (because of a pre-existing condition) and banning benefit limits (refusing you a policy).

Note: This pre-existing condition right will apply to all Americans beginning in 2014.

2 Elimination of Arbitrary Rescission of Coverage. Insurance companies may no longer retroactively cancel your policy when you become sick or because of an "unintentional" mistake on your paperwork. The only exception is if the case involves fraud or intentional misrepresentation of the facts.

Note: It is not yet clear who holds the burden of proof on this provision.

3 No Lifetime Limits. Effective for all policies issued after September 23, 2010 and those renewing after this date, there can no longer be lifetime limits placed on health care plans.

4 Annual Dollar Limits. There is a phase out of annual dollar expenditure limits on health plans over the next three years:

Minimum annual limit	
Beginning September 23, 2010:	\$750,000
	2011: \$1,250,000
	2012: \$2,000,000
After January 1, 2014:	none

5 Protect Your Choice of Doctors. Health plan members are able to designate any available participating primary care provider. This includes pediatricians for your children and OB-GYN providers. An important provision in this area is the prohibition of requiring a referral prior to seeing an OB-GYN for care.

6 Removing Insurance Barriers to Emergency Services. Insurance providers may no longer place barriers or differentiate payment for using emergency services that are outside a plan's network versus other out of network providers.

The "grandfather" loophole? Many of the provisions in the new Patient's Bill of Rights have a "grandfather" clause included. The clause means different things in different parts of the Bill, but generally allows for current health plans and insurers to be partially excluded from the Patient's Bill of Rights. What should you do? Ask your employer or health insurance provider if they plan to be fully compliant with your new rights.

The "cost" question. All these new provisions will logically cost health insurance providers more money. The statisticians are estimating up to 1% in added cost will be incurred with these changes. There is also hope that by providing more appropriate coverage for more Americans that overall health costs can go down. Unfortunately, no one is really sure what the true financial impact will be.

If interested in more information please review the "Fact Sheet" at www.healthreform.gov. This website will also provide ongoing updates as the Health Care Reform Act is implemented.

KEY 2010 TAX CHANGE ALERT

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few years Congress has done just that, saving numerous taxpayers from this higher tax.

- ▶ **Domestic Production Activities Deduction.** This deduction increases from 6% to 9% of qualifying business net income in 2010.
- ▶ **State and Local Sales Tax Deduction.** Save any receipts that substantiate payment of large amounts of sales tax. If continued, you may opt to deduct either state income taxes OR the state and local general sales taxes paid as an itemized deduction.
- ▶ **Teachers Classroom Expense.** If you are a teacher, assume you will be able to continue to deduct up to \$250 of qualified out-of-pocket expenses for unreimbursed purchases of qualifying classroom supplies and materials.
- ▶ **Standard Deduction for Property Taxes.** The option of using a standard deduction for \$500 to \$1,000 of real property taxes expires in 2009 unless extended.
- ▶ **Other Provisions Worth Watching.** Other common tax code provisions that could be extended through 2010 include; direct contributions to charities from qualified retirement plans, waiver of minimum distributions from retirement accounts if over 70 ½ years old, and the extension of the qualified tuition and educational expense deduction. In all these cases, once again, save any documentation required to take advantage of these options to retain flexibility if and when the tax law changes.

MAKING WORK PAY CREDIT . . . SET TO EXPIRE?

*U*nless Congress acts, 2010 marks the final year of the Making Work Pay Credit. This provision in the tax code allows for a tax credit of up to \$400 for individuals and \$800 for married couples filing jointly.



The credit phases out for those with incomes in excess of \$75,000 or \$150,000 married filing jointly.

What do you need to know?

- ▶ Please recall that federal payroll withholding tables were adjusted so for most people your tax refund will be approximately the same. However, if your income is higher or you have more than one job, you could actually owe slightly more tax than is typical.
- ▶ It is important to file a tax return even if you think you owe no tax to ensure you do not miss out on this credit.
- ▶ Your paychecks will automatically be slightly lower in 2011 as the federal tax withholding tables will be adjusted to account for the elimination of this tax credit.