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MANAGEMENT

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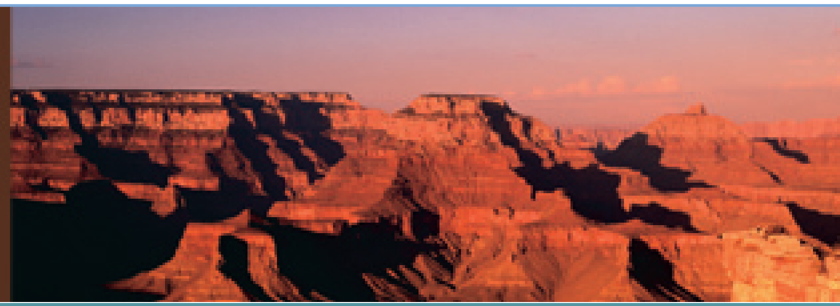

The Twenty Top Tax Breaks In The New 2010 Tax Act

The 2010 Tax Relief Act includes dozens of tax breaks for individuals and businesses. Here are 20 of the top provisions.

1. No increase in income tax rates. Rates in the top two income brackets had been scheduled to rise from 35% to 39% and from 33% to 36%. The new law also preserves relief from the "marriage penalty" for joint filers.

2. Status quo for capital gains and dividends. The maximum tax rate for long-term capital gains was supposed to jump to 20% (10% for low-income individuals), and dividends would have been taxed as ordinary income. Now, the existing 15% rate for long-term gains and dividends remains for most taxpayers through 2012.

3. Lower payroll taxes. For 2011 only, the law authorizes a two percentage point drop—to 4.2%—in employees' share of the Social Security tax, due on the first $106,800 of wages. You get the same break if you're self-employed.

4. Alternative minimum tax (AMT) relief. The new law slightly increases the exempt amounts on 2010 and 2011 returns for avoiding exposure to the AMT and its bigger tax bite. The amounts had been scheduled to revert to low, pre-2001 levels.

5. No phaseouts for itemized deductions and personal exemptions. Before 2010, itemized deductions and personal exemptions were phased out for high-income taxpayers. But those limits were repealed for 2010, and the new tax act extends that relief through 2012.

6. A bigger break for owning qualified small business stock (QSBS). The maximum 50% exclusion for investments in QSBS had been temporarily increased to 75%. Now, under the new tax act, there's a 100% exclusion for QSBS acquired before January 1, 2012.

7. An enhanced education credit. The American Opportunity Tax Credit (AOTC), which expanded the Hope credit for college expenses, was scheduled to expire after 2010. Now, the maximum $2,500 AOTC is extended through 2012, though it's still phased out for high-income taxpayers.

8. A bigger deduction for college savings. The maximum $2,000 deduction for contributions to Coverdell Education Savings Accounts, slated to drop to $500 after 2010, is extended through 2012.

9. A partial reprieve for Section 179 deductions. The maximum Section 179 deduction, which rose from $250,000 to $500,000 for qualified business property placed in service in 2010 and 2011, was then scheduled to drop to $25,000. The new law allows a maximum $125,000 deduction for 2012.

10. A bonus for bonus depreciation. The tax act retroactively reinstates this business perk, which had expired after 2009. A 100% bonus depreciation deduction is generally available for qualified property placed in service in 2011, and there's a 50% deduction for 2012.

11. Revived credit for going green. The credit for home energy-saving devices, scheduled to expire after 2010, is

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Find Welcome Tax Reprieve For Capital Gains And Dividends

Thanks to the Tax Relief, Unemployment Insurance Reauthorization and Jobs Creation Act of 2010, investors can rest a little easier. The new law extends favorable tax rates for long-term capital gains and dividends. But the reprieve is only temporary.

For several years, the maximum capital gains tax rate for profits on the sale of securities held longer than a year has been 15% (and there has been no tax on gains for taxpayers in the lowest tax brackets). But that rate had been scheduled to increase to 20% (10% for low-income investors) in 2011. The 2010 Tax Relief Act preserves most existing tax rates, including the lower rate for long-term capital gains, through 2012. That gives you a window for selling assets that have racked up big gains. (You're allowed to repurchase favorite holdings after a 30-day hiatus.)

