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## Big changes for Roth IRAs Starting in 2010

Starting in 2010 taxpayers will be able to roll over amounts in qualified employer sponsored retirement plan accounts, such as 401(k)s and profit sharing plans, and regular IRAs, into Roth IRAs, regardless of your adjusted gross income (AGI). Previous to 2010, AGI limitations made it impractical for many individuals to make such rollovers.

What's so attractive about a Roth IRA? Here's a summary:

- ◆ Earnings within the account are tax-sheltered (as they are with a regular qualified employer plan or IRA).
- ◆ Unlike a regular qualified employer plan or IRA, withdrawals from a Roth IRA aren't taxed if some relatively liberal conditions are satisfied.
- ◆ A Roth IRA owner does not have to commence lifetime required minimum distributions (RMDs) after he or she reaches age 70 1/2 as is generally the case with regular qualified employer plans or IRAs. (For 2009, there was a moratorium on RMDs.)
- ◆ Beneficiaries of Roth IRAs also enjoy tax-sheltered earnings (as with a regular qualified employer plan or IRA) and tax-free withdrawals (unlike with a regular qualified employer plan or IRA). They do, however, have to commence regular withdrawals from a Roth IRA after the account owner dies.

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## Key Figures for 2010

\***Personal and Dependency Exemption** is \$3,650; unchanged from 2009

\***Standard Deduction** for married filing joint is \$11,400, (unchanged), \$5,700 for singles and married individuals filing separately (unchanged), and \$8,400 for individuals filing head of household (up \$50)

### 2010 Standard Mileage Rates

- ◆ 50 cents per mile for **business miles** driven
- ◆ 16.5 cents per mile driven for **medical or moving** purposes
- ◆ 14 cents per mile driven in service for **charitable organizations**

**Annual Gift Exclusion** \$13,000, unchanged from 2009

**Estate and Gift Exemption** *Currently* unlimited, however Congress is (still) addressing for the 2010 tax year. See related newsletter article.

**Kiddie Tax** The amount of unearned income, i.e. investment income a child under 18 is allowed before the income is taxed at the parents' marginal tax rate is \$1,900 (up \$100).

**FICA and Self Employment Tax** earnings limit is unchanged at \$106,800 for 2010.

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The decision to convert to a Roth IRA is complicated and requires a lot of planning.



Reviewing QuickBooks data before providing it to your accountant can allow you to correct many errors.



## Roth IRA Conversions (continued)

The catch, and it's a big one, is that the rollover will be fully taxed, assuming the rollover is being made with pre-tax dollars (money that was deductible when contributed to an IRA, or money that wasn't taxed to an employee when contributed to the qualified employer sponsored retirement plan) and the earnings on those pre-tax dollars. For example, if you are in the 28% federal tax bracket and roll over \$100,000 from a regular IRA funded entirely with deductible dollars to a Roth IRA, you'll owe \$28,000 of tax. So you'll be paying tax now for the future privilege of tax-free withdrawals, and freedom from the RMD rules.

Should you consider making the rollover to a Roth IRA? The answer may be "yes" if:

- ◆ You can pay the tax hit on the rollover with non-retirement-plan funds. Keep in mind that if you use retirement plan funds to pay the tax on the rollover, you'll have less money building up tax-free within the account.
- ◆ You anticipate paying taxes at a higher tax rate in the future than you are paying now. Many observers believe that tax rates for upper middle income and high income individuals will trend higher in future years.
- ◆ You have a number of years to go before you might have to tap into the

Roth IRA. This will give you a chance to recoup (via tax-deferred earnings and tax-deferred payouts) the tax hit you absorb on the rollover.

- ◆ You are willing to pay a tax price now for the opportunity to pass on a source of tax-free income to your beneficiaries.

You also should know that Roth rollovers made in 2010 represent a novel tax deferral opportunity and a novel choice. If you make a rollover to a Roth IRA in 2010, the tax that you'll owe as a result of the rollover will be payable half in 2011 and half in 2012, unless you elect to pay the entire tax bill in 2010.

Why on earth would you choose to pay a tax bill in 2010 instead of deferring it to 2011 and 2012? Keep in mind that absent Congressional action, after 2010 the tax brackets above the 15% bracket will revert to their higher pre-2001 levels. That means the top four brackets will be 39.6%, 36%, 31%, and 28%, instead of the current top four brackets of 35%, 33%, 28%, and 25%.

If you have questions on this or any other tax issues, please do not hesitate to contact our office.

