

Legislation passed in 2010 will have a significant impact on individuals and businesses. Even more importantly, the time is almost up for the historic tax cuts enacted in 2001. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 was signed into law, representing a massive overhaul of the health care system that will affect almost all taxpayers, many employers, and much of the health care industry. In addition, the Small Business Jobs Act of 2010 was signed into law on September 27, 2010. The following information is a brief overview of tax law changes that may affect you or your business.

Provisions affecting 2010

Businesses

- Small businesses with less than 25 full-time workers with an average wage no more than \$50,000 per year (not including owners) may receive a tax credit of up to 35% of the health insurance premiums paid for their employees. The credit rises to 50% in 2014.
- Employers who provide coverage to “early retirees” may be eligible for certain reimbursements.
- Bonus depreciation allowing deduction of 50% of cost of qualifying new equipment purchased and placed in service on or before December 31, 2010. This was also extended through 2011.
- Code Sec. 179 allowing deduction of 100% of cost of new or used qualifying equipment is increased to \$500,000 for tax years beginning in 2010 and 2011 with an investment limit of \$2 million.
- The Small Business Jobs Act also allows a deduction for the cost of health insurance in calculating net earnings from self-employment for the purposes of self-employment taxes.
- Cell phones are removed from the classification of listed property lifting the substantiation requirements of use and limits on depreciation deductions.
- Payroll tax exemption and business tax credit for hiring and retaining unemployed.

Individuals

- Medicare beneficiaries will receive a \$250 rebate when they reach the gap in coverage for prescription drugs, known as the “doughnut hole”. The gap exists when total drug costs exceed \$2,830 and until the costs reach \$6,440.
- This year health care plans beginning with plan year 9/23/10 will allow individuals under the age of 27 to remain on their parents’ insurance policy. Self-employed individuals are allowed a deduction for the premiums paid on such dependent coverage. Child does not need to be considered a dependent.
- Insurance companies must cover certain preventive services and the companies cannot rescind coverage for any reason other than fraud or exclude pre-existing conditions for children.
- The new law authorizes 401(k), 403(b), and 457(b) governmental plans to allow participants to roll over pre-tax account balances into a designated Roth account within their plans.
- For 2010, the limitation on itemized deductions is entirely repealed. After 2010, the limitation will be reinstated. Higher income taxpayers who are subject to the limitation on itemized deductions may want to

explore the value of shifting some of their itemized deductions to 2010 by accelerating payment of deductible expenses before year-end unless they anticipate being in a higher bracket after 2010.

- Individuals should consider the benefits of accelerating capital gains into 2010 while the rates may be lower. The sunset provisions would revert the capital gain rate to 20 percent after December 31, 2010. President Obama has proposed permanently extending the 15 percent capital gains rate for everyone except taxpayers in the two highest income tax brackets, recommending a 20 percent rate for those taxpayers.
- Dividend income for individuals for tax years beginning after December 31, 2010 will be taxed at ordinary income rates that could be as high as 39.6 percent if the current provisions are not extended. Corporations may want to explore accelerating dividends to shareholders before January 1, 2011.

Provisions affecting 2011

Business

- The costs of employer-provided health coverage must be reported on Form W-2.

Individuals

- After December 31, 2010 individuals receiving rental income from real property are required to file information returns with the IRS.
- Tax Rates - After December 31, 2010, individual income tax rates are scheduled to revert to their pre-2001 levels. President Obama wants to permanently extend all of the individual rate cuts except for the top two rates.
 - Highest marginal rates would increase from 35% to 39.6%
- FSA, HRA, HSA, or Archer MSA will no longer reimburse for over-the-counter drugs.
- Medicare recipients will receive free preventive services and a 50% discount on brand name drugs purchased in the Part D doughnut hole.
- Absent legislation the federal estate tax is up for significant change in 2011 affecting tax rates and the exclusion.

Provisions affecting 2012

Businesses

- Effective for purchases made after December 31, 2011 all businesses purchasing \$600 or more in goods or services from another entity, including corporations, will be required to provide the vendor and the IRS with an information return. Form 1099-MISC will be used for the new reporting rule unless the IRS develops a new form.
 - To prepare for the new reporting requirements, consider how you collect and manage vendor information. Begin requesting that each of your vendors complete IRS Form W-9 to provide you with the vendor's legal name, address, and TIN. Update your software to track the amounts spent.

Provisions affecting 2013

Individuals

- Highest marginal tax rates for individuals will increase from 39.6% to 43.4%.
- An additional .9% Medicare tax on high income taxpayers (including self-employed)
- Medicare Tax of 3.8% on Unearned Income
- Medical expense deduction threshold increases from 7.5% to 10% for individuals under age 65.

Provisions affecting 2014

Businesses

- There will be an employer penalty for employers not offering the minimum essential health care coverage if among other tests the employer contribution is less than 60% of total plan cost.
 - Applies if more than 50 full-time employees
 - Penalty is \$2,000 per full-time employee (waived for first 30 people)
 - Informational return must be filed.
- Free choice voucher
 - Provided by employers who offer a minimum essential coverage to employees and pay a portion of the cost of the insurance.
 - Employer gives employee monthly voucher for employee to use at insurance exchange.

Individuals

- Individuals that are not eligible for government sponsored coverage must maintain a “minimum essential health coverage” for themselves and dependents or a penalty will be assessed. (There are exceptions for the penalty based on household income).
- Premium Assistance Credit will be available for individuals if required employee contribution exceeds 9.5% of household income or exceeds 60% of total allowed plan cost.
- State must establish two exchanges by 2014 that will allow individuals a place to buy health insurance when other options are not available.

Provision affecting 2018

- 40 % excise tax on high cost employer health plans

As the year comes to a close, we welcome the opportunity to meet with you to discuss specific strategies or answer questions regarding new or proposed legislation that impacts you or your business.