Crow Shields Bailey PC
Reaching beyond the numbers.

Beyond the Numbers

A Crow Shields Bailey PC News Publication

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Crow Shields Bailey PC Partners

As individuals growing up, from adolescence through our entrance into the working world, we all have different experiences that help shape our personalities. A business often takes a similar path from start-up to maturation. Our accounting practice is no different. Over the last 24 years we've gained a better understanding of the type of firm we are, which clients we wish to serve, and what services we can provide.

Several months ago, in an effort to help clarify our firm's personality, we began working on developing a "brand." We were looking for something that would promote our core values of professionalism, integrity, timeliness and extraordinary service. After much deliberation, this process is now complete and we're ready to share it with you. You'll notice our new brand in our logo and tag line ("Reaching beyond the numbers"). These are reflected in our newsletter, on our website and in all of our correspondence with you.

Our hope is that our new brand helps us in providing top-quality service to you, our client, through hard work, creativity, and a genuine concern for your success and well being. In keeping with that mission, we are committed to hiring only the best and brightest team members, and we believe our branding will greatly enhance our recruiting efforts.

We are grateful for our dedicated and experienced team, all of whom share the same vision. Of course our greatest appreciation goes out to you, our client. Your loyalty and confidence continues to motivate us. Without you, there would be no us, and we try to remember that every day. Thank you!

See page 10 for an important client notice.

Newsletter Contributors
Kathryn Bradley
Kenny Crow
Trey Johnson
Deborah Martinsen
John Shields

Our Vision

Our firm's objective is to maximize our clients' wealth. We strive to be the premier accounting and consulting firm in our area by offering a complete range of quality services to our clients. We will employ only the best people and ensure outstanding training and long-term career opportunities.

Team Members

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Visit our website at: **CSBcpa.com**

Holiday Message

By Kenny Crow

Charles Kettering once said "The world hates change, yet it is the only thing that has brought progress." Mr. Kettering was right. Change is the only thing we can count on in our lives.

Although change is sometimes uncomfortable, it can teach us humility, increase our focus, and help us not take things for granted. My generation will always remember this era when we met so many challenges to our normal lives. Just like our predecessors' constant reminders to us about their experiences following the Great Depression, we too will have those memories to share with our children and grandchildren. My hope is that our words will not fall on deaf ears.

We have witnessed many of our clients returning to what made them successful in the past, as they have reevaluated their operations to determine where the real profit potential lies and where unnecessary costs can be reduced to increase margins. We have also seen the work force begin to more fully appreciate their jobs and work harder to keep them.

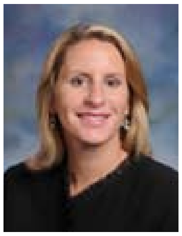
At the end of the day, we should all appreciate the things we are so blessed to have. Our thanks rightfully start with our faith in God, then to our families, friends and the people with whom we work. May we be forever thankful for the things that really do make a difference in our lives, and not take the little things for granted.

From all of us at Crow Shields Bailey, we wish all of you the joy you seek during the holiday season and a successful start to the New Year.

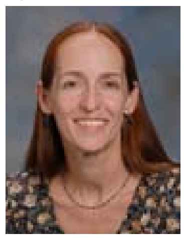
Team Member news

Promotions

Kristi B. Daughtery, CPA was promoted to Manager of the Tax Team. Kristi has been a valued CSB team member for nine years. She is frequently complimented by clients and fellow team members for her client service skills, team oriented attitude and quality of work. Kristi is always willing to go the extra mile for our clients and our team.



Colleen A. Keleher, CPA was promoted to Manager of the Audit Team. Colleen was with Dudley Chateau & Cox for over twenty years and has done a tremendous job since joining CSB in conjunction with the merger with DCC. She is regularly recognized and highly regarded for her impeccable technical skills, research expertise and willingness to train others.



Deborah F. Martinsen was promoted to Firm Administrator. Deborah has been with CSB for twelve years and previously served as Office Manager. She oversees firm marketing, operations, and IT. Additionally, she directs all human resources functions such as recruitment, hiring and compliance.

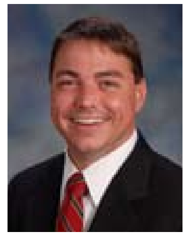
Other

Kenny Crow joined the Mobile Area Chamber of Commerce's Board of Advisors. The Chamber's Board of Advisors is comprised of over 200 presidents and CEOs, business owners and other senior level executives who want to have an active role in preparing our region for business in the new century.

Zachery Caskey, grandson of La Nette Caskey, was nominated to attend the National Young Leaders State Conference in Birmingham in the spring. Zachery was one of a select group of students recognized for possessing the scholastic merit, maturity and responsibility to represent Alabama in this unique program.

New Hires

Alex M. Martin is interning with CSB. He received a Bachelor of Science degree in Business Administration with an emphasis in Accounting from Auburn University and is currently completing the Master's of Accountancy program at the University of South Alabama. Alex is working on the Tax Team.



W. Brian Moore joined CSB on July 1 as a member of the Audit team. Brian received a Bachelor of Science degree in Business Administration from the University of Alabama and completed his MBA at the University of Alabama at Birmingham. He is married to Tierney Christian Moore and they have two children: Anna Christian (3) and Davis (1). Brian holds the designation of Certified Public Accountant and is a candidate for the Certified Internal Auditor, Certified Management Accountant, and Certified Valuation Analyst designations.

