



Tax Law Reminders for Year 2010 and Beyond

Many of the individual and business tax breaks in recent tax-relief bills were designed to be phased in over a number of years or are indexed to inflation. To help you determine how these tax laws affect your long-term plans and future tax planning, we have compiled the following list to highlight the major changes that are scheduled to become effective in years 2010 through 2017.

Starting in 2010

Roth IRA Conversions

Starting in 2010, individuals with more than \$100,000 of modified adjusted gross income are free to switch from a traditional IRA to a Roth IRA. For conversions in 2010, taxpayers can spread the tax due over two years. Half the tax will be due in 2011, and the remaining half will be payable in 2012.

Domestic Production Activities Deduction

In 2010, this deduction increases from 6% to 9% of qualifying business net income. This deduction applies to businesses engaged in construction, engineering or architectural services, film production, or the lease, rental, or sale of equipment manufactured. However, the rate remains at 6% for oil and gas companies.

State and Local Sales Tax Deduction

The opportunity for itemizers to choose to deduct their state sales tax payments instead of deducting their state and local income taxes ends after 2009, unless Congress acts to extend it.

Educators' Deduction

This deduction for up to \$250 of classroom supplies purchased by educators lapses after 2009, unless Congress acts to extend it.

Tuition and Fees Deduction

The deduction for up to \$4,000 of college tuition and fees expires after 2009, unless Congress acts to extend it.

Direct Donations of IRAs to Charity

Beginning in 2010, the opportunity for IRA owners age 70½ or older to directly donate part of their IRA balance to charity will disappear, unless Congress acts to extend it.

Additional Standard Deduction for Property Taxes

Starting in 2010, non-itemizers will no longer be allowed to increase their standard deduction by up to \$1,000 of property taxes paid, unless Congress acts to extend this break.

Limits on Deducting Farm Losses

Beginning in 2010, the amount of farm losses you can use to offset nonfarm income is capped at the greater of \$300,000 or your net farm income over the past five years. This limit will apply only if you get federal farm payments or Commodity Credit Corporation (CCC) loans. You can take suspended losses in later years. The caps will also apply to partners and S-Corporation owners.

Credit for Energy-Saving Home Improvements

The tax credit for 10% of the cost of energy saving home improvements ends for tax years after 2009, unless Congress acts to extend it.

Exemptions for the Alternative Minimum Tax

For 2010, the exemption levels drop from \$70,950 to \$45,000 for married filing jointly, from \$46,700 to \$33,750 for singles and heads of household, and from \$35,475 to \$22,500 for married couples filing separately.

Partial Exclusion for Unemployment Benefits

For 2010, the first \$2,400 of unemployment benefits received are no longer tax-free.

Sales Tax Deduction for New Vehicles

Beginning in 2010, buyers of new vehicles no longer get a tax benefit for sales tax paid on new vehicles unless they itemize and elect to deduct state taxes in lieu of state income taxes.

Credit for Energy-Saving Home Improvements

The 30% tax credit of the cost of energy-saving home improvements reverts to 10% after 2010 and will be capped at \$500.

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Starting in 2011

Higher Tax Rates

Beginning in 2011, tax rates in effect prior to 2001 will be back in effect. The top income tax rate returns to 39.6% from 35%, and the special low 10% bracket will be eliminated.

Increase in Capital Gains and Dividend Tax Rates

The tax rate reductions for long-term capital gains and dividends are scheduled to expire in 2010.

- In 2011, the maximum long-term capital gains tax rate goes back up to 20% from 15%. A lower 10% tax rate is used by individuals to the extent who are in the 15% tax bracket. Their long-term capital gains had been tax-free since 2008.
- In 2011, dividend income (other than capital gain distributions from mutual funds) is taxed as ordinary income at the taxpayer's highest marginal tax rate.

Child Tax Credit

The credit of \$1,000 per eligible child reverts to \$500 after 2010.

