The Rudolph Report

www.rudolphcpa.com year end 2010

To all our clients:

2010 is winding to a close, leaving us less than three months until pitchers and catchers report. 2010 also leaves us with a multitude of tax changes. As much as I would prefer to write about the baseball, I'll try to keep this newsletter focused on the latter subject. First a digression:

A quick answer to our client, friend & die-hard fan out in Phoenix: "no."
I'll expand.

No, you may not deduct the cost of your trip back to home to watch the Cubs even though you "talked business with this guy on the Orange Line from Midway." You may, however, deduct the cost of therapy you likely incurred as a result of following our North Siders across the country.

Tracking the changes in the tax code has also become more challenging. In this newsletter we'll explain how the changes in the tax code affect you. Following this newsletter you will receive your tax organizer after the middle of January. If you need year end tax planning assistance, please feel free to email or call the office (we may even know the answer).

We hope you enjoy the holidays, and if your hunger clamors for chocolate creamed herring, call my mother in law.

Chris Rudolph CPA

Appetizers

The IRS now **requires e-filing** by all paid professionals. We prefer e-filing because it saves paper and effectively protects your privacy. If you have serious objections to e-filing your return, please contact me.

A **$250 rebate** is now available to seniors on Medicare to assist with the donut hole left from Medicare part D. This rebate is recovered at medicare.gov not through your income tax return or Dunkin Donuts.

Adoption credits up to $13,170 per child are now refundable which means that you can receive the credit even if it exceeds your tax.

Flexible spending accounts will no longer allow for the purchase of over the counter medicines starting January of 2011. The IRS has also ruled that medicinal marijuana is not deductible (nor are late night burritos).

Stock basis reporting will now be required of your investment firms starting in 2011.

Foreign bank accounts that exceed a $10,000 value must be reported on a separate form or you potentially face a significant penalty.

The **energy credits** expire at the end of 2010. Homeowners can receive credit of 30% of qualifying purchases, capping at $1,500.

Roth IRAs can be converted to traditional IRA's before December 31without regard to your income.

Rudolph CPA
1870 W. Winchester Rd Suite 113 Libertyville, IL 60048
(847) 362-1050 email: info@rudolphcpa.com (847) 362-1380 fax

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The Main Course

Small businesses can now receive a 35% tax credit for health insurance premiums that they pay for eligible employees. The employers must pay for at least 50% of the premiums, have less than 25 full time employees whose average wages are less than $50,000 per year, and be able to juggle flaming cats while dancing the Tarantella.

Self employed individuals can now deduct their health insurance premiums on schedule C, reducing their social security tax. Previously, premiums had to be carried to the front page of the 1040 for the income tax deduction, leaving you with the FICA obligation and warm fuzzies from knowing you contributed more to our government.

Businesses can **write off 50%** on new SUVs with a loaded weight over 6,000 pounds. Another 25% can be claimed as bonus depreciation. Smaller cars qualify for a first year write off of $11,060 in 2010.

Estimated tax penalties for owners of small business who derive at least 50% of their income from their business can be based on 90% of the tax from the previous year rather than the usual 100% or 110% of previous year's tax in 2010. If you're not sure what that means, give me a holler and we'll dissect the code together over apple cider, beef jerky, and a Weegie Board.

Capital gains rates on long term investments and qualified dividends remain at zero percent (yes zero) for those people in the 15% income tax bracket. Capital gain rates remain at 15% for those taxpayers in the 25-35% tax brackets.

The $400 making work pay credit will continue in 2010. This credit is intended to offset the reduction in federal withholding from your paychecks over the year. If your income is above $75,000 for singles and $150,000 for married filers, then unfortunately you don't receive the credit but rather a small recognition for financing the credit for the rest of the folks. Recognition to follow:

thanks

Income phase outs for itemized deductions do not apply in 2010 for high income taxpayers. Don't get too excited however. The phase outs will return in 2011 so that you can get back to paying more taxes.

The Hope **education credit** expired in 2009 along with the extra education credits for those going to school in the Midwestern disaster areas. Instead, you may qualify for the American Opportunity credit of $2,500 even if your income is $80,000 for single filers and $160,000 for married filers.

Not only can traditional **IRAs be converted** to Roth IRAs in 2010 regardless of income, but the taxes on the conversion can be spread over two years. Half of the conversion will be taxed in each of the next two years. These can be complex, and you may want to call our office to discuss your conversion. Thank you & Happy Festivus.

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