Note that even high-income investors may benefit from the 0% rate if a portion of their capital gain income falls below the tax bracket thresholds.

Similarly, the current 15% tax rate for most dividends from U.S. companies is preserved through 2012. Without the new legislation, dividends would have been taxed at ordinary income tax rates that were also scheduled to rise, to as high as 39.6%.

It's seldom a good idea to let tax considerations dictate investment strategy, but we can help you consider how to make the most of these temporary tax breaks during the next two years.

Grantor Annuity Trusts Remain Viable

Recently proposed legislation would have severely reduced the tax benefits of the grantor retained annuity trust (GRAT). However, this popular estate planning technique has dodged the cutting block, at least for the time being. As a result, now is a good time to review your options.

GRATs, which are irrevocable trusts, are typically funded with income-producing property such as company stock or real estate. The trust pays you annual income for a set period of time that may be only a few years. When the term expires, the assets that remain in the trust go to beneficiaries you have designated—perhaps your children or grandchildren.

The IRS treats the transfer of those remaining assets as a potentially taxable gift—but it determines the value of that gift when the trust is set up, not when its term expires. To calculate the remainder, you take into account two factors: how much the trust assets would increase if they grew at a specified IRS interest rate; and how much they will be reduced by the annuity payments to you. For this calculation, you use the "Section 7520" rate in effect when the trust is established. (The rate is adjusted up or down each month to reflect prevailing interest rate conditions.)

With current rates quite low—the Section 7520 rate in April 2011 was 3.0%, compared with 6.2% as recently as August 2007—this can be a good time to transfer property to a GRAT. If the actual appreciation of the trust assets exceeds the specified rate, you and your beneficiaries come out ahead, because that additional amount won't be taxed.

Suppose you transfer $1 million in company stock to a GRAT with a three-year term. You can structure the trust so that the payouts to you exactly equal the hypothetical value of the assets if they grow at the Section 7520 rate. Such a GRAT is said to be "zeroed out"—because the remainder, and thus your tax liability, is projected to be zero.

If you die before the trust expires, the property remaining in the trust reverts to your taxable estate. That defeats one purpose of establishing a GRAT—to reduce the value of your estate—and the shorter the term of the GRAT, the better the likelihood that you'll outlive it. But under the bill that passed the House of Representatives, a GRAT would be required to last at least 10 years, and you would no longer be allowed to zero out the trust.

Currently, the GRAT remains a valuable estate planning tool for some families. But proposals restricting the benefits are sure to surface in Congress again. We can work with you and your attorney to determine the right move in your situation. ●

Health Law Relief For Small Biz Owners

The monumental new health care law—the Patient Protection and Affordable Care Act of 2010—will have a lasting impact. Yet while many provisions are to be phased in during the next several years, a few have already taken effect. For small businesses, one of the most important is a special tax credit that can help offset the cost of providing health insurance for employees.

Though this credit, too, will take several years to be fully implemented, some businesses may immediately qualify for the tax break. The IRS recently issued guidance on these complex rules, and it has posted examples, in the form of frequently asked questions (FAQs), on the web at http://www.irs.gov/newsroom/article/0,,id=220839,00.html.

The new credit is available to a qualified small business that purchases health insurance for its employees. For this credit, a small business is generally defined as a business employing no more than 25 full-time employees whose average annual wages don't exceed $50,000. For tax years from 2010 through 2013, the credit—which is subtracted from the tax bill the business would otherwise owe—equals 35% of the portion of employee health insurance premiums that a business pays. For tax-exempt organizations, there's a 25% credit that is subtracted from the income and Medicare taxes the group withholds for employees and the employer's Medicare contribution. The maximum credit increases to 50% (35% for tax-exempt organizations) in tax years 2014 and 2015, for a maximum of two years, if a company participates in a state insurance exchange and meets other requirements. Some 80% of small businesses may qualify for the tax credits, according to Families USA, a health care advocacy group.

Some businesses will do even better, qualifying for a credit that

11 Important Financial Ideas For 2011

With some astute advance planning, you may be able to improve your financial fortunes in 2011. Here are, appropriately enough, 11 timely tips to consider.

