The more things change, the more you must plan

As the following pages show, the last few years have seen a lot of changes in tax law, and more are expected. In light of these changes — as well as a greatly altered economic environment and the likelihood that taxes will go up in coming years — you may need to revise the way you think about and plan for the future. Above all, you must proactively take steps to protect your wealth, or risk seeing it diminish.

To help you identify ways to minimize your taxes, we encourage you to look through this tax planning guide and note the deductions, credits and other tax-saving strategies you believe you could benefit from. Then check with us about how to take advantage of them or other ways to reduce your tax burden.

You may especially want to look at the "What's New!" sidebars to see how various tax law changes may affect your tax liability. For example, the sidebar in the "Investing" chapter points out how investors could see higher taxes next year and provides tips for locking in tax savings now. And the one in the "Retirement" chapter explains how higher-income taxpayers who once were unable to reap Roth IRA benefits can now do so.

You'll also find the case studies helpful for understanding how various tax-savers can work to your advantage. In the "Family & Education" chapter, for instance, the case study shows how starting 529 college savings plan contributions early can increase both the amount of funding available at age 18 and the amount of tax saved.

Remember that tax planning is a year-round activity. To save the most, you may need to act sooner rather than later. So don't wait until the end of the year to start thinking about taxes. Review this guide now to make sure you don't miss a single opportunity to reduce your tax liability.

Although the following pages cover a broad range of topics pertaining to personal and business tax planning, there's simply not enough room here to discuss in detail every change or strategy that may pertain to your situation. Therefore, we encourage you to contact us to find out which strategies are best for you and learn about the latest tax law developments.

We would be glad to answer any questions about the contents of this guide and to tell you about other tax-savers, too. Please let us know how we can be of assistance.

Name
Title

Dear Clients and Friends,

It's been a time of change, not just in tax laws and the economy, but also in how we think about — and plan for — the future. While the recession has eased, it may be awhile before we again enjoy the prosperity of prior years. And, with tax rates more likely to go up than down this decade, you'll need to proactively take steps to protect your wealth.

Bottom line: Tax planning will be more important than ever. Consequently, we hope you'll look through this tax planning guide and note the deductions, credits and other tax-saving strategies that could benefit you. Then let us know how we might help you take advantage of them.

We also hope this guide will give you a good understanding of how recent tax law changes may affect you. The "What's New!" sidebars highlight recently enacted provisions you'll want to look at to determine their impact on your tax liability. And the case studies illustrate how various tax-savers can work to your advantage.

The following pages cover a broad range of topics pertaining to personal and business tax planning, including investment, retirement and estate planning. But we don't have room here to discuss in detail every change or strategy that may pertain to your situation. So we would welcome your questions about what this guide presents and be glad to advise you about other ways to save tax, too.

We would also encourage you to not postpone thinking about taxes. Tax planning is a year-round activity, and to get the most benefit you may need to act sooner rather than later.

We would very much like to talk with you about what this guide covers or about other tax matters of interest to you. Please call for an appointment to learn how to make this year the beginning of much better times.

Best regards,

Name
Firm

How can *you* maximize tax savings this year?

The tax strategies that save you the most will depend on your particular situation. Here are five key tax savers for different types of taxpayers:

1. Investors: *Review after-tax returns to evaluate the performance of similar investments.*

The impact of taxes in a given year may not be significant. But over time, compounding can have a tremendous impact on a portfolio's growth. For example, the difference between a $100,000 portfolio growing after tax at 8% vs. 6% a year amounts to almost $150,000 over 20 years.

2. Business owners: *Watch out for buy-sell agreement tax pitfalls.*

Buy-sell agreements control what happens to a business when a specified event occurs, such as an owner's death or disability. Often such agreements are funded with life insurance, with proceeds generally excluded from the beneficiary's taxable income. But an exception is the transfer-for-value rule, under which proceeds will be taxable if an existing policy was acquired "for value" by someone other than the insured or certain other parties. The issue often arises when structuring or changing a buy-sell agreement using existing insurance policies.

3. Donors: *Time donations to save more tax.*

By considering current and future income tax rates before giving, you can significantly increase the tax benefit of charitable gifts. Deductions are more powerful when you're taxed at a higher rate. So if you expect to be in a higher tax bracket next year, you could save by deferring a charitable contribution until 2011. This strategy can also be effective if you're subject to the alternative minimum tax (AMT) in one year and a higher, regular income tax rate in another.

4. Retirees: *Choose your source of retirement cash wisely.*

Generally, it's best to use money from your taxable accounts first and let your retirement plan assets grow tax-deferred as long as possible. Also, remember that you may benefit from the lower long-term capital gains rate when you sell assets in taxable accounts, but you'll be taxed at your higher, ordinary-income rate when you take distributions from traditional IRAs and 401(k)s. So you may want to take retirement plan distributions in years when you're in a lower income tax bracket. If you're age 70½ or older, be mindful of required minimum distribution rules.