Graduates

Michael and **Mary Catherine Bailey** graduated from McGill Toolen Catholic High School in May. Michael was a member of the National Honor Society, Student Ambassador Treasurer and the Ronald McDonald Red Shoe Krewe. Additionally, he was the recipient of the Principal's Leadership Award and the Jacket Jubilation Service Award. Michael is attending Auburn University where he plans to pursue a degree in Accounting.

Left to right are Michael, Scott and Mary Catherine Bailey.

Mary Catherine was a Student Ambassador and a member of the Ronald McDonald Red Shoe Krewe. She is attending Auburn University and is pursuing a degree in Elementary Education.

Kenny Crow, III graduated from the University of Alabama with a Bachelor of Science degree in Accounting and is currently pursuing a Masters of Accountancy degree also from UA.

Louise Crow graduated from the University of Alabama with a Masters of Arts in Advertising and Public Relations and is now working for Peritus Public Relations as an Account Coordinator.

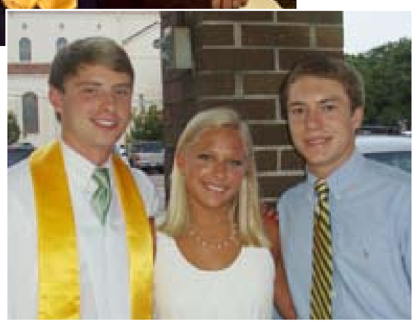
Elizabeth McDermott graduated magna cum laude from Louisiana State University with a Bachelor of Arts degree in Mass Communications and is currently enrolled in law school at the University of Alabama.

Continued on Page 4

Amanda Moore graduated from Foley High School. She was in the top ten of her class and was a member of the National Honor Society. She is a freshman at Auburn University where she is pursuing a degree in Social Work.

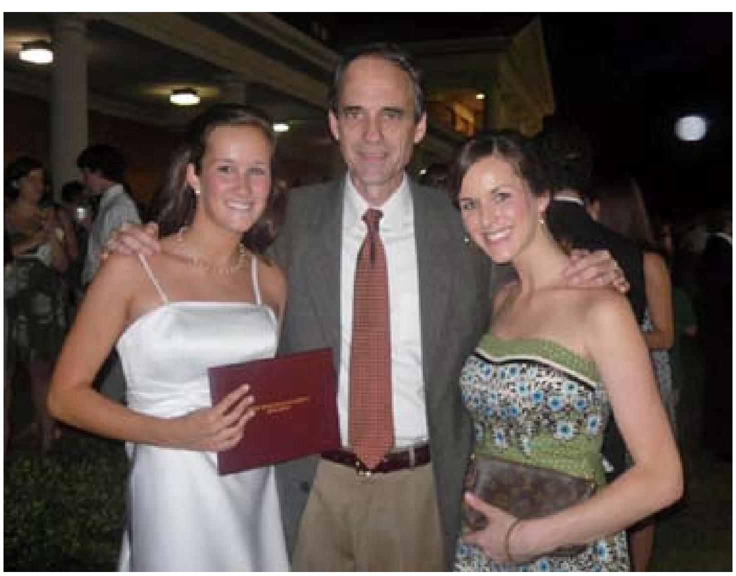
Left to right are Melissa, Diana, Amanda and Lance Moore.

Bradley Russell graduated from McGill-Toolen Catholic High School in May where he was a Student Ambassador and a member of the tennis team. He is attending Louisiana State University where he plans to pursue a degree in Petroleum Engineering.



Michael Bailey, Mary Catherine Bailey and Bradley Russell.

Anna Mary Shields graduated from UMS-Wright Preparatory School. She was a member of the varsity soccer team and the Student Government Association. She is attending the University of Alabama where she is pursuing a degree in nursing.



Anna Mary Shields at UMS-Wright graduation with father John and sister Laura.

Naval Academy Induction

On July 21 **Jo Chateau's** grandson, **Pierce Chilton**, was inducted into the U.S. Naval Academy to begin his summer training to become a Midshipman. Pictured is Pierce taking the oath of office administered by his uncle, and Jo's son, Commander **Steven Blackwell**, M.D., who recently returned from Afghanistan. With them is Pierce's brother, Midshipman **Logan Chilton**, who is in his second year at the Academy.

Baby News

Kathryn, **Phillip** and **Evan Bradley** are expecting a new addition to their family! Baby Bradley's expected arrival date is May 3.

Barb Frerman is expecting her third grandchild! Josh, Kathryn and Ava's new addition is due in April.

Engagements

John Bedsole and **Amy Ruth Russell** were engaged on May 5, 2010 and will be married at St. Paul's Episcopal Church on June 18, 2011.

This is the exact spot, next to the Eiffel Tower in Paris, France, where John Bedsole proposed to Amy Russell on May 5, 2010.

2010 Year-end Income Tax Planning For Individuals

As we approach the close of 2010, there is still time to take steps that can reduce your 2010 tax bill. Year-end tax planning is more complicated this year due to: ongoing uncertainties regarding tax rates for 2011; questions as to when and if many popular tax breaks that expired last year will be extended; and brief windows of opportunity to take advantage of recently-enacted tax breaks that are **scheduled to expire after 2010.** As we complete this letter, there is no assurance that Congress will resolve these issues by the end of this year. However, regardless of how and when these uncertainties are addressed, there are many "tried and true" year-end tax savings steps that you should consider for 2010. Moreover, Congress has passed several tax bills this year that offer new tax breaks to individuals, many of which are temporary, and some that are available **in 2010 only**!

