

# NEWSLETTER

## New law expands benefits for taxpayers



The new Worker, Homeownership, and Business Assistance Act of 2009 contains several key provisions affecting individuals and business owners. Here's a brief summary.

### Homebuyer's credit

Under prior law, an eligible first-time homebuyer could claim a maximum credit of \$8,000 for a principal residence purchased before December 1, 2009. But the credit began to phase out for single filers with a modified adjusted gross income (MAGI) above \$75,000 and joint filers above \$150,000.

Under the new law, the credit is available for home purchases made before May 1, 2010, (July 1, 2010, if a binding contract exists before May 1). Also, the phase-out threshold increases to \$125,000 of MAGI for single filers and \$225,000 for joint filers. The homebuyer credit may be elected on a 2009 tax return for a qualified

purchase in 2010.

Not just for first-timers: If you buy a home after November 6, 2009, and have owned and used the previous home as your principal residence for five consecutive years in the last eight years, you may claim a credit of up to \$6,500. New limit for everyone: No credit is allowed for purchases after November 6, 2009, if the price exceeds \$800,000.

### NOL carryback

Normally, a business can carry back a net operating loss (NOL) for only two years before carrying it forward for up to 20 years. A prior law change allowed a carryback for three, four, or five years to qualified small business for NOLs in tax years beginning or ending in 2008.

The new law extends the longer carryback regardless of the size of the business. This election is generally available for NOLs incurred in either 2008 or 2009.

Caveat: Under the new law, an NOL carried back to the fifth year is limited to 50% of the taxable income for the year. Any remaining NOL may offset income in the remaining four years.

### Other provisions

Unemployment benefits are extended for up to 14 weeks (20 weeks for individuals in states with high unemployment rates). But the tax exclusion for the first \$2,400 of unemployment benefits received in 2009 isn't extended.

Finally, the new law includes several revenue-raisers to pay for the favorable changes, such as expanded use of e-filing by small tax return preparers, an extension of the FUTA surtax, and increased penalties for failing to file partnership and S corporation returns.

## New rules in 2010 for Roth IRA conversions

Beginning in 2010, the rules governing Roth IRA conversions will undergo a significant change.

Traditional IRA to Roth IRA conversions will be available to everyone, creating a financial planning opportunity that didn't exist previously. Under the 2009 rules, taxpayers with income of more than \$100,000 cannot convert a traditional IRA to a Roth IRA. Tax legislation enacted in 2006 changed the rules and ends the \$100,000 income limit, effective January 1, 2010.

The Roth IRA has been a popular investment vehicle, with its ability to give taxpayers tax-free distributions once the account has been in existence for five years and the taxpayer has reached age 59½. Another Roth benefit is the lack of required minimum distributions once the owner reaches age 70½.

\* The conversion to a Roth does have a cost. When you convert a traditional deductible IRA to a Roth, you must include the entire amount converted in your taxable income.

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### Credit card fraud: Will you be the next victim?

Credit card fraud has been around since the advent of credit cards, but the thieves have advanced with technology. At first, crooks used low-tech maneuvers like robbery, dumpster diving, or mailbox crashing to steal cards, statements, and merchant receipts. Although still popular, these methods are being eclipsed by more sophisticated techniques that range from phone scams and phishing to phony websites and spyware.

Phone scammers use lies to trick victims into disclosing their credit card numbers and other sensitive information. The callers might say they're asking for charitable donations, selling goods or services, or "updating" your account information.

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## Do you own too much company stock?

Employees often have too much of their employer's company stock in their 401(k) or other retirement plan. Employees feel they know their company best, overlooking the risks of having too much of an investment in any one company, including their own.

What are some of the risks of loading up on your employer's stock?

\* Tremendous bet in a "safe haven." Overweighting investment holdings in any company minimizes diversification, exposing your portfolio to increased downside return risk. The belief that employer shares are less risky is an illusion.

\* Double whammy potential. No company is protected from economic downturns. If your employer's performance weakens, you may lose your income if you lose your job, as well as value in your retirement plan.

\* Lock-up periods. Some companies prohibit employees from converting the employer retirement match contributions in company stock into other investments until after a number of years. In this case, use your own contributions to diversify your holdings.

\* Tendency to forget. As you move closer to retirement, you may forget the riskiness of your employer's stock to your portfolio. At the same time, contributions of company stock may be growing, based on higher benefit matches – just when portfolio diversification is becoming more important.

Your goal should be to create a well-balanced portfolio that suits your age and your risk tolerance. Call us for assistance in reviewing your situation.



## Tips for starting a new business

If you recently lost your job or have always dreamed about being your own boss, you may be contemplating a new business venture. Naturally, this is a risky proposition, especially during these turbulent times. Here are some practical suggestions to help you succeed.