1. Revise your estate plan. Under the 2010 Tax Relief Act, the federal estate tax has returned after a one-year repeal. For 2011 and 2012, an estate can benefit from a $5 million exemption and a top tax rate of 35%, among other changes. Meet with your estate planner to consider ways to maximize the benefits.

2. Pay attention to other taxes, too. Although favorable tax rates on income, dividends, and capital gains have also been preserved for 2011 and 2012, there's no reason to pay more tax than you have to. Look for strategies that might postpone income to years when you expect to be in a lower tax bracket or help in other ways. One possibility is to invest in stocks that pay no dividends but have the potential for long-term growth.

3. Consider (even now) converting your IRA to a Roth. Though you missed the one-time chance to put off and spread out taxes due on a conversion, a Roth IRA might still be a boon to your long-term prospects, delivering tax-free income during retirement.

4. Max out your 401(k) contributions. It's not new advice, but it continues to make sense to put as much as you can into your retirement plan at work. You'll shelter income from being taxed at the new, higher rates and put tax-deferred compounding to work. The maximum deferral for 2011 is $16,500, plus you can add a $5,500 "catch-up" contribution if you're age 50 or older.

5. Leverage low interest rates. Loan rates are plumbing historic depths, making inexpensive borrowing a viable financial strategy. You could refinance a car loan or mortgage or borrow to pay college costs. Just don't make the mistake of carrying more debt than you can afford.

6. Take advantage of low asset values. Your investment account balances may be a shadow of their former selves, and home values, too, have suffered. But you could benefit from those reduced assets if you're trying to shift value out of your taxable estate. With planning vehicles such as a grantor retained annuity trust, or GRAT, for example, you could now transfer more of your estate without taxes, and low interest rates only increase your advantage.

7. Protect against inflation. Although no one can be sure about future economic conditions, it's wise to take steps to guard against the threat of inflation. Inflation can steadily erode your savings and reduce your purchasing power. First and foremost, ensure that your portfolio is properly diversified and includes inflation-defensive components. Some possible additions are precious metals like gold, certain commodities and Treasury Inflation Protected Securities (TIPs). Caveat: Maintain an investment approach that suits your personal tolerance for risk.

8. Be ready for a rough ride. Though stock market volatility recently retreated to more normal levels, it could pick up again later this year, and a well-diversified portfolio can help you ride out market ups and downs by including a broad range of assets, some of which may gain value while others fall. (Diversification, of course, can't guarantee against losses in a declining market.)

9. Don't let a weakening dollar sap your investments. Big federal budget deficits and slow economic growth could make the U.S. dollar less popular, and if its value declines, so will your purchasing power (particularly when you're buying imported goods). But when the dollar falls, other currencies rise, and you could invest in multinational corporations (that generate some of their income outside the "dollar zone") or in foreign stocks that pay dividends in euros or yen, for example. You might even commit a small portion of your portfolio to gold as a hedge.

10. Insure your future. Having adequate insurance—with policies for health, life, cars, your home, and long-term care—can protect you and your loved ones from unforeseen events, and early in the year is a great time to review your coverage and make needed adjustments.

11. Make sure credit cards are your financial allies, not enemies. Plastic is almost a necessity these days, and there's nothing wrong with using a credit card for online purchases or to keep tabs on your expenses. But unless you pay off balances every month, you could spend a small fortune on interest charges—even now, when most rates are low. And if you have old credit card debt, why not come up with a plan for retiring it as soon as possible? We could help with this or with any other smart financial moves you're considering this year. ●

offsets 100% of their health insurance premiums. That extra benefit applies to companies with 10 or fewer full-time employees whose average annual wages are less than $25,000. There's a phase-out formula for businesses with more than 10 workers or higher average salaries.

All of these rules are based on "full-time equivalents," so if your company employs more than 25 workers but has part-timers and seasonal workers, it still may qualify for a credit. And though compensation paid to owners and other highly paid employees would normally raise the average annual wages of a business—and might disqualify it from receiving the health insurance tax credit—the IRS has clarified that the calculation may exclude wages paid to a sole proprietor, a partner, a shareholder with a share of an S corporation of 2% or more, and any owner of more than 5% of another business. However, a single person business with no employees would not qualify for this tax credit.

