



clientalert

summer 2011

New investment reporting rules raise cost basis awareness

Investors with a laser-like focus on their portfolio's market value might easily brush aside cost basis issues. But this year's new investment reporting rules could cause tax-savvy individuals to take another look.

Basically, cost basis is what you paid to purchase a stock, bond, or mutual fund share. Commissions, dividend reinvestment, stock splits, and capital distributions can also factor into cost basis, requiring some careful recordkeeping.

What's more, if you buy the same security on different occasions or at different prices, you will have multiple tax "lots" that must be tracked. And this is where things get a little complicated.

Beginning this year, brokerages must report to the IRS the cost basis of stocks and certain other securities. And in the case of differing tax lots, you will have up to the settlement date

following the sale to decide which securities you parted with. Absent specific instructions from you, the broker will probably assume that the first shares you bought are the first ones sold. This is known as the "first-in,

first-out" method, or FIFO. But this may or may not be your best strategy.

Here's why: If you own a stock or bond for more than one year and then sell it for a gain, you will be taxed at the lower, long-term capital gain rate. Otherwise the gain is taxed at your

normal income tax rate. So if some of the shares qualify for the long-term capital gain rate, it might be advantageous to specify those shares as the ones you are selling. Another strategy might be to minimize your capital gain by selling your highest cost shares.

The new rules also make it easier
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A Roth can be a good fit for a working child

If your child is a teenager or a college student, he or she probably has a part-time or summer job. Let's say your son, Bill, earns \$2,300 this summer. Probably the last thing on his mind is saving for retirement. But here's why he should seriously consider putting some or all of his earnings into a Roth IRA.

First, by investing while still a teenager, his earnings will have extra years to compound, and those extra years will make a huge difference. For example, a one-time investment made at age 17 and compounded at 4% until age 65 will earn 30% more than the same investment made at age 23. By investing in a Roth IRA, the earnings and his withdrawals after age 59½ will be tax-free. In addition, he can make earlier tax-free withdrawals for first-time homebuyer expenses and penalty-free withdrawals for qualified education expenses if needed. And hopefully by starting young, he'll learn the benefits of regular savings as he sees his investments grow.

Bill is eligible to contribute 100% of his earned income (up to \$5,000) to an IRA. By choosing a Roth IRA, he'll lose the up-front tax deduction, but chances are he'll have little or no tax liability anyway.

If Bill wants to spend his earnings, parents or grandparents could give Bill the money to make his IRA contribution, using their annual gift exclusion. ■

what's new in

New law repeals 1099 reporting rules

On April 14, 2011, President Obama signed legislation repealing the expansion of Form 1099 reporting that would have been required for certain business payments and rental property expense payments.

Laws passed in 2010 expanded Form 1099 reporting to include payments of \$600 or more made to vendors for rental-related expenses. Also, payments to corporations of \$600 or more for business goods and services were no longer to be exempt from Form 1099 reporting. The April legislation repeals both of these additional reporting requirements. Landlords will not be required to file Form 1099 for rental-related payments, and payments made to corporations will generally continue to be exempt from 1099 reporting. The expansion of Form 1099 reporting was very unpopular, and businesses had been actively seek-

ing repeal. Eliminating this additional tax filing for businesses and landlords will reduce their paperwork burden significantly.

If you need additional information, please contact our office.

IRS to use fewer liens

The IRS recently announced that it will moderate its use of tax liens to collect back taxes. A federal tax lien gives the IRS a claim on a delinquent taxpayer's property for unpaid taxes.

This change means the IRS won't use a tax lien unless at least \$10,000 in back taxes is owed; the previous threshold had been \$5,000. In addition, the IRS says it will "withdraw" more tax liens once the back taxes have been paid. A withdrawal removes the lien from the taxpayer's credit record, whereas a lien "release" as previously used left the lien on the credit record for at least seven years. ■

Important DATES

SUMMER 2011

- **June 15**
Due date for second installment of 2011 individual estimated tax.
- **August 1**
Due date for filing 2010 retirement or employee benefit plan returns (5500 series) for plans on a calendar year.
- **September 15**
Due date for third installment of 2011 individual estimated tax.
- **September 15**
Deadline for filing 2010 calendar-year tax returns for corporations with extensions of the March 15 deadline.
- **September 15**
Deadline for filing 2010 partnership returns with extensions of the April 18 deadline. ■

To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication (including any attachments) was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any matters addressed herein.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.



New investment rules

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for the IRS to spot wash sales. A wash sale results when you buy a security within 30 days before or after you sell the same security for a loss. Rather than writing off the loss, the IRS will require you to adjust the cost basis of the new shares you purchased. Of course, if you use more than one brokerage firm, the broker will not be able to automatically catch this, leaving you in charge of reporting any wash sales.

In one sense, the new reporting rule is positive news for those who don't like to do their own recordkeeping. But before you throw away your old records, keep in mind that the new rule only covers stocks you buy in 2011 and beyond. The basis of stocks you owned before this year must still be tracked by you. Reporting requirements for mutual funds take effect in 2012, for bonds in 2013.

For guidance on how the new rules affect your particular tax situation, give our office a call. ■

business alert

Location! Location! Location! It can be vital to your business success

The importance of your business location can vary from moderate to vital, depending on the nature of your business. Although location generally would matter far less to a home-based Internet seller than to the owner of a high-end restaurant, some location factors can affect any business.

■ Regulations and taxes

State and local income, sales, and property taxes vary from place to place and regulatory requirements can vary by location. Some jurisdictions are known for being business friendly – or unfriendly. Even a home-based business may be prohibited or restricted by zoning laws or legal activity limitations. A wise entrepreneur will evaluate the local regulatory and tax environment before putting down roots.

