

New Items on Form 1040 for the 2010/2011 Filing Season

Despite calls for simplifying the tax laws, they have actually been made much more complicated in the last few years. Year after year, there have been numerous tax changes that even some professionals have a tough time keeping up with. This filing season is no different. The 2010 Form 1040 reflects a number of new tax breaks. Some are straightforward. Others are complex. Some present choices. But they all provide an opportunity to save money.

We want you to be aware of the new tax breaks for this filing season so that you can take full advantage of them. To this end, we have put together this listing of the key changes for this filing season:

- **Roth IRA rollovers no longer restricted.** You can now make a qualified rollover contribution to a Roth IRA, regardless of the amount of your modified adjusted gross income.
- **Income from Roth rollover can be spread out.** Half of any income that results from a rollover or conversion to a Roth IRA from another retirement plan in 2010 is included in income in 2011, and the other half in 2012, unless you elect to include all of it in 2010.
- **Self-employed health insurance deduction.** Effective March 30, 2010, a self-employed person who paid for health insurance may be able to include in his self-employed health insurance deduction any premiums he paid to cover his child who was under age 27 at the end of 2010, even if the child was not his dependent. Also, health insurance costs for a taxpayer and his family are deductible in computing 2010 self-employment tax.
- **Small business health insurance credit.** There's a new tax credit for an eligible small employer who makes qualifying contributions to buy health insurance for his employees. This credit is very complex but it can yield substantial tax savings. In general, the credit is 35% of premiums paid and can be taken against regular and alternative minimum tax.
- **Limits on personal exemptions and itemized deductions ended.** You no longer lose part of your deduction for personal exemptions and itemized deductions, regardless of the amount of your adjusted gross income.
- **Personal casualty and theft loss limit reduced.** Each personal casualty or theft loss is limited to the excess of the loss over \$100 (instead of the \$500 limit that applied for 2009). This yields larger deductions and thus greater tax savings for affected individuals.
- **Corrosive drywall damage.** A taxpayer who paid for repairs to his personal residence or household appliances because of corrosive drywall that was installed between 2001 and 2008 may be able to deduct those amounts as casualty losses under a special safe harbor crafted by the IRS.
- **Homebuyer credit.** An eligible first-time homebuyer (and a long-term resident treated as a first-time homebuyer) may be able to claim a first-time homebuyer credit for a home that was purchased in 2010. To qualify, the home must have cost \$800,000 or less. You generally cannot claim the credit for a home you bought after April 30, 2010. However, you may be able to claim the credit if you entered into a written binding contract before May 1, 2010, to buy the home before July 1, 2010, and actually bought the home before October 1, 2010.
- **Adoption credit.** The maximum adoption credit is \$13,170 per eligible child for both non-special needs adoptions and special needs adoptions. In addition, the adoption credit is refundable, i.e., you get the credit even if it exceeds your taxes.
- **Gifts to charity.** The provision that excludes up to \$100,000 of qualified charitable distributions (distributions to a charity from an Individual Retirement Account) has been extended. If you elect, a qualified charitable distribution made in January of 2011, will be treated as made in 2010.

- Enhanced small business expensing (Section 179 expensing). To help small businesses quickly recover the cost of capital outlays, small business taxpayers can elect to write off these expenditures in the year they are made instead of recovering them through depreciation. For 2010, you generally may expense up to \$500,000 of qualifying property placed in service during the tax year. This annual limit is reduced by the amount by which the cost of property placed in service exceeds \$2,000,000.
- Special depreciation allowance. Businesses that acquire and place qualified property into service after September 8, 2010 can now claim a depreciation allowance in the placed-in-service year equal to 100% of the cost of the property. Businesses that acquired qualified property from January 1, 2010 through September 8, 2010 can claim a bonus first-year depreciation allowance of 50% of the cost of the property.
- Cellular telephones. Cellular telephones (cell phones) and other similar telecommunications equipment have been removed from the categories of "listed property." This means that cell phones can be deducted or depreciated like other business property, without onerous record keeping requirements.
- Carryback of general business credits. Generally, a business's unused general business credits can be carried back to offset taxes paid in the previous year, and the remaining amount can be carried forward for 20 years to offset future tax liabilities. However, for 2010, eligible small businesses can carry back unused general business credits for five years instead of just one.
- Luxury auto limits. First-year luxury auto limits for vehicles first placed in service in 2010 are \$11,060 for autos and \$11,160 for light trucks or vans (for vehicles ineligible for bonus depreciation, or if the taxpayer elects out, \$3,060 and \$3,160, respectively).

As you can see, there are many new rules for this filing season. To make sure that you take maximum advantage of them and preexisting rules, which themselves can be complicated, you should come to see us so that we can go over your complete tax picture.