We are sending you this letter to remind you of the *traditional* year-end tax planning strategies that **1)** help ensure your income is taxed at lower rates, and **2)** will in some cases postpone taxes. This letter will also help you navigate through the many *new* tax planning opportunities available to individuals under recent law changes. **Caution!** Since many recently-enacted tax breaks **expire after 2010** (and others after 2011), it is extremely important that you be proactive and act timely to obtain maximum benefits! **Tax Tip.** Even though the recent recession has caused many individuals to experience a significant drop in income for 2010, this drop in income may actually produce additional tax benefits. If your income is down for 2010 as compared to recent years, you may be eligible for deductions and credits that you did not get in previous years because your income exceeded the phase-out thresholds. So, please notice **the income thresholds** for the various deductions and credits discussed in this letter, which we **highlight prominently** in each section.

To help you locate **items of interest**, we have divided the planning ideas into the following categories:

- Highlights Of Recent Legislation Impacting Year-End Planning
- Expiring (And Expired) Individual Tax Breaks
- Preparing For Potential Tax Rate Increases
- Should You Consider Converting Your "Traditional IRA" To A "Roth IRA?"
- Traditional Year-End Planning Techniques
- Estate, Gift, And Generation-Skipping Taxes

Planning Alert! Tax planning strategies suggested in this letter may subject you to an unexpected alternative minimum tax (AMT). For example, many deductions are not allowed for AMT purposes, such as: personal exemptions, the standard deduction, state and local income taxes, and real estate taxes. Also, AMT can be triggered by taking large capital gains or exercising incentive stock options. **Therefore, we suggest that you call our firm before implementing any tax planning technique discussed in this letter.** You cannot properly evaluate a particular planning strategy without calculating your overall tax with and without that strategy. **Please Note!** This letter contains ideas for Federal income tax planning only. State income tax issues are **not** addressed.

*** Please see the "links" section of our website at CSBcpa.com. There you will find a more detailed version of this letter and one for businesses, as well as one that covers new tax legislation for 2010.

Highlights Of Recent Legislation Impacting Year-end Planning

Congress passed three significant tax bills this year: **1)** The ***Hiring Incentives Act of 2010*** (HIRE Act) to promote hiring; **2)** The ***Health Care Act of 2010*** (Health Care Act) to overhaul the health care industry (which also contains an array of tax provisions), and **3)** The ***Small Business Jobs Act of 2010*** (Jobs Act) providing a series of tax incentives to small businesses to help spur economic activity. Collectively, these tax bills contain several new temporary tax breaks for individuals. The following are *selected* provisions from this tax legislation that we believe will have the greatest impact on your 2010 year-end planning.

Self-Employed Individuals May Deduct Health Insurance Premiums In Calculating Self-Employment Taxes For 2010 Only. For tax years beginning in 2010, the *Jobs Act* allows self-employed individuals to deduct their health insurance premiums for S/E (Social Security and Medicare) tax purposes, as well as for regular income tax purposes. **Planning Alert!** For 2010, the S/E tax rate is 15.3% for the first $106,800 of self-employed income, and 2.9% on the income exceeding $106,800. Thus, if your self-employed income for 2010 does not exceed $106,800, this temporary deduction will generally save you S/E tax equal to 15.3% of the cost of your health insurance. **Tax Tip.** If you are self employed and you are planning to pay health insurance premiums in the early part of 2011, **accelerating that payment into 2010** will salvage a deduction for S/E tax purposes.

Rules For Cell Phones Relaxed. Effective for tax years beginning after 2009, the *Jobs Act* provides that cell phones and similar telecommunications equipment (including PDAs and Blackberry devices) are no longer classified as "listed property". In order to obtain a deduction for the business use of listed property, detailed contemporaneous record keeping is required. Therefore, after 2009, the general documentation rules for business deductions apply to cell phones and similar devices used for business.

Reimbursements Of Over-The-Counter Drugs No Longer Tax Free. Before the *Health Care Act*, taxpayers were allowed tax-free reimbursements for most *nonprescription drugs* and medicines from a health savings account (HSA), health flexible spending arrangement (FSA), health reimbursement arrangement (HRA), or other qualified employer health plans. **Effective for expenses incurred after 2010,** reimbursements for drugs and medicines will be tax free *only for* a prescribed drug or insulin. **Planning Alert!** If you have been using a tax-favored reimbursement arrangement to pay for your over-the-counter medications (e.g., to treat a chronic medical problem such as allergies or asthma), these reimbursements will generally be taxable **starting in 2011,** unless you have a prescription. **Tax Tip.** The IRS has stated that you may receive tax-free reimbursements **after 2010** for non-prescription drugs **that you purchased on or before December 31, 2010.** In addition, reimbursements for over-the-counter medications may still be tax free after 2010 if you have a prescription for the medication. In other words, obtaining a prescription for a medication (even though not required) will enable the medication to qualify for tax-free reimbursement.