5. All taxpayers: *Check with us before you take action.*

This guide presents many other ways to minimize your taxes for 2010 and beyond. Please read it over and mark those sections that seem especially relevant to your situation. Then contact us to see which of the strategies you're considering — or others this guide doesn't have room to cover — are best for you. We'd welcome the opportunity to help you minimize taxes and achieve your financial objectives.

TAX STRATEGIES CHECKLIST

Are you doing everything you can to save tax?

Making sure you keep your tax liability to a minimum is key to your overall financial health. Fortunately, there are some tried and true ways to help you achieve that goal. Below are tax-reduction strategies for individuals and businesses. Check those that apply to your situation and contact your tax advisor.

Personal strategies:

- ❑ Accelerating or deferring income
- ❑ Maximizing or bunching deductions
- ❑ Watching out for AMT triggers
- ❑ Contributing to a retirement plan
- ❑ Donating to charity
- ❑ Claiming all possible exemptions and credits
- ❑ Taking child-related breaks
- ❑ Timing capital gains and losses
- ❑ Planning for retirement distributions
- ❑ Participating in a flexible spending plan
- ❑ Taking advantage of education savings plans
- ❑ Making timely estimated tax payments
- ❑ Tapping into home energy tax credits
- ❑ Incorporating tax planning into your estate plan

Business strategies:

- ❑ Selecting a tax-advantaged business structure
- ❑ Claiming employment and research credits
- ❑ Deducting all eligible business expenses
- ❑ Accelerating or deferring income
- ❑ Using a tax-smart depreciation method
- ❑ Considering a cost segregation study
- ❑ Qualifying expenditures as repairs
- ❑ Taking advantage of the expensing provision
- ❑ Evaluating the merits of leasing
- ❑ Choosing an inventory method that saves tax
- ❑ Donating appreciated property
- ❑ Setting up a retirement plan
- ❑ Making timely estimated tax payments
- ❑ Incorporating tax planning into your exit plan

We would welcome the opportunity to help you pay as little tax as necessary. Please call us today to talk about ways to put these and other strategies to work for you.

Taxable vs. nontaxable income

Do you know the difference?

Most taxpayers are well aware that their salaries, bonuses, interest, dividends, capital gains and business income are generally taxable. But there are other types of income where many are more uncertain. Here are some examples which might help clarify the differences between the two forms of income:

Taxable	Nontaxable
Proceeds from surrendering a life insurance policy that are in excess of the policy's cost.	Life insurance proceeds paid to you because of the insured person's death, as long as the policy wasn't turned over to you for a price.
Unemployment benefits (but check with your tax advisor to see if the 2009 exemption for the first $2,400 in benefits has been extended to 2010).	Workers' compensation benefits.
Disability insurance income if *your employer* paid the premiums.	Disability insurance income if *you* paid the premiums.
Income from bartering, based on the fair market value of property or services you receive.	Cash rebates from a dealer or manufacturer.
Punitive damages.	Compensatory damages for physical injury or sickness.
Fringe benefits you receive in connection with performance of your services (unless you pay fair market value for them).	Statutorily excluded fringe benefits, such as group-term life insurance (up to $50,000), health insurance, parking and employee discounts.
Alimony payments.	Child support payments.
Rents from personal property (such as equipment), if you're operating the rental activity as a business.	Rents from your principal residence or vacation home, as long as you rent it out for fewer than 15 days during the year.
Reimbursements or cash advances for lavish or extravagant travel expenses — unless they're reasonable under the circumstances.	Travel expense reimbursements or cash advances that meet the requirements of an "accountable plan."
Gambling winnings, including winnings from lotteries, raffles, horse and dog races and casinos. The fair market value of prizes, such as cars, trips or other noncash prizes.	Gifts and inheritances.
Cancellation of debt (COD) income.	Debt forgiveness received in connection with a foreclosure or a mortgage workout on a principal residence.

This list is not all-inclusive, and many rules and exceptions apply. Check with your tax advisor for more information.

September 2010 – August 2011 Tax Calendar

Here are highlights of when various forms, payments and actions are due during this period.

Individuals and employees

Repeating deadlines

Tip income	**Employees must report tip income** of more than $20 for a given month to their employers by the 10th of the following month. Exceptions (because the 10th falls on a weekend or holiday): Oct. 12, 2010; April 11, July 11, Sept. 12 and Dec. 12, 2011.
Estimated tax	**Individuals' payments due:** Sept. 15, 2010; Jan. 18, April 15 and June 15, 2011.

Key dates

Oct. 15, 2010	**2009 filing deadline** for individuals who requested an automatic extension.
Jan. 31, 2011	**Individuals must file Form 1040** and pay tax due to avoid penalties for underpaying the Jan. 18 installment of 2010 estimated taxes.
April 15, 2011	**Individuals must file their 2010 tax returns** (Form 1040, 1040A or 1040EZ) or request an automatic six-month extension (Form 4868) and pay any tax due.
	Last date to make 2010 contributions to an IRA.
	Individuals must file their 2010 gift tax returns (Form 709) or an automatic six-month extension (Form 8892) and pay any gift tax due.
	Household employers must file Schedule H (Form 1040) if wages paid in 2010 exceed the annual limit.
June 15, 2011	**Individuals living outside the United States must file their 2010 tax returns** (Form 1040) or request a four-month extension (Form 4868) and pay any tax due.