Payroll Tax Credit

Starting in 2011, the partial credit for payroll taxes paid is no longer available.

Decreased Section 179 Expense Deduction

Taxpayers who purchase qualifying business property may elect to deduct the cost of the property (new or used) in the year that it is placed in service. This is referred to as a Section 179 deduction. In 2011 and future years, the maximum deduction drops from \$250,000 to \$25,000.

College Savings Plans

Beginning in 2011, 529 plans can no longer be tapped tax-free to pay for a computer or Internet access.

Tax Credit for College Tuition

The Hope credit will be limited to the first two years of college and capped at \$1,800 once more. None of the credit is refundable if it is more than your regular income tax liability.

Child Tax Credit

After 2010, the child tax credit of \$500 will not be refundable to taxpayers unless their earned income is more than \$12,550.

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Earned Income Tax Credit

Temporary increases in the earned income tax credit for filers with three or more children and the higher income levels for the phase-out of the credit are repealed.

Starting in 2013

Tax Relief for Taxpayers Who Lose Their Homes Due to Foreclosure Expires

Beginning in 2013, debt forgiven in connection with the foreclosure of a principal residence will once again be considered taxable income unless the taxpayer is in bankruptcy or insolvent.

Mortgage Insurance Premiums

The special itemized deduction for mortgage insurance premiums paid on mortgages taken out after 2006 expires at the end of 2012.

Starting in 2017

Credit for Residential Energy-Efficient Property

The credit for 30% of the cost of installing solar water heating equipment, photovoltaic or fuel cell equipment, geothermal heat pumps or wind turbines in the taxpayer's primary residence.

California Franchise Tax Board (FTB) Will Not Impose E-Pay Penalties in 2010

The FTB will not assess the mandatory e-pay penalty for individuals in 2010. The FTB will continue to focus efforts on education and outreach so that taxpayers and their representatives can implement processes and procedures to comply with the mandatory e-pay requirement. The law requires taxpayers who make a payment of more than \$20,000, or who have a tax liability of more than \$80,000 in a year beginning on or after January 1, 2009, to make all future payments electronically. The FTB will continue to monitor compliance levels to determine the appropriate time to begin imposing the penalty provision of the statute.

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Pay-by-Phone Option is Now Available for California E-Pay

The California Franchise Tax Board (FTB) is now making a Pay-by-Phone option available to taxpayers required to e-pay. However, Pay-by-Phone cannot be used by Group Non-resident Return/Composite Filers.

New Payment Option

The Pay-by-Phone option allows taxpayers to use the Automated Clearing House (ACH) Debit method to instruct the state to electronically debit an individual's bank account for a specific payment amount. This option is provided by the state's Electronic Fund Transfer (EFT) vendor, which offers two ways for taxpayers to initiate the electronic payment, using touch-tone phone or Internet. A taxpayer's account will be debited only upon his or her initiation and for the amount the taxpayer specifies. Using Pay-by-Phone to make electronic payments satisfies the mandatory e-pay requirement for individuals.

Cost

The state pays the cost for an individual to report an ACH Debit payment using a touch-tone phone or the Internet. The taxpayer is responsible for any fee that his or her financial institution may charge for the actual transfer of funds.

Registration

Before taxpayers can use Pay-by-Phone, they must complete and submit Form FTB 4073 (Mandatory E-pay Pay-by-Phone Authorization Agreement for Individuals). After the FTB processes the authorization agreement, taxpayers will receive a letter informing them that they have been approved for participation in Pay-by-Phone. If taxpayers need to change their bank account information, they should complete another Form FTB 4073 and submit it to the FTB by fax or mail. Note that taxpayers can also make electronic payments using the FTB's Web Pay online service (<http://ftb.ca.gov/online/webpay/index.asp>). They do not need to register to use Web Pay.