■ New business

If you're planning to open a new business outside of your home, there are many location factors to consider. The relative costs of rent, upkeep, and utilities must be weighed for each location you're considering. Is the layout suitable for your needs and if not, will the landlord make the necessary changes? Does the building provide adequate storage and room for growth?

■ Location

Unless customer traffic isn't part of your business model, your location must fit the expectations and requirements of your customers. Certain basics are universal. Your location should be accessible, consistent with your business type, and close to one or more areas your customers are likely

to frequent. Adequate parking and/or access to mass transit should be available. The surrounding neighborhood should be secure, since customers are more likely to return if safety concerns are not an issue.



■ Visibility

For most retail and many service businesses, visibility will increase customer traffic. Having certain types of business neighbors can also have a positive effect; e.g., locating where your fellow retailers sell products or services that complement your own. Conversely, the wrong kinds of neighbors can be harmful. Beware of too many direct competitors in the area, or operations inconsistent with your own (such as a raucous high school hangout next to your proposed professional office).

If your business is a type where perceptions are a particularly major factor (e.g., a restaurant, apparel shop, or nightclub), consider commissioning, conducting, or at least reviewing market research on the topic before committing to a site.

■ Employees

Finally, your location can affect your ability to attract and retain good employees. Many characteristics important to you and your customers also will matter to your staff, such as ease of commute, access to parking, type of neighborhood, and overall building layout and amenities. ■

estate planning alert

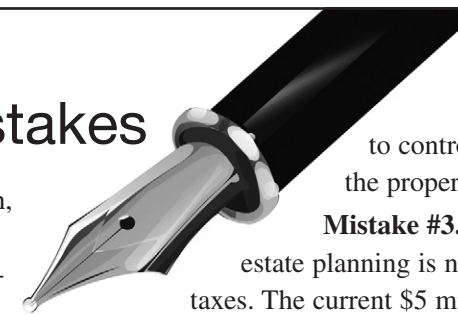
Avoid these four big mistakes

Most people don't like to think about death, much less plan for it. Here are the four most common – and costly – estate planning mistakes people make.

Mistake #1. There are those who reluctantly confront their mortality, write a will, then file it away, comforted by the knowledge that they have accomplished the task. It's equally important, however, to review your will every few years – sooner if you move to a different state or major changes occur in your life or in the tax law.

Mistake #2. Many people mistakenly assume that establishing joint ownership with right of survivorship for their assets eliminates the need for a will. This might be true in theory, but in practice assets are often overlooked. A will is still a good idea.

In addition, right of survivorship doesn't control property disposition in the event of simultaneous death of the owners, nor can it establish guardians for minor children. Even if joint ownership operates well for the first owner's estate, the survivor either needs to establish other joint ownership arrangements or must write a will



to control subsequent disposition of the property.

Mistake #3. Another major mistake in estate planning is not being concerned about estate taxes. The current \$5 million exemption may keep federal estate taxes from applying to your estate, but state taxes may still be an issue. Also, the current estate exemption amount and tax rates are only in effect through 2012.

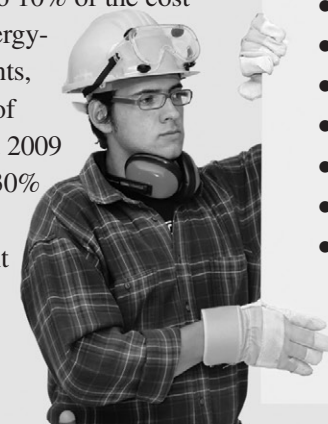
Mistake #4. Another common mistake is appointing a financially unsophisticated family member or friend as executor. While such individuals may be more knowledgeable about your desires, too often they aren't familiar with an executor's duties, responsibilities, and potential liability. Appoint someone you feel can handle financial matters, or consider appointing a trust company as co-executor.

Two of the reasons for having an estate plan are minimizing taxes and easing the burden on your survivors at a traumatic time in their lives. Periodic attention to your plan while you're alive is the best way of accomplishing those goals. Contact us and your attorney for a review of your will and your other estate planning needs. ■

Can you still generate energy credits at home?

Take steps to make your home more energy-efficient this year, and you may be eligible to claim the residential energy credit. The credit has been extended several times, with certain modifications, most recently by the *2010 Tax Relief Act*. The credit is currently scheduled to expire at the end of 2011.

How much is the residential energy credit? It is equal to 10% of the cost of the qualified energy-saving improvements, up to a maximum of \$500. Previously, a 2009 tax law allowed a 30% credit with a maximum lifetime credit of \$1,500 for 2009



and 2010. If you've already claimed a residential energy credit exceeding \$500, you can't claim any credit for 2011.

Which expenses are covered by the credit? The list is an expansive one. It includes the following energy-saving expenditures for the home:

- Central air conditioners
- Gas, propane, and oil water heaters or furnaces
- Electric heat pump water heaters
- Hot water boilers
- Certain metal and asphalt roofs
- Biomass stoves
- Advanced main air-circulating fans
- Insulation materials
- Exterior windows and doors (including storm windows and skylights)

In addition, a credit may be claimed for geothermal heat pumps, solar water heaters, and fuel cells. These credits are available through the end of 2016.

What credits are allowed for vehicles? The credit for alternative fuel vehicles, including the popular hybrid models, expired after 2010 and was not renewed.

However, you still can claim a credit for electric "plug-in vehicles" that are purchased or leased. The credit is based on battery capacity and can be as much as \$7,500.

For more information on the available energy tax credits, contact our office. ■



Thanks

We appreciate you!

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.