

## 2010 Tax Planning

2010 promises to be a challenging year for tax changes. Because of this, I have decided to use the remainder of this year addressing these tax changes each month so that you will have up to the minute information to help you with your tax planning for this year. That said, lets get started with what we already know.

### REVIVAL OF EXPIRED TAX BREAKS

A host of expired tax breaks will be revived for this year, retroactive to January 1<sup>st</sup>. Here's a list of the ones we currently know about:

1. Deductions for College Tuition
2. Deduction for teachers' supplies
3. Deduction for State Sales Tax in lieu of state income tax
4. Extra standard deduction for property taxes (for those who don't itemize)
5. Tax free direct IRA payouts to charity
6. Deduction for business R&D credit
7. Deduction for farm machinery over 5 years instead of 7
8. Deduction for restaurant renovations and tenant improvements over 15 years

### TAX BREAK FOR EMPLOYERS HIRING STUDENTS THIS SUMMER

Employers can avoid their 6.2% share of Social Security tax on wages paid to students who certify that they worked fewer than 40 hours in the prior 60 days. The payroll tax exemption is available in 2010 on compensation paid after March 18 and before January 1, 2011 to employees hired on or after February 4, 2010. Some of the restrictions are if a new hire replaces someone, the credit is allowed only if the worker quit or was fired for cause.

The tax break is also available even if a laid off worker is rehired by the same company as long as the employee worked fewer than 40 hours in the past 60 days.

### HEALTH CARE REFORM ACT

On March 30, 2010 passed **THE HEALTH CARE AND EDUCATION RECONCILIATION ACT OF 2010**, the largest reform legislation in the history of the United States. Many consider this to be the greatest re-distribution of wealth and infringement on individual rights this country has ever seen. To tackle this controversial 2000 page bill in a monthly newsletter is impossible to consider. Many of the provisions of this act are due to be enacted over the next decade with the majority of the changes occurring in 2014. However, some of the provisions take effect in 2010 and will have

an immediate effect on your tax planning for this year. The following are the provisions that will be enacted in 2010:

1. Small Business Tax Credit – Beginning in 2010, the health care reform package provides a temporary sliding-scale small employer tax credit to help to offset the cost of employer-provided coverage. Generally, a qualified small employer is one with no more than 25 employees with average annual wages of no more than \$50,000. Qualified small employers must contribute at least ½ of the cost of health insurance premiums for coverage of its participating employees.
2. Temporary High Risk Pool for individuals who are uninsured because of a pre-existing condition.
3. Temporary Reinsurance program for early retirees – The Health Care Reform Act creates a temporary reinsurance program for employer-sponsored early retiree coverage. Payments under this reinsurance program would be excluded from gross income.
4. No discrimination against children with pre-existing conditions – Effective in 2010 health insurance companies can no longer deny health insurance coverage to children with pre-existing conditions.
5. No lifetime limits on coverage
6. Coverage for young persons until age 26 – Effective in 2010, children can now be carried on their parents' insurance policy up to age 26.
7. \$250 rebate for Medicare beneficiaries who are affected by the “donut hole” – The “donut hole” is a term that defines the area of prescription drug coverage that Medicare stops paying. Medicare currently stops paying for prescription drugs after the plan and the beneficiary have spent \$2,830 on prescription drugs and only starts paying again after out of pocket spending hits \$4,550. This “donut hole” leaves seniors paying the full cost of expensive medicines, causing many to skip doses or not to fill prescriptions at all-harming their health and raising other health costs as well. Rather than increasing the floor by \$500 as Congress agreed to during the debate over this bill, the Administration managed to convince Congress to issue a \$250 rebate to seniors in 2010. In addition, the legislation calls for closing the “donut hole” completely in the future. Congress is scheduled to gradually reduce the effects of the “donut hole” over the next 10 years.

## CONCLUSION

It is obvious that many of the Congressional actions for 2010 are designed to create a positive consumer attitude in the midst of a Congressional election year. However, except for the Health Care Reform Act, most of the provisions of the changes listed above are temporary. And looking at the other provisions of the Health Care Reform Act which will be enacted over the next 10 years, there is little to be optimistic about. This law greatly increases our national debt, the size of government, and does little to nothing to positively reform health care in this country.

While it's early in the year, Congress has once again begun to take up legislation that will affect you this year and in the coming years. I promise to continue to diligently study the enacted laws that will ultimately affect you and to report them to you, this year, as soon as absolutely possible to assist you in your individual tax planning strategy.

*Til next time,*

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