Tax-Free Medical Benefits Extended To Children Under Age 27. Effective March 30, 2010, the *Health Care Act* allows tax-free reimbursements from an employer-provided health plan to any child of an employee **who is not age 27** *as of the end of the tax year*. This exclusion applies even if the employee cannot claim the child as a dependent for tax purposes. Previously, an employer could only reimburse "tax free" the medical expenses of an employee, the employee's spouse and the employee's dependents.

Adoption Credit Increased And Made Refundable For 2010 And 2011. For tax years beginning in 2010 or 2011, the *Health Care Act* makes two significant changes to the adoption credit: **1)** the maximum adoption tax credit is **increased to $13,170**, and **2)** the credit becomes *"refundable"* (this generally means that, to the extent the credit exceeds your income taxes before the credit, the IRS will send you a check for the excess). **For 2010**, the adoption credit is phased-out as your modified adjusted gross income increases from **$182,520 to $222,520** (whether you're married filing a joint return, or single). **Tax Tip.** Generally, for domestic adoptions you are allowed the adoption credit in the tax year *following the year* the qualifying adoption expense is "paid." However, the credit is allowed for adoption expenses paid in the same tax year that the adoption is finalized. Therefore, qualified expenses for a domestic adoption paid **by December 31, 2010** will generally generate a refundable credit **in 2011.** However, if you can *finalize* the adoption on or **before December 31, 2010,** you can qualify for the credit **in 2010.**

Expiring (And Expired) Individual Tax Breaks

Selected Individual Tax Breaks That Expired At The End Of 2009. Congress has given us an ever- expanding list of temporary tax breaks that expire every few years. However, even though it often waits until the last minute, Congress has historically extended most of the more popular provisions before they actually expire. Unfortunately, Congress has yet to extend many popular tax breaks that **expired at the end of 2009.** The following is a list of some of the tax breaks that **expired at the end of 2009: 1)** school teachers' deduction (up to $250) for certain school supplies; **2)** deduction for state and local sales tax; **3)** deduction (up to $4,000) for qualified higher education expenses; **4)** real property tax standard deduction for non itemizers, **5)** qualifying tax-free transfers from IRAs to charities for those at least 70½; and **6)** higher alternative minimum tax (AMT) exemption thresholds. **Planning Alert!** If recent history is a guide, Congress will likely extend these provisions eventually, but there is no guarantee. Our firm will monitor the status of these expired provisions closely. Please call us if you want an up-to-date report.

Individual Tax Breaks Currently Scheduled To Expire At The End Of 2010. With the majority of the 2001 Act tax cuts and other tax provisions scheduled to expire **at the end of 2010,** a complete listing of tax breaks that are scheduled to expire after this year is too long to include in this letter. However, starting with the next segment, we discuss several important items scheduled to expire after 2010. We also suggest steps that you should consider in 2010 to take advantage of these expiring tax breaks, in case Congress decides not to extend them beyond 2010. Our firm will continue monitoring these provisions closely. Feel free to call us if you need a status report.

Preparing For Potential Tax Rate Increases

Unless Congress changes current law, individuals are facing an increase in their federal income tax rates beginning next year. **In 2011,** the top regular individual income tax rate on income, other than long-term capital gains, is scheduled to jump from 35% to 39.6%. The maximum tax rate on long-term capital gains is scheduled to increase from 15% to 20%. And, the top tax rate on dividends is scheduled to increase from 15% to 39.6%. Also, starting **in 2011,** current law provides for a return of the provisions phasing out *itemized deductions and personal exemptions* for higher-income taxpayers. Consequently, **starting in 2011,** for taxpayers who are affected by these phase-out limits, the *effective* top regular income tax rate will be even higher than 39.6%. Furthermore, **starting in 2013,** the *Health Care Act* imposes a new **.9% Medicare Surtax** on the *earned income* of higher-income individuals as well as a **3.8% Medicare Surtax** on their *net investment income*.

If tax rates in fact increase in 2011, accelerating post-2010 taxable income into 2010 could save taxes for individuals subject to these higher rates. However, accelerating income into 2010 has risks, because: **1)** Congress could decide to extend the 2010 rates at least for a year or two, particularly for low and middle-income taxpayers; **2)** taxes that you might save by accelerating taxable income into 2010 are reduced by the "time value of money" benefit you give up by choosing to accelerate the payment of taxes, and **3)** accelerating income into 2010 could cause taxpayers (particularly low and middle-income taxpayers) to exceed the 2010 income thresholds that phase out valuable tax benefits (e.g., the child credit, education credits, the adoption credit, the ability to contribute to a deductible IRA, etc.).

However, at this point, it may be too early to decide whether income should be accelerated into 2010 because of scheduled 2011 rate increases. It's possible that current rates may be extended during the "lame duck" session of Congress, or that Congress will pass legislation similar to President Obama's proposal to only increase rates for higher income individuals. Therefore, it seems prudent to wait. However, you should be prepared to accelerate income into 2010 and possibly defer deductions until 2011, if it becomes clear that your tax rates will substantially increase after 2010. However, even if it does become clear that your tax rates will increase in 2011, a decision to accelerate income into 2010 should not be made before performing detailed income tax calculations for the current and future years with and without the acceleration of the income. Only by performing with and without calculations that consider the regular federal income tax, the alternative minimum tax (AMT), and any state or local income tax, can you be certain that accelerating income into 2010 will be beneficial. **Caution!** Even if your regular tax rates increase after 2010, if you are subject to the alternative minimum tax this year and for future years, it is possible that your alternative minimum tax rates will not increase at all. We will be ready to assist you with these calculations and with other year-end planning considerations as we approach the end of 2010.

