

2010 Year-end Tax Strategies and Records for Business Income Tax Returns

Dear Friends and Clients,

We are once again writing to remind you of law changes which present tax strategies before year-end, as well as some record requirements. To discuss your circumstances please respond to this email or call our office to schedule an appointment before the year-end.

New Equipment Depreciation Rules in 2010

Buying new equipment has always been a popular year-end planning strategy. The Small Business Jobs Act of 2010 includes provisions that make this strategy even more appealing in 2010. So if you are evaluating new vehicles or equipment, let us help you make the tax-smart choice!

- The new law extends the 50% "bonus depreciation" allowance, retroactive to January 1, 2010, through the end of the year. This means you can deduct 50% of the cost of qualifying equipment upfront, plus the regular depreciation you would otherwise claim on the remaining 50% of the equipment's basis.
- The law also extends the \$8,000 bonus depreciation allowance for new passenger vehicles. Under the old law, your first-year deduction was limited to \$3,060. The new law raises that limit to as high as \$11,060.
- Finally, the law hikes the "first-year expensing allowance" for eligible property you place in service in 2010. Under the old law, you could deduct up to \$250,000 in new equipment, with the deduction phasing out as your income tops \$800,000. Under the new law, you can deduct up to \$500,000, and the phaseout threshold goes all the way up to \$2 million. For 2011, that limit is scheduled to fall to just \$25,000 -- and while it is likely that Congress will raise it back up, you may want to take advantage of this year's sure thing while we still have it.

Health Insurance Premiums

The Small Business Jobs Act of 2010 includes a surprise tax break for sole proprietors who pay their own health insurance premiums. In 2010 only you can avoid self-employment tax, as well as income tax on health insurance premiums. At this point there is no indication that this tax break will be extended or made permanent.

Inventory - Increased Record Requirements

The IRS continues to place an increased emphasis on actual physical inventory on hand at December 31. Please make sure to physically count your inventory, retain the records, and

provide us with the accurate total **cost** of inventory on hand at December 31, 2010. Do not include consignments you are holding from other people in this number. In the event of an audit you must be able to provide copies of physical count sheets, so we are this year placing an increased emphasis upon obtaining correct year end physical inventory amounts.

Corporate Minutes

We also want to remind you to make sure that your corporate minutes are maintained for S and C corporations on an annual basis. LLCs have no such requirement. We work with clients to meet this requirement upon request and a signed engagement to include this specific service.

We offer a comprehensive tax planning process designed to identify and implement strategies to minimize your tax burden **going forward**. If you are interested in tax planning, please respond to this email or call Cinda Brown at our firm for an appointment with one of our partners or managers before year-end, and they will prepare an initial assessment of whether the cost of participating in our tax planning process will justify the tax savings you will realize.

Sincerely,

Thomas Mangold, CPA.CITP, President
The Mangold Group, CPAs, PC