Account Activation

Before taxpayers can make their first payments, they must activate their account with the state's financial services agent. To activate an account by touch-tone phone, taxpayers can call 800-554-7500 toll-free and follow the prompts to change the temporary security code "0000" to a 4-digit number of their choosing. The same security code can be used to make a payment using either the touch-tone phone or Internet options. To activate an account via the Internet, taxpayers can go to www.paycalifornia.com and select California Franchise Tax Board. This takes taxpayers to the "Login page" where they should follow these steps:

- click the "first-time user" button;

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- enter a password of choice;
- enter the temporary security code of “0000”;
- select and provide an answer to a security question; and enter their email addresses.

After taxpayers activate their accounts, they should return to the Login page and enter: (1) their Social Security Number (SSN); (2) the temporary security code “0000;” and (3) their password. Taxpayers then will receive a prompt to change the temporary security code to a 4-digit number of their choosing. Once taxpayers change the security code, they can make a payment. As previously noted, taxpayers can use the same security codes to make a payment either by touch-tone phone or Internet option.

Payment Requirements

To make a payment by touch-tone phone or Internet, taxpayers must enter the following information:

- their SSNs and security codes (and password if making the payment via the Internet);
- their spouse's SSN if making a joint payment;
- a 5-digit Tax Type Code (50060—Billing Notice; 50070—Estimated Tax Payment; 50080—Return Payment; 50085—Extension Payment; 50090—NPA Payment);
- tax year (enter the 4-digit year as YYYY);
- payment amount (dollars and cents);
- Routing Transit Number and account number as shown on the taxpayer's check; and the
- bank account debit date (the date taxpayers want the payment to transfer out of their account and into the state's bank account).

Bank Account Debit Date

Taxpayers can call the Pay-by-Phone telephone number or use the Internet 24 hours a day, year round to make payments. To ensure their payments are timely, taxpayers must complete their calls by 3:00 p.m. PT at least one day prior to the payment due date. Taxpayers cannot use the dates they make the call as the payment date. If the call is made on the payment due date, taxpayers must select the next banking date as the payment date. However, as long as taxpayers complete the call before 3:00 p.m. PT, the payment will be considered timely. When using the Internet option, taxpayers must submit the payment by 3:00 p.m. PT on or before the payment due date to ensure the payment is timely. If the payment due date falls on a weekend or holiday, taxpayers have until the next banking day to make their payments. Taxpayers should note that the FTB's Web Pay on-line service allows them to make their payments up to midnight PT on the payment due date and still use the payment due date as the debit date.

Warehousing Payments

Taxpayers can call the data collector and select a future date for their payments to transfer to the state's bank account. They can designate any banking day, up to 90 days in advance, as the debit date of the payment. For this purpose, the debit date is the date the payment will transfer out of their accounts and into the state's bank account.

Payment Verification

When taxpayers report their payment by either touch-tone phone or Internet, they will receive a reference number from the data collector. This number serves as verification of the payment amount and the payment date.

Additional Transactions

Taxpayers can also take the following actions using the Internet or touch-tone phone: change their security codes using the Internet or touch-tone phone, but they can only change their passwords on the Internet; cancel previously submitted payments until 3:00 p.m. PT one business day before their selected debit dates; and cancel a payment using the Internet or touch-tone phone, regardless of how the payment was originally initiated. In addition, taxpayers can view the status of previously submitted payments.

California Disability and Unemployment

The 2010 State Disability Insurance (SDI) withholding rate remains at 1.1%. The taxable wage limit will increase to \$93,316 for each employee per calendar year (currently, \$90,669). The maximum amount that can be withheld from an employee's pay in 2010 is \$1,026.48 (currently, \$997.36).

Contribution rates for experienced employers in 2010 will continue to be determined under Schedule F+ (Schedule F plus a 15% surcharge). Rates will range from 1.5% to 6.2%. New employers will continue to pay 3.4%. The above rates do not include the employment training tax (ETT) rate, which will remain at 0.1%. The voluntary Unemployment Insurance (UI) program is not in effect for 2010. The taxable wage base will remain at \$7,000.

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