Should You Consider Converting Your "Traditional IRA" To A "Roth IRA?"

Whether to convert (rollover) your traditional IRA to a Roth IRA (Roth conversion) continues to be a hot topic, and there are many variables that impact this decision. Probably the most significant consideration is your current tax rates compared to the rates you expect when you retire. Therefore, uncertainty as to future tax rates creates uncertainty as to whether a Roth conversion is right for you. Prior to 2010, you were not allowed to convert your traditional IRA into a Roth IRA unless your modified adjusted gross income was $100,000 or less. **Starting in 2010,** this income threshold is eliminated, and individuals of all income levels are allowed to convert to a Roth. **Tax Tip.** If the recession has caused a significant, but temporary, decline in your income for 2010, you may be a good candidate for converting all or a portion of your regular IRA to a Roth. This is particularly true if: **1)** your temporary drop in 2010 income places you in a much lower tax bracket than you expect in the future, **2)** you believe that the value of your IRA is currently at or near an all time low, **3)** you expect your IRA to significantly appreciate in the future, and **4)** you have funds outside the IRA to pay the income taxes caused by the conversion and your after-tax rate of return on these outside funds is less than the rate of return in the IRA. **Planning Alert!** If you want the conversion to be effective for 2010, you must transfer the amount from the regular IRA to the Roth IRA **no later than December 31, 2010** (you do not have until the due date of your 2010 tax return to complete the conversion).

When you convert a traditional IRA to a Roth IRA, you generally must pay tax on the amount converted as if you withdrew the funds from the traditional IRA. However, if you convert in 2010, your conversion income will be included ratably in 2011 and 2012 (unless you "elect" to include the income entirely in 2010). **Caution!** Please don't attempt a Roth conversion or implement a Roth conversion strategy **without calling us first**. There is a host of factors you should evaluate before deciding to convert your traditional IRA to a Roth.

Traditional Year-end Tax Planning Techniques

Planning With Capital Gains And Losses
Generally, the current maximum long-term capital gains rate of 15% **is scheduled to increase to 20% starting in 2011.** Lower-income taxpayers who have long-term capital gains that would otherwise be included in the 15% (or below) ordinary income tax bracket, are taxed at a zero percent rate **through 2010** (scheduled to increase to 10% **starting in 2011).**

Planning With Zero Percent Capital Gains Tax Rate. Long-term capital gains and qualified dividends that would otherwise be included in the 15% (or below) ordinary income tax bracket for 2010, are taxed at a zero percent tax rate. **Planning Alert!** For 2010, all ordinary income (e.g., W-2 income, interest income) up to $68,000 for joint

Tax Time Reminder

With the end of 2010 approaching, it's time to get a jump on collecting your tax information to maximize your year-end tax planning. For your convenience, CSB will mail tax organizers around the first of January to help with organizing important information.

Have your income or expenses significantly changed?
Please call our office right away to maximize year-end tax planning.

Want to gauge your 2010 tax situation and prepare a tax savings strategy?
Make an appointment with us today!

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returns ($34,000 if single) is taxed at the 15% rate, or below. Thus, taxpayers filing jointly can benefit from the zero percent capital gains rate if (and to the extent) they have 2010 ordinary taxable income under $68,000 ($34,000 if filing single). **Tax Tip.** Taxpayers who have historically been in higher tax brackets but now find themselves between jobs, recently retired, or expecting to report higher-than-normal business deductions in 2010, may temporarily have income low enough to take advantage of the zero percent capital gains rate for 2010. If you are experiencing any of these situations, please call our firm and we will help you determine if there is a strategy for you to take advantage of these low capital gains rates. **Planning Alert!** Gains that currently qualify for the zero percent rate will be taxed at 10% (generally 8% if held for more than 5 years) **starting in 2011**, unless Congress extends the zero percent rate beyond 2010.

Year-End Considerations For Capital Assets. Timing your year-end sales of stocks, bonds, or other securities may save you taxes. After fully evaluating the economic factors, the following are time-tested, year-end tax planning ideas for sales of capital assets. **Caution!** Always consider the economics of a sale or exchange first!

- **Timing Your Capital Gains And Losses.** If you have already recognized capital gains in 2010, you should consider selling securities (that have declined in value) **prior to January 1, 2011.** These losses will be deductible on your 2010 return to the extent of your recognized capital gains, plus $3,000. **Tax Tip.** These losses may have the added benefit of reducing your income to a level that will qualify you for other tax breaks, such as the: American Opportunity Tuition Tax Credit, $400/$800 Making Work Pay Credit, $1,000 child credit, adoption credit, etc. **Planning Alert!** If within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the "wash sale" rules. However, the disallowed loss will increase the basis of your replacement stock. **Tax Tip.** There is *no* wash sale rule that applies to *gains*. Thus, you can sell stock at a gain in order to take advantage of a lower 2010 capital gains rate, or to absorb previous capital losses, and acquire the same securities within 30 days, without impacting the recognition of the gain.