Businesses and employers

Repeating deadlines

Withholding and FICA taxes	**Employers must file Form 941** and pay any tax due: Nov. 1, 2010; Jan. 31, May 2 and Aug. 1, 2011.
Estimated tax	**Calendar-year corporation payments due:** Sept. 15 and Dec. 15, 2010; April 15 and June 15, 2011.

Key dates

Sept. 15, 2010	**2009 filing deadline** for calendar-year corporations and partnerships, as well as trusts and estates, that requested an automatic extension.
Dec. 31, 2010	**Last date for employers to establish a retirement plan for 2010** (other than a SEP or SIMPLE).
Feb. 28, 2011	**Employers must file Form W-2 (Copy A) and transmittal Form W-3** with the Social Security Administration. (Electronic filers have until March 31.)
	Businesses must file Form 1099 for 2010 interest, dividends and miscellaneous payments.
March 15, 2011	**Corporations must file their 2010 tax returns** (Form 1120 or 1120-A) or request an automatic six-month extension (Form 4868) and pay any tax due.
April 15, 2011	**Calendar-year partnerships, trusts and estates must file their 2010 tax returns** (Form 1065 or 1065-B for partnerships, Form 1041 for trusts and estates) or request an automatic six-month extension (Form 7004) and pay any tax due.
May 16, 2011	**Tax-exempt organizations must file their 2010 calendar year information returns** (Form 990, 990-EZ, 990-PF or 990-T) and pay any tax due.
Aug. 1, 2011	**Employers must file their retirement plan reports** (Form 5500 or 5500-EZ) or request an extension.

The Patient Protection act: When will you feel its impact?

The Patient Protection and Affordable Care Act and its companion reconciliation act were signed into law in March. The acts' provisions will take effect gradually over several years. Here's a brief summary of the main tax-related provisions.

Individual tax provisions

Important tax provisions affecting individuals include:

Penalties for the uninsured. Beginning in 2014, individuals who aren't eligible for Medicaid, Medicare or other government-provided coverage and fail to purchase minimum essential health coverage generally will be hit with a penalty.

Premium assistance for those with lower incomes. Starting in 2014, people with income between 133% and 400% of the federal poverty level will be eligible for tax credits or cost-sharing subsidies on a sliding scale to help pay insurance premiums.

New limit on contributions to Flexible Spending Accounts (FSAs) for medical expenses. Beginning in 2013, the annual contribution limit will be $2,500. (Currently there's no statutory limit.)

Higher threshold for medical expense deduction. Starting in 2013, the act raises the threshold for deducting unreimbursed medical expenses from 7.5% to 10% of adjusted gross income (AGI), except in certain circumstances where the increase is delayed until 2017.

Higher taxes on the affluent. Beginning in 2013, taxpayers with more than $200,000 in earned income ($250,000 for joint filers, $125,000 for separate filers) generally will pay an additional 0.9% Medicare tax on the excess. In addition, those with AGIs over $200,000 ($250,000 for joint filers, $125,000 for separate filers) will pay a new, 3.8% Medicare tax on unearned income, such as interest, dividends, rents, royalties and certain capital gains.

Business tax provisions

Provisions affecting businesses include:

Penalties for failure to provide coverage. Starting in 2014, employers with 50 or more full-time-equivalent workers (FTEs) that don't offer coverage and have at least one full-time employee who receives a premium tax credit will be subject to an annual fee of $2,000 per FTE (not including the first 30 FTEs).

Tax credits for small businesses. Beginning this year, certain small businesses may be eligible for a tax credit of up to 35% of health care premiums paid. Beginning in 2014, a maximum credit of 50% will be available for two years for certain employers that purchase coverage through a state exchange.

Excise tax on "Cadillac" plans. Starting in 2018, high-cost group plans will be subject to a 40% nonrefundable excise tax. The tax generally will apply to annual premiums in excess of $10,200 for individual coverage and $27,500 for family coverage (excluding stand-alone dental and vision plans). These amounts will be indexed for inflation.

Wide-reaching impact

The Patient Protection act will eventually have an impact on most taxpayers. Please contact us if you have questions about how the provisions may affect you or your business.

What's new!

Provisions going into effect in 2010 expand coverage

Who's affected: Parents, children and Medicare prescription drug beneficiaries

Key changes: Most provisions going into effect sometime this year likely won't have much of an impact on your taxes, but some could affect your personal finances by expanding health care coverage for you or your loved ones. Such provisions include:

- Prohibiting insurers from denying coverage for children based on pre-existing conditions (will apply to adults starting in 2014),
- Requiring insurers to provide dependent coverage for children up to age 26, and
- Gradually closing the "donut hole" that creates a gap in Medicare prescription drug benefits.

Planning tips: Talk to your insurance provider or employer to make sure you and your family are getting the coverage you're eligible for.