Because all of this is complicated, be sure to work with your tax advisor to see whether your business can take advantage of the new rules. ●

Donor-Advised Funds Gain In Recession

Though a private foundation can be a great, hands-on way to fulfill your philanthropic intentions, it can also be expensive and time-consuming, and the recession has left many foundations with diminished portfolios and burdensome costs. Moreover, if your business is struggling, you may have fewer hours to devote to running foundation operations. Under the pressure of today's financial realities, another charitable giving vehicle—the donor-advised fund—could be an appealing alternative.

With a donor-advised fund, you contribute cash or property to a special account managed by a sponsoring charitable organization or an investment company. Then you make recommendations about how and when to distribute the funds in your account. Although you can't legally require distributions to be made to the charities you designate, the money will normally go to your suggested recipients unless there's a legal reason it can't.

A donor-advised fund may require a minimum contribution to set up an account, and you'll likely pay an annual administrative fee based on a percentage of the assets in your account. Still, compared with a private foundation, a donor-advised fund may deliver more of your charitable dollars to your intended recipients at a lower cost, as private foundations have higher annual filing and tax preparation expenses. And whereas private foundations must publicly disclose some information about the foundation and its grant recipients, gifts through a donor-advised fund can be made anonymously.

There may also be tax advantages. You get an immediate write-off for contributing to a donor-advised fund, even if your money is distributed to charitable recipients in later tax years, and the maximum deductible donation may be higher with a donor-advised fund than if it were made through a foundation. Contributed real estate is deductible at its fair market value through a donor-advised fund, whereas you can deduct only the property's cost basis if you donate it through your foundation. Finally, there are no mandatory distributions with a donor-advised fund. A foundation must distribute at least 5% of its net assets every year.

If you already have a private foundation, you could convert it to a donor-advised fund. There are strict IRS rules you must follow if you're dismantling a private foundation, however, and you'll also need to comply with state laws. If you're establishing your donor-advised fund through a charity or a financial company, that entity may be able to provide guidance for making the transition. But you'll also need to consult an experienced attorney. We can work with you and your other advisors to oversee the change, file the necessary paperwork, and handle other issues. ●

Top Tax Breaks

(Continued from page 1)

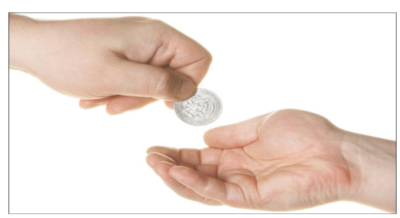
extended through 2011, but the credit is limited to 10% of the cost of improvements (it had been 30%) and a maximum of $500.

12. Offspring benefit. The child tax credit of $1,000 per child was going to lapse after 2010; now it will be in force through 2012.

13. Help with adoption costs. The new law extends the credit for adoption expenses—now a maximum of $12,170, down from $13,170 in 2010—through 2012.

14. Money for hiring. The Work Opportunity Tax Credit, available to businesses for employing workers from "target" groups, now won't expire as planned on August 31, 2011, but will stay in force through 2012.

15. Reward for taking the bus. The maximum monthly $230 tax-free benefit for transit passes, scheduled to decrease to $120 after 2010, is extended through 2011.



16. A renewed deduction for corporate largesse. Enhanced deductions for companies' contributions of food inventory, books and computer equipment, which expired after 2009, are retroactively extended through 2011.

17. Option to deduct sales tax. The chance to write off sales tax, rather than state and local income taxes, ended after 2009 but now is back for 2010 and 2011.

18. Deduction for IRA transfers to charity. The ability to direct an annual maximum of required IRA distributions to charitable organizations, which had expired after 2009, is retroactively extended through 2011.

19. Generous estate tax rules. Following the temporary repeal of the tax for 2010, it's reinstated but with a $5 million exemption and a top tax rate of only 35% and the reunification of estate and gift taxes through 2012. And heirs will again benefit from a step-up in basis on inherited assets.

20. A break on generation-skipping tax (GST). The new law coordinates the GST with the estate tax rules through 2012, with the same maximum exemption of $5 million. ●

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