- **Exercising Incentive Stock Options (ISOs) Could Trigger AMT.** Exercising an incentive stock option (ISO) in 2010 can generate a 2010 alternative minimum tax (AMT) if the difference between the stock's value and the exercise price is substantial. **Tax Tip.** If you exercised an ISO **in 2010** and the stock you acquired has declined in value since the date of exercise, it may be possible to eliminate or reduce your 2010 AMT tax liability if you sell the stock **on or before December 31, 2010.** Please check with us if you have exercised incentive stock options during 2010 and the price of the stock has fallen since the date of exercise.

Postponing Taxable Income

It continues to be a good idea to defer income into 2011, if you believe that your marginal tax rate for 2011 will be equal to or less than your 2010 marginal tax rate. Also, deferring income into 2011 could increase various credits and deductions for 2010 that would otherwise be phased out as your adjusted gross income increases. **Tax Tip.** This classic tax planning strategy may be particularly valuable for 2010 if it also keeps your 2010 income below the phase-out thresholds for the *refundable adoption credit*, the *American Opportunity* education credit, the $400/$800 Making Work Pay Credit, or the *$1,000 child credit*.

If you are a cash method, self-employed taxpayer and, after considering the uncertainty of 2011 tax rates, you believe that deferring taxable income into 2011 will save you taxes, consider delaying year-end billings to defer income until 2011. **Caution!** If you have already received the check in 2010, deferring the deposit does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid. **Planning Alert!** In addition, if you anticipate receiving distributions this year (or in the near future) from your qualified retirement plan or IRA, there are various ways that you might be able to defer those payments (and thus defer the taxes on those payments). **Please call** us if you need additional details.

Taking Advantage Of Deductions

Accelerating "Above-The Line" Deductions Into 2010. As a cash method taxpayer, you can generally accelerate a 2010 deduction into 2010 by "paying" it in 2010. Accelerating an **"above-the-line"** deduction (e.g., IRA or Health Savings Account (HSA) deduction, health insurance premiums for self-employed individuals, qualified student loan interest, qualified moving expenses, deductible alimony) into 2010 may allow you to reduce your "adjusted gross income" (AGI) below the thresholds needed to qualify for many other tax benefits (e.g., the child credit, education credits, the adoption credit, the Making Work Pay credit, the ability to contribute to a deductible IRA, etc.). However, **"itemized"** deductions (i.e., below-the-line deductions) do not reduce your "adjusted gross income" and, therefore, will not affect your 2010 deductions and credits that are reduced as your income increases. *Itemized deductions* generally include charitable contributions, state and local income and property taxes, medical expenses, unreimbursed employee travel expenses, and home mortgage interest. **Tax Tip.** "Payment" typically occurs in 2010 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a *third-party credit card* (e.g., Visa, MasterCard, Discovery, American Express) in 2010. **Be careful,** if you post-date the check to 2011 or if your check is rejected, no payment has been made in 2010. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payment will not be deductible in 2010.

Accelerating "Itemized" Deductions Into 2010 May Be Particularly Valuable. If your itemized deductions fail to exceed your standard deduction in most years, you are not receiving maximum benefit for your itemized deductions. You could possibly reduce your taxes over the long term by bunching the payment of your itemized deductions in alternate tax years. This may produce tax savings by allowing you to itemize deductions in the years when your expenses are bunched, and use the standard deduction in other years.

Tax Tip. The easiest deductions to shift from 2011 to 2010 are *charitable contributions*, *state and local taxes*, and your January, 2011 home *mortgage interest payment*. For 2010, the standard deduction is $11,400 on a joint return and $5,700 for single individuals. If you are blind or age 65, you get an additional standard deduction of $1,100 if you're married ($1,400 if single).

Prior to 2010, itemized deductions (other than medical expenses, investment interest expense, casualty and theft losses, and gambling losses) for higher-income taxpayers were reduced once their AGI reached a certain threshold. For 2010, this phase-out rule does not apply. However the phase-out is scheduled to return **in 2011.** Consequently, for 2010, all taxpayers (regardless of income) will generally receive full "regular" income tax benefit for their itemized deductions. Thus, if you anticipate that your income will exceed the beginning phase-out threshold of $169,550 in 2011, you may benefit by accelerating 2011 itemized deductions subject to the phase-out into 2010 by paying those expenses this year rather than next year.

Charitable Contributions. A charitable contribution deduction is allowed for 2010 if the check is mailed **on or before December 31,** 2010, or the contribution is made by a credit card charge in 2010. However, if you give a note or a pledge to a charity, no deduction is allowed until you pay off the note or pledge. **Planning Alert!** For the past several years, we have had a popular (but *temporary*) rule that allowed taxpayers who had reached age 70½ , to contribute up to $100,000 from their IRAs directly to a qualified charity, and exclude the distribution from income. This provision **expired after 2009,** and is not available for 2010 unless Congress decides to extend it. If you are interested in this provision, please call our office and we will give you a status report.

Maximizing Home Mortgage Interest Deduction. If you are looking to maximize your 2010 deductions, you can increase your home mortgage interest deduction by paying your January, 2011 payment **on or before December 31, 2010.** Typically, the January mortgage payment includes interest that accrued in December and, therefore, is deductible if paid in December. **Planning Alert!** Make sure that you send in your January, 2011 mortgage payment early enough in December for your lender to actually receive it before year-end. That way, your lender will be sure to reflect that last payment on your 2010 Form 1098, and we can avoid a matching problem for your 2010 return.

