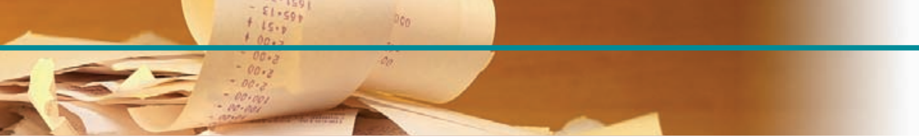

focus

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Business tax credits are now more powerful

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Tax saving opportunities plentiful under 2010 Tax Relief act

With many of the tax breaks under the 2001 tax act set to expire after 2010, Congress passed and the President signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 in December. The act extends and expands a wide variety of tax breaks for individuals and businesses. Let's focus on some of the provisions most relevant to higher-income taxpayers.

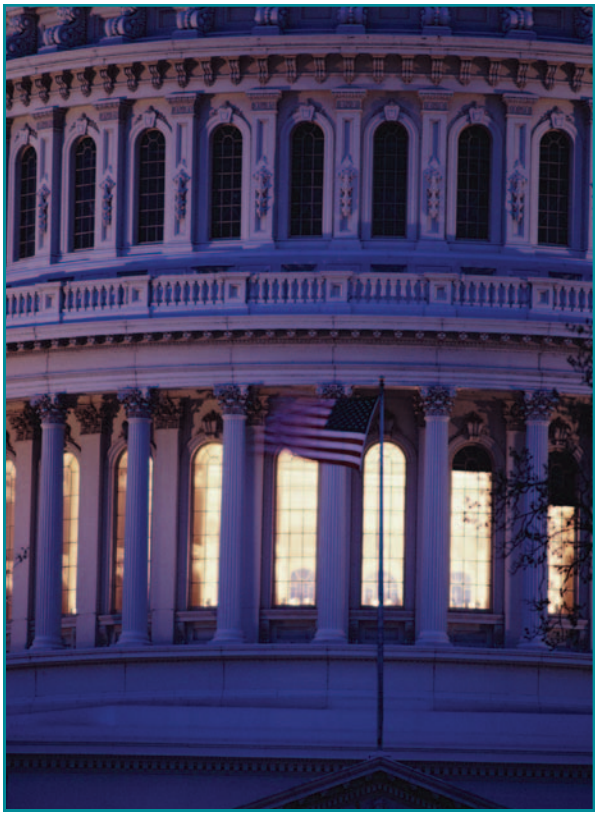
General provisions

Income tax rates. Ordinary income tax rates (except for the 15% rate) were scheduled to increase beginning in 2011 under the 2001 tax act's "sunset" provision. The Tax Relief act extends the lower rates for all brackets until 2013, so the top rate will remain at 35%. In 2013, the rates are set to increase, with the top rate hitting 39.6%.

The Tax Relief act extends the lower income tax rates for all brackets until 2013, so the top rate will remain at 35%.

Payroll tax rates. A new tax break introduced by the Tax Relief act is a payroll tax reduction for 2011 only. It reduces the employee portion of the Social Security tax on earned income from 6.2% to 4.2%. For self-employed workers who must pay both the employer and employee portions of the Social Security tax, the rate has been reduced from 12.4% to 10.4%.

Itemized deduction and personal exemption phaseouts. The 2001 tax act reduced the adjusted gross income (AGI)-based reductions on itemized deductions and personal



exemptions for 2006 through 2009 and eliminated them for 2010. The 2010 Tax Relief act extends this elimination through 2012.

Investing-related provisions

Long-term capital gains rates. The Tax Relief act extends the 15% long-term capital gains rate through 2012. (Under the 2001 tax act, the rate was scheduled to increase to 20% in 2011.) If you have loved ones in one of the bottom two ordinary income tax brackets, you'll also want to be aware that the 0% rate will generally apply to their long-term gains through 2012.

Qualified dividend tax rates. Taxation of qualified dividends at the 15% long-term capital gains rate — 0% for those in the bottom two tax brackets — has been extended through

2012. Dividends had been scheduled to go back up to being taxed at ordinary income rates in 2011.

Estate-tax-related provisions

Estate tax rate and exemption amount. The Tax Relief act repeals the 2010 estate tax repeal by retroactively reinstating the estate tax for 2010 with an exemption amount of $5 million and a top estate tax rate of 35% (with an option for 2010 to instead elect repeal treatment along with certain limitations that go with it). The act also applies these levels to 2011 and 2012, with an inflation adjustment on the exemption for the latter year. In 2013, the exemption and top rate are scheduled to return to pre-2001 tax law levels.

Generation-skipping transfer (GST) tax rate and exemption amount. The GST tax was also repealed in 2010. The Tax Relief act reinstates it with the same exemption amount as the estate tax through 2012. The act sets the GST tax rate for 2010 at 0%. Then, in 2011 and 2012, the rate increases to 35%.

