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CLIENT BULLETIN – DECEMBER, 2010

We're closing out another remarkable year. Politics, the economy, stock market wobbles, and homeland security issues have packed the news each evening. Most agree that the November elections will bring change and many more are just relieved that the political ads are over for a while. We are all waiting to see what the lame duck session of Congress will do about extending the Bush tax cuts. While many think that the lower rates for long-term capital gains and qualified dividends will be extended for everyone for two years, there really is no certainty. This fact dictates that we all pay very close attention in the next few weeks. Failure to extend the favorable rates would mean that many taxpayers would need to take action to push certain types of income into 2010.

Congress passed major tax bills in 2010, most of which were designed to spur the economy. The Hiring Incentives to Restore Employment Act (HIRE Act) provided tax incentives for employers who hire qualified workers who have been previously unemployed for the past 60 days. The Health Care Act of 2010 certainly received the most news coverage; however, it will take years for this legislation to become fully operative because the various provisions become effective over several years. Additionally, the Republican takeover in Congress makes it possible that some of the provisions will be nullified before they become effective. One provision that will take effect for tax years beginning after 2010 is that non-prescription drugs, other than insulin, will no longer be eligible to be reimbursed from flexible spending accounts. Please consider this when planning the amount you intend to set aside in your company's cafeteria plan this year.

The Small Business Jobs Act of 2010 (the Jobs Act) contains new tax benefits for businesses. It increases the Section 179 deduction to \$500,000. The Section 179 deduction allows property normally required to be depreciated over several years, to be expensed in the year of purchase. It also extends the 50% bonus depreciation for new property placed in service in 2010. Two other provisions are welcome news for small business owners. Beginning in 2010, cell phones are no longer considered to be "listed property" so there is no longer a requirement to keep track of business versus personal calls in order for the cost of the cell phone to be deductible. Also, health insurance premiums for self-employed individuals will be allowed as a deduction for self-employment tax as well as for income tax. Another provision, however, is likely not going to be popular. Beginning in 2011, recipients of rental income from real estate who make payments of \$600 or more to a service provider (such as a carpenter, plumber, electrician, etc) are required to provide an information return (Form 1099) to the IRS. These 1099 forms are to be provided to the service provider by January 31 of the following year and are due to the IRS by February 28th. Additionally, this reporting is required for corporate service providers as well as sole practitioners. There will be exceptions for de minimis rental income recipients, but the IRS has yet to tell us what these will be. This legislation also increases the penalty for failing to provide information returns when required, so it will be extremely important to obtain names, addresses and federal Identification numbers for anyone paid more than \$600 for services in the course of conducting a rental operation as well as a trade or business.

As you can see, there have been many tax law changes in the past year. If you feel that any of these may apply to you or you have questions about your year-end tax planning, please give us a call. We'd be happy to help you.

As always at this time of year, we express our appreciation for your patronage. Please know that we continue our commitment of service to you and your business. Best wishes for the Holiday Season and a prosperous new year.

Season's Greetings,

Phillips, Dorsey, Thomas, Waters & Brafford, P.A.