Time Payment Of State And Local Taxes To Your Benefit. If you anticipate deducting your state and local income taxes, consider paying them (fourth quarter estimate and balance due for 2010) and any property taxes for 2010 **prior to January 1, 2011** if your tax rate for 2010 is higher than or the same as your projected 2011 tax rate. This will allow a deduction for 2010 (a year early) and possibly against income taxed at a higher rate. **Planning Alert!** State and local income and property taxes are not deductible for AMT purposes. Consequently, you should not employ this tactic without carefully calculating the alternative minimum tax impact. Also, "overpayment" of your 2010 state and local income taxes is generally not advisable particularly if a refund in 2011 from a 2010 overpayment will be taxed at a higher rate than the 2010 deduction rate. **Please consult us before you overpay state or local income taxes!**

- ***Temporary* Rule For Deducting Sales Tax Expired *After 2009!*** For the past several years, we have had a *temporary* rule that allowed taxpayers to "elect" to deduct "either" state and local *income* taxes or state and local *sales* taxes, as itemized deductions. **Planning Alert!** This provision **expired after 2009,** and is not available for 2010 unless Congress decides to extend it. Therefore, absent Congressional action, only state and local income taxes (not sales taxes) will be allowed as an itemized deduction for 2010.

- ***Temporary* Real Property Tax Deduction For Non-Itemizers Expired *After 2009!*** For **2008 and 2009,** individuals that did not itemize deductions (i.e., they took the standard deduction), were allowed to claim an *additional* "standard deduction" for any state and local property taxes paid (limited to $500 if single, $1,000 in the case of a joint return). **Planning Alert!** This provision **expired after 2009,** and is not available for 2010 unless Congress decides to extend it.

Planning With Selected Tax Credits

"American Opportunity Education Tax Credit" (Formerly "Hope Credit"). Before 2009, individuals were allowed a HOPE tuition tax credit (HOPE Credit) for qualifying tuition costs generally for the first two years of college (e.g., freshman and sophomore years). For 2009 and 2010, Congress changed the name of the HOPE credit to the ***"American Opportunity Tax Credit"*** and **1)** increased the maximum credit from $1,800 to $2,500 (100% of the 1st $2,000 of qualifying education expenses plus 25% of the next $2,000 of qualifying expenses); **2)** increased the total number of years that a student may qualify from *two* years to *four* years (i.e., generally, freshman through senior years); **3)** increased the income phase-out levels (for 2010 the credit is phased out as your modified adjusted gross income increases **from $160,000 to $180,000 for those filing joint returns** and from **$80,000 to $90,000 for single filers**); **4)** made 40% of the credit refundable (*unless the person claiming the credit* is subject to the so-called *kiddie tax rules*); and **5)** added *course materials* to the expenses (in addition to tuition and fees) that qualify for the credit. **Planning Alert!** This credit will automatically revert to its **pre-2009** provisions **after 2010**, unless Congress decides to extend it. To get the full $2,500 credit for 2010, you must pay qualifying expenses of at least $4,000 for the student **by December 31, 2010.** For example, if you paid tuition and books of $2,500 for the fall, 2010 semester for a college freshman, you would need to pay tuition of at least $1,500 for the spring, 2011 semester by **December 31, 2010,** to get the full credit of $2,500 for 2010.

Up To $1,500 Credit For Qualified Energy-Efficient Home Improvements. For improvements to your **principal residence** *located in the U.S.* **and placed-in-service in 2009 or 2010,** last year's *"American Recovery Tax Act of 2009"* provided a 30% credit for qualified expenditures with a $1,500 maximum *cumulative* credit for the

2009 and 2010 tax years. Qualified improvements can include *properly certified* energy efficient roofs, insulation, exterior windows (including skylights), exterior doors, heat pumps, hot water boilers and air conditioners. **Tax Tip.** Before making energy-efficient improvements to your home, you should first check to see if the manufacturer has certified the products as qualifying for the energy tax credit. **Planning Alert!** Absent Congressional action, this provision **expires after 2010.** To take the credit for 2010, the qualifying property must *actually be installed* **no later than December 31, 2010.**

30% Credit For Qualified Residential Solar Water Heaters, Geothermal Heat Pumps, Wind Energy Property, And Solar Electric Generating Property. If you install a qualifying solar water heater, solar electric generating property, geothermal heat pump, or small wind energy property in your residence located in the U.S., you may qualify for a credit equal to 30% of the equipment's cost (including onsite labor costs). The residence does ***not*** have to be your **"principal residence,"** so installations in your second residence or vacation home may qualify. **Tax Tip.** The IRS says on its website that this credit is available to the extent that the purchase price of a new home can be reasonably allocated to the qualifying energy-efficient equipment. Therefore, if you purchased a new home in 2010, be sure to ask the builder to provide you a cost breakdown of any solar electric panels, solar water heaters, etc. **Planning Alert!** Expenditures related to swimming pools or hot tubs (e.g., solar equipment to heat water or run electrical pumps) do not qualify. Also, to take the credit for 2010, the property must *actually be installed* **no later than December 31, 2010. This credit is not currently scheduled to expire until after 2016.**