## QuickBooks Corner — Top Ten Year-End Tips

From the home office in Brighton, Colorado the top ten things to do before your accountant gets your QuickBooks data:

- 1) Reconcile your bank accounts
- 2) Note any fixed asset disposals or sales
- 3) Provide paperwork for fixed asset additions
- 4) Make sure outstanding loans agree to bank balances
- 5) Make sure payroll liabilities agree to payroll reports
- 6) Review various expense accounts to ensure proper coding of expenses
- 7) Put any transactions in which you

are not sure about into one "Ask Accountant" account

- 8) Make sure other income and expense items have an adequate description so that we can understand what is in those accounts
- 9) Review chart of accounts for any duplicate accounts
- 10) Be sure to note what version of QuickBooks you are using and your password on the back up data you provide to us

If you have questions or need help with QuickBooks please call our BWA QuickBooks advisors.

## No Estate Tax in 2010: Will it Last?

Eight years ago, a law was enacted to repeal the estate tax for 2010, for individuals dying in 2010, and then bring it back in harsher terms for those dying after 2010. Many had thought that the current Congress would undo the impending repeal and permanently or temporarily keep the tax at 2009 levels (\$3.5 million per person exemption and 45% top rate). However, with the contentious fight over health care and the continuing recession taking priority, that has not happened.

This leaves estate planning in a confused state, and it doesn't necessarily mean that taxes will be lowered for heirs of a decedent dying in 2010. That's because, estate tax repeal includes changes to the income tax basis rules for property acquired from a decedent. As a result of these income tax changes, some heirs could face higher combined estate and income tax costs if their loved one dies in 2010 rather than in another year.

**Winners under repeal.** If the repeal goes into effect, heirs of individuals dying in 2010 with very large estates will save a substantial amount of transfer tax. While they may also be exposed to some income tax under the modified carryover basis regime, the transfer tax savings would more than offset the increased income tax costs.

**Losers under repeal.** Heirs of many smaller estates could come out worse if repeal goes through and a step-up in basis is removed. That's because, while these individuals won't face transfer tax costs, they could face income tax costs. This situation is different from the plight of heirs of wealthier individuals because heirs of less wealthy individuals currently face neither income tax nor estate tax costs. However, for 2010, they could face income tax costs.

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Smaller estates could actually be in worse shape with the repeal due to the additional income taxes heirs of these estates would owe.

## Key Figures for 2010 (continued)

**Section 179** or asset expensing maximum for 2010 is \$134,000 for asset investments up to \$530,000.

### Automobile Depreciation Limits

**Autos** \$4,800

**Light Duty Trucks and Vans** including SUVs built on a truck chassis \$4,900

\*Beginning in tax year 2010, neither the itemized deduction or personal exemption phase out limits apply. Unless Congress extends this provision, full phase-outs come back in 2011.

### Retirement Plan Amounts

- ◆ **IRA** contribution limit is \$5,000 with a \$1,000 catch-up allowed for taxpayers 50 and over.
- ◆ The **SIMPLE** Plan deferred compensation limit is \$11,500 with a \$2,500 catch-up contribution allowed in 2010.
- ◆ **401(k)** elective deferral limit is \$16,500. If your plan allows catch-up contributions and you are 50 or older the 2010 maximum contribution is \$22,000.





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## Mission Statement

Our mission is to provide quality personal service, with professionalism; integrity and a commitment to assisting our clients achieve their goals.

## Guiding Principles

To foster a close personal relationship with our clients, focusing on the long-term.

To earn the respect and trust of our clients.

To provide competent, timely service to all of our clients.

To use our abilities and contribute back to the communities in which we live.

To enjoy what we do. (Really accountants can!)

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## Estate Planning in 2010 (continued)

**Some action seems likely.** Although Congress didn't address these transfer tax issues before year end, it seems likely that something will be done in 2010. On Dec. 3, 2009, the House, by a vote of 225 to 200, approved H.R. 4154, the "Permanent Estate Tax Relief for Families, Farmers, and Small Businesses Act of 2009." The bill would make permanent the present-law estate, gift, and generation skipping transfer (GST) tax laws in effect for 2009. The Senate has not acted on this measure or on a bill introduced in the Senate on Nov. 19, 2009.



fair to assume that some kind of compromise will be reached in 2010. Whether that would involve a retroactive undoing of repeal to the beginning of next year and, if so, whether such legislation would pass muster if challenged, remains to be seen. What does seem likely is that the estate tax will continue sometime next year with a minimum exemption of \$3.5 million per person and a maximum top rate of 45%. It also seems likely that the step-up in basis rules will be preserved. Thus, notwithstanding the current state of uncertainty, estate planning should continue to be undertaken for clients with estates in these ranges.

Whether for or against repeal, most legislators would not want to see a return of the pre-2001 Act provisions under the sunset rules. Thus, it seems

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