Gift tax rate and exemption amount. The gift tax hadn't been repealed for 2010, and the act doesn't change the $1 million exemption or top rate of 35% previously set for the year. But it does increase the gift tax exemption to the same exemption amount as the estate tax for 2011 and 2012 and extends the 35% top rate through 2012.

Many more tax breaks available

The Tax Relief act is expansive, extending and enhancing numerous tax breaks and introducing a few new ones. This article highlights many of the tax breaks and provisions that may be relevant to you, but there are others you — or your business — may benefit from. ◈

(Don't) charge it!

Educate your college-age child on the downsides of credit card debt

More than four in five undergraduates today have at least one credit card, according to a survey by Sallie Mae, a provider of college savings programs. In fact, the average college student has 4.6 cards and a credit card debt of more than $3,100, the 2009 survey found.

It doesn't require a Ph.D. to realize that students' understanding of credit is becoming just as important as their ability to write top-notch term papers. Without it, today's college students could be setting themselves up with debt loads (not even counting student loans) that may take years to pay off and hinder their ability to purchase cars or homes, or even to start their careers.

Be a positive influence

To minimize the likelihood that your child will enter the real world with high credit card debt, start serving as a role model by demonstrating responsible credit card use yourself. Let your teens know that, when you use credit cards, you're earmarking the funds you'll need to cover the bill at the end of the month.

In addition, consider including your children in your financial decisions when appropriate. For instance, would purchasing a big-screen TV cut into the funds you're setting aside for a family vacation? These conversations help your kids gain an understanding of the trade-offs involved in most spending decisions, as well as the need to live within their means.

Offer a reality check

If your child is considering opening a credit account or has asked you to co-sign for an account, go through the math. Show how making just the minimum required payment every month means paying for a purchase many times over.

Be sure to emphasize that the credit history built during college can affect life after graduation. Problems with late or missed payments, which remain on a credit report for up to seven years, may affect a new grad's ability to obtain a car loan or a mortgage. In some fields, such as banking or finance, these missteps could even stand in the way of getting a job. These employers may view a prospective new hire's shaky credit report as a red flag.

Finally, offer your child a dose of reality. Even though many students will land a job after they graduate, they likely won't have lots of cash to pay off old credit card debts. Instead, many will need to pay for a place to live and some form of transportation, as well as any student loans coming due. That's before figuring in the cost of food, clothing and entertainment.

An alternative: A debit card

Before co-signing for a credit card for your child, consider having him or her use a debit card. This provides the convenience of a credit card, but it's tied to a checking account. Unless you spring for overdraft protection, your child can't spend more than the account's balance.

Keep tabs on their account

If you co-sign for a credit card for your college-age child, consider keeping close tabs on it. You can do so online by logging in to the card's account to view recent charges, the total amount and what your child's been paying on a monthly basis. ◈

The CARD Act offers protection

Several provisions of the Credit Card Accountability, Responsibility and Disclosure (CARD) Act of 2009 provide college students new protections from overzealous credit card marketers:

- An applicant who is under age 21 needs an adult co-signer to obtain a credit card, unless he or she can demonstrate an independent ability to pay the bills.
- Card issuers can't increase a line of credit for an under-21 cardholder unless the co-signer approves in writing.
- Card companies no longer can give away T-shirts and other freebies on or near campus or at campus-sponsored events to induce students to fill out credit card applications.
- Colleges are required to disclose their contracts with credit card marketers.

Of course, while these regulations provide some protection for students, they don't eliminate the need to learn to use credit responsibly.

Community involvement

Reaching out to the neighborhood can benefit family businesses

George and Linda's grocery store has been a fixture in their town for nearly a decade, but as the town's population grew, big box grocery chains began popping up nearby. The couple knew it would be difficult to compete price-wise, so they had to think of a different way to continue to attract customers.

Linda suggested becoming more involved in the community. George thought it was a great idea and began sponsoring the town's Little League baseball team. As a result of seeing the grocer's name on the back of the team's jerseys, parents and others in the community were eager to support George and Linda's business.

Strong connections

Family businesses are built on close, emotional bonds. It makes sense for you to extend these ties beyond your company to forge a strong connection with your surrounding community.

The benefits can be many. For example, getting involved in the community upholds company values that demonstrate care and concern for the greater good. This can translate into valuable public relations benefits.

Your charitable involvement can also help you attract top talent, customers, suppliers and investors.

Developing strong connections in the community may lead to higher respect and status for your company. This can be used to gain more support for the charity or generate business opportunities.

Developing strong connections in the community may lead to higher respect and status for your company.

Focusing on a meaningful cause may help ignite passion and team spirit in an organization. This encourages stronger relationships among employees, enabling them to work together more cooperatively and productively.

Finally, any way to reduce tax liability is worth the cause. Donating money, property or other assets to qualified charitable causes can reduce your tax bite. These gifts are generally deductible under limits established by the Internal Revenue Code.