Estate, Gift, And Generation-skipping Taxes

If someone died in 2009, generally, $3.5 million of asset value in the estate was exempted from the estate tax. **For 2010,** the federal estate tax is repealed. The estate tax is scheduled to be reinstated in 2011 with only $1,000,000 of asset value exempt from the tax. However, President Obama has recommended that the exemption should be reinstated at the 2009 exemption level of $3.5 million. Bills have also been introduced in Congress proposing even higher exemption amounts. But, nobody knows for sure what will happen. In addition, the exemption from the generation-skipping tax was $3.5 million for 2009. However, there is no generation-skipping tax for 2010. But, the generation-skipping tax is scheduled to return in 2011 with a $1,000,000 exemption (indexed for inflation). Therefore, individuals wishing to make transfers to their grandchildren or great grandchildren, should consider making those gifts in 2010 while there is no generation-skipping tax. **Caution!** It is possible, although more and more unlikely, that Congress may reinstate the estate and generation-skipping taxes retroactively. Therefore, before making any transfers, you should consult your estate planning advisor. **Caution!** Beneficiaries who receive property from a decedent **who dies in 2010** will "generally" obtain an income tax basis equal to the decedent's tax basis immediately preceding his or her death (i.e., beneficiaries will generally not receive a tax basis equal to the "value" of the property at the decedent's death as has traditionally been the case). However, certain appreciated property may receive an increase in basis on the decedent's death of up to $1.3 million (plus there is an additional $3 million basis increase for certain appreciated property passing to a surviving spouse). In addition, executors of estates must file a form with the IRS and with the heirs of the estate receiving property from the estate, where the value of the property in the estate, less any cash, is more than $1.3 million. The penalty for failing to file this form is $10,000 unless there is reasonable cause for failing to file the form. The form is not yet available.

Note! The gift tax has not been repealed. Tax Tip. You can still reduce your estate by making annual gifts using the annual gift tax exclusion of $13,000 per donee. Your spouse can do the same, bringing the total to $26,000 per donee. **Planning Alert!** If you make your 2010 gift by check, the IRS says that the donee must actually "deposit" the check **by December 31, 2010** in order to utilize the 2010 $13,000 annual gift tax exclusion.

Final Comments

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. Please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note:** The information contained in this material represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

Circular 230 Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of **1)** avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions, or **2)** promoting, marketing, or recommending to another party any transaction or matter addressed herein.

ATTENTION
CSB Clients

In order to insure you don't miss important information, we are updating our client email addresses and could use your help. Please contact Jennifer Brothers at jenniferb@csbcpa.com with your name and current email address or call our office at (251) 343.1012.

Tax Tidbits

Social Security

The amount of wages subject to FICA tax at 6.2% (12.4% if self-employed) for 2011 will remain at $106,800 (same as 2010 limit). The FICA-Medicare Tax of 1.45% (2.9% if self employed) continues to apply to all wages and self-employment income.

Social Security Earnings Limit

There is a limit on how much you can earn and not affect your Social Security benefits, if you are under normal, full retirement age. That limit for 2011 is $14,160. Earn more than this and your benefits are cut $1 for every $2 earned above the limit. The limit in 2010 was also $14,160.

Standard Mileage Rates (Cents Per Mile)

	2010
Business	50
Charitable	14
Medical	16.5
Moving	16.5

* 2011 rates to be released by December, 2010.

Retirement Plan Limits

	2011	2010
IRA	$5,000	$5,000
IRA, age 50 or more	6,000	6,000
401(k) 403(b) employee	16,500	16,500
401(k) 403(b) catch-up	5,500	5,500
Simple 408(p)(2)(E)	11,500	11,500
Simple 408(p)(2)(E) catch-up	2,500	2,500
Defined Contribution Limit	49,000	49,000

Estate Tax Lifetime Exemption

2009	$3,500,000	
2010	Repealed	(No Estate Tax)
2011	$1,000,000	(With a 55% tax rate on amounts that exceed that amount)

Gift Tax Exclusion

The gift tax annual exclusion for 2011 will remain unchanged at $13,000 per donee, or $26,000 per donee for married taxpayers that elect split gifting.

IRS Approved Per Diem Rates

As of 10/01/10 the "high" and "low" cost per diem allowances are:
Low cost of $52 for meals & incidentals, $108 for lodging, total $160.
High cost of $65 for meals & incidentals, $168 for lodging, total $233.

Standard Deductions

	2010
Married Filing Joint	$11,400
Surviving Spouse	11,400
Head of Household	8,400
Single	5,700
Married Filing Separately	5,700
Dependent	950
Add if Blind/+65	1,100 – 1,400

* 2011 rates to be released by December, 2010.

Tax Tables

2010 Married Filing Joint And Surviving Spouses

Taxable Income

Over	But Not Over	Pay	+	% on Excess	Of The Amount Over
$0	$16,750	$0		10%	$0
16,750	68,000	1,675.00		15%	16,750
68,000	137,300	9,362.50		25%	68,000
137,300	209,250	26,687.50		28%	137,300
209,250	373,650	46,833.50		33%	209,250
373,650	———	101,085.50		35%	373,650

2010 Single

Taxable Income

Over	But Not Over	Pay	+	% on Excess	Of The Amount Over
$0	$8,375	$0		10%	$0
8,375	34,000	$837.50		15%	8,375
34,000	82,400	4,681.25		25%	34,000
82,400	171,850	16,781.25		28%	82,400
171,850	373,650	41,827.25		33%	171,850
373,650	———	108,421.25		35%	373,650