\* Be realistic. Don't expect your business to be immediately successful. In fact, you should be prepared, both mentally and financially, for the worst-case scenario. Recent statistics from the Small Business Administration (SBA) show that about one-third of new business start-ups fail to make it through two years and over one-half fold after four years. Give your business time to grow and prosper.

\* Minimize the risks. Even if you're encouraged by the initial results, don't tie your fortunes completely to this undertaking. If you're still gainfully employed somewhere else, keep the job and operate the new venture as a sideline business. If you're currently out of work, make sure you have some cash reserves to fall back on.

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## Credit Card Fraud *(continued)*

Phishing is the online equivalent, where scammers send e-mails claiming to be from legitimate sources like PayPal, eBay, banks, or even the IRS. The e-mails usually direct recipients to official looking websites that use various pretexts to elicit credit card information.

Spyware can be installed on your computer when you open an unsolicited e-mail attachment. Although less frequent, skilled hackers can also insert spyware through unpatched weaknesses in Windows or web browsers. The spyware sends the desired data (credit card numbers, etc.) to remote servers whenever the victims enter the information.

Here are steps you can take to guard against fraud.

\* Photocopy credit cards and other important documents that you keep in your wallet. Use the copies to notify your bank and credit card companies if your wallet is lost or stolen. Then cancel the cards and put a hold on all charges.

\* Always review your bank and credit card statements to make sure the charges are legitimate. Notify issuers immediately of any unauthorized entries. Then consider changing your account number or canceling the card.

\* Shred statements or receipts before disposing of them.

\* Never give personal information to an unsolicited caller. Scammers can falsify names and numbers that appear on your caller ID. Look up the company's number to make sure it's legitimate; then call back if you wish.

\* Don't open e-mail attachments from unknown parties, and don't respond to unsolicited e-mail requests for personal information.

\* Avoid writing down your PIN or passwords, and shield the numbers when using ATMs or similar machines. Even if nobody is nearby, thieves may have affixed hidden cameras.

\* Protect your computer with a firewall, anti-virus software, and an anti-spyware program and update them.

### **Roth IRA Conversions** *(continued)*

If you do a conversion in 2010, you are allowed to report half of the income on your 2011 tax return and the remaining half on your 2012 tax return. You can also choose to pay the taxes due on the conversion on your 2010 return. While prepaying seems counterintuitive, remember that present federal tax rates are set to expire December 31, 2010. Postponing income into future years could mean a bigger tax bill.

The new conversion rules are particularly advantageous to those upper-income taxpayers who could never participate in a Roth. Now taxpayers in high tax brackets will have access to Roth IRAs. One possible strategy is to set up a traditional IRA with nondeductible contributions in 2009 and then convert it to a Roth in 2010.

It's important to weigh the pros and cons of a conversion in your individual situation. Please give us a call if you would like to discuss the best strategy for you.

### **Starting a New Business**

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\* Carve out a niche. Your business should fulfill a specific need that is difficult for chain stores or other broad-based businesses to meet. In other words, if you try to compete directly with the corporate giants, you're likely to lose.

\* Choose the proper form of ownership. Depending on your circumstances, it may be best to operate the business as a C corporation, a partnership, an S corporation, a limited liability company (LLC), or a sole proprietorship.

Although you'll personally shoulder most of the burden, you're not alone. Call us for assistance with the issues related to starting a new business.

### **Call NOW for a year-end tax review**

Time is running out on moves you can make to reduce your 2009 tax bill. Some actions to consider right now:

- \* Be sure to max out your 401(k) plan at work. This year you can sock away \$16,500 (\$22,000 if you're 50 or older).
- \* Establish a pension plan for your small business. You may qualify for a tax credit of up to \$500 in each of the plan's first three years.
- \* Plan year-end purchases of new or used business equipment to take full advantage of the higher expensing limit of \$250,000 for 2009. Purchases of new equipment (not used) can qualify for first-year 50% bonus depreciation.
- \* Get your investment records in order so you can make wise year-end sell decisions, either to rebalance your portfolio at the lowest tax cost or to offset gains and losses.
- \* Track down reinvested dividends for any stock sold in 2009. They'll add to your cost basis and reduce taxable gain or increase deductible loss on the sale.

An important part of our service to you is to help identify actions you can take before year-end to minimize your 2009 income tax bill. Accelerating deductions, delaying income, contributing to retirement plans, and taking investment losses are just a few of the strategies you might want to consider. There are also tax credits that require careful planning or they may be lost. If you'd like to discuss tax-cutting options that fit your particular situation, please contact us soon for a year-end planning review.