Family foundations

Many businesses contribute by having an executive serve on the board of a charitable organization, volunteering their staff's time or donating money. And they often spread their efforts across multiple organizations. But you can achieve a bigger impact by structuring your company's donations of time and money around a strategic program dedicated to a specific cause.

One way is to establish a family foundation centered around a cause near and dear to you and your family. Some possibilities include funding research for a medical cure in memory of a loved one, environmental preservation, and educational scholarships for the underprivileged.

Recognize that establishing a foundation requires a serious commitment of time, effort and resources, including diligence in ensuring compliance with IRS and other government requirements. To be successful, you'll need to establish a clear purpose for the foundation, as well as appoint or consult someone with philanthropic experience to effectively manage it.

A win-win situation

To keep pace with larger, corporate entities, family businesses must take extra measures to keep customers coming back. One such measure is becoming more active in the community in which you operate. Doing so, as George and Linda did in the opening example, can benefit your company because patrons are more likely to give you their business because you gave back to them. ◈

Business tax credits are now more powerful

With tax filing season underway, it's time to determine whether you're eligible for general business credits. This is particularly critical this year because changes to the credit carryback rules under the Small Business Jobs Act of 2010 (SBJA) can benefit eligible small businesses.

Using credits

Tax credits, as their name implies, reduce the amount of tax a taxpayer owes the government. The term "general business credits" covers a number of credits, such as the renewable electricity production credit and the low-income housing credit.

Even though many of these credits have been part of the tax code for some time, their application has been more limited. The SBJA changes should help more small-business owners make greater use of tax credits, and thus hold on to more of their cash.

Typically, a taxpayer takes a credit against tax liability incurred in the current year. So, if you owe very little tax in the current year, or

don't owe any, the credit isn't worth much, if anything. For that reason, tax law has allowed taxpayers to "carry back" the credit to offset taxes paid in the previous year and receive a refund. Then, if some of the credit still remains, the taxpayer can carry it forward and offset taxes in future years.

However, for tax years beginning in 2010, eligible small businesses can carry back credits for up to five years. Under the SBJA, "eligible small businesses" includes corporations whose stock isn't publicly traded, as well as partnerships and sole proprietorships. In addition, the business's average revenue for the three preceding years must have been less than $50 million.

The SBJA also allows eligible small business owners to use tax credits against the alternative minimum tax (AMT). Previously, most business owners could claim allowable general business credits only against their regular tax liability.

Claiming credits

The IRS has established an order in which a small-business owner must use a general business credit. This is:

1. Any carryforwards from previous years, with the earliest ones first,
2. General business credits earned in the current year, and
3. Any carrybacks to that year.

If your business is able to use more than one credit type — for example, if it qualifies for credits for offering employer-provided child care facilities, as well as for the carbon dioxide sequestration credit — the IRS has outlined the order in which the different credits are to be taken.

First is the investment credit, which includes the rehabilitation, energy, qualifying advanced coal project, qualifying gasification project and qualifying advanced energy project credits. Then come several dozen other credits.

The IRS also limits the dollar amount of business credits that you can take in any year. Currently, it's limited to your net income tax, minus the greater of your tentative minimum tax for the taxable year or 25% of the portion of your net regular tax liability that exceeds $25,000. In addition, some individual credits have specific limits.

Section 179 expensing limit increases

In addition to the extended carryback of general business credits (see main article), the Small Business Jobs Act of 2010 (SBJA) significantly increased the Section 179 expensing limit. Sec. 179 allows taxpayers to expense the cost of qualifying business assets in the year they purchase them, rather than depreciate the cost over time. That results in a larger deduction, which means lower tax liability.

The SBJA temporarily increases the expensing limit. For 2010 and 2011, the expensing limit is $500,000 — the previous limits were $250,000 for 2010 and $25,000 for 2011.

Before the SBJA, the amount that a business could expense would be reduced if Sec. 179 property acquisitions for the tax year topped $800,000 for 2010 and $200,000 for 2011. The SBJA increases the phaseout threshold to $2 million for 2010 and 2011.

For 2012, the Tax Relief, Unemployment Insurance Reauthorization, and Jobs Creation Act of 2010 increases the expensing limit to $125,000, with a phaseout threshold of $500,000. Both amounts will be indexed for inflation. Before the Tax Relief act, the 2012 expensing limit was set to drop to $25,000, with a phaseout threshold of $200,000.

Another change for 2010 and 2011 only: Sec. 179 expensing applies to the cost of qualified leasehold-improvement, restaurant and retail-improvement property placed in service, up to a maximum of $250,000.

Good news at tax time

Small-business owners have reason to rejoice this tax filing season, thanks to changes under the SBJA. The general business credit carryback allows taxpayers to make greater use of credits. Any chance to reduce tax liability during difficult economic times is good news, indeed. Be sure to consult your tax advisor to determine if you can take advantage of the general business credit carryback. ◈

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