

THE LEDGER

IN THE LEDGER:

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Tax Rule Tweaks 2
By The Numbers. . . . 3
Loan Approval Tips . 3
Tax Talk 4

TWO LAWS PASSED LATE IN 2009 EXPAND TAX BREAKS

Two laws passed in November and December, 2009 made changes that could mean tax savings for you, your family, and your business. The Worker, Homeownership, and Business Assistance Act of 2009 was signed into law on November 6, 2009. Its provisions included an expansion of the first-time homebuyers tax credit and the carryback period for business net operating losses.

The Department of Defense Appropriations Act of 2010 was signed on December 19, 2009. Tacked onto it was an extension of the 65% subsidy for COBRA health insurance premiums. Here's an overview of these expanded and extended tax breaks.

Homebuyer credit

There have been substantial changes to the home-buyer credit available to qualified taxpayers who purchase a new home. The credit amounts to 10% of the purchase price, with a maximum credit of \$8,000. This is a completely refundable credit – a dollar for dollar reduction of your income tax liability, and it is refunded to you even if your credit exceeds your tax liability.

The credit is now available to “first-time” homebuyers, defined as a buyer who has not owned a principal residence during the three-year period prior to the purchase. To

qualify, the home must be purchased on or before April 30, 2010. The credit is also available to those who enter into a binding written contract on or before April 30, 2010, and close on the home purchase on or before June 30, 2010.

The credit is now also available at higher income levels. For individuals, the full credit is available for those with adjusted gross income up to \$125,000, and up to \$225,000 for joint filers.

There are some restrictions. Only homes purchased within the U.S. qualify, and the home must be your primary residence (not a rental or vacation home). The purchase price of the home can't exceed \$800,000. Also, if you sell or otherwise dispose of the

home or stop using it as your principal residence within 36 months from the date of purchase, the credit generally must be repaid.

The credit also benefits so-called “long-time residents.” A credit of 10% of the purchase price, up to a \$6,500 maximum credit, is available for existing homeowners who purchase a new residence. You can generally claim this credit if you maintained the same principal residence for any five consecutive years during the eight years ending on the date that you buy the new home. The purchase time limits and other restrictions noted above apply.

Finally, the rules give you the opportunity to get your

Continued on page 2

CRAY KAISER AIDS EVENT FOR UIC FAMILY BUSINESS COUNCIL

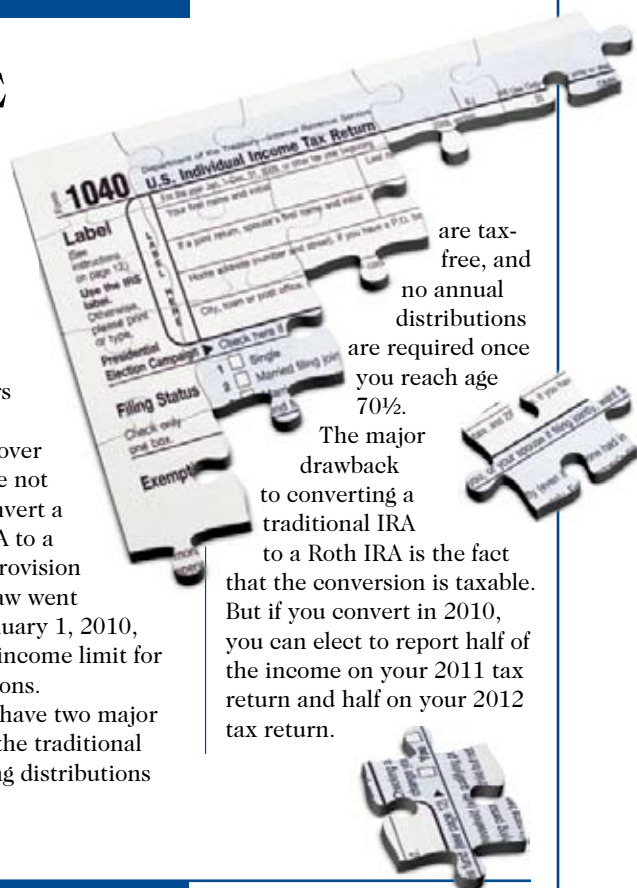
Cray Kaiser's Deanna Salo CPA was the facilitator at the UIC Family Business Council event on February 17, 2010 at the new Elysian Hotel in Chicago. Over 100 members and guests attended this event to hear a panel discussion from four members on the topic of “Leadership in the Face of Adversity”. The member-panelists shared their first-hand stories of the rise and fall and resurrection of their businesses.

As a strategic partner to the UIC Family Business Council, we were honored to participate in these discussions. The FBC provides educational programs like this one throughout the year. The next program is on April 21, 2010 and will feature keynote speaker, Jim Oberweis, Chairman of Oberweis Dairy. Please contact Deanna Salo or Roger Reitz for more information.

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PRIOR YEAR LAWS CHANGE THE TAX RULES FOR 2010



There are many changes in the tax rules this year, with the promise of much more to come. Here are some of the changes that could affect you.

Deductions. The 2001 tax law gradually restored the full deduction for personal exemptions and itemized deductions for higher-income taxpayers. Effective this year, high-income taxpayers are entitled to the full \$3,650 deduction for each personal exemption they take, and there will be no income-based reduction in their total itemized deductions.

As with most other

provisions in the 2001 tax law, this change ends after December 31, 2010, and itemized deductions and personal exemptions will again be limited for high-incomers in 2011.

RMDs. For 2010, annual minimum distributions from most retirement plans are once again required for those aged 70½ and older. In 2009, these required minimum distributions (RMDs) were suspended.

2010 distributions must be taken by December 31, 2010. Taxpayers who turn 70½ in 2010 may choose to delay taking their first distribution

until April 1, 2011.

Roth conversions.

Prior to this year, taxpayers with adjusted gross income over \$100,000 were not allowed to convert a traditional IRA to a Roth IRA. A provision from a 2006 law went into effect January 1, 2010, repealing the income limit for Roth conversions.

Roth IRAs have two major benefits over the traditional IRA. Qualifying distributions

are tax-free, and no annual distributions are required once you reach age 70½.

The major drawback to converting a traditional IRA to a Roth IRA is the fact that the conversion is taxable. But if you convert in 2010, you can elect to report half of the income on your 2011 tax return and half on your 2012 tax return.

TAX PLANNING

EXPANDED TAX BREAKS

Continued from page 1

hand on these credit dollars without waiting to file your 2010 tax return. If you buy a qualified residence in 2010, you can treat that purchase as having taken place in 2009 and can then file an amended return in order to claim the credit and get your refund quickly.

What hasn't changed is the complexity of the rules. Contact us if you need details on how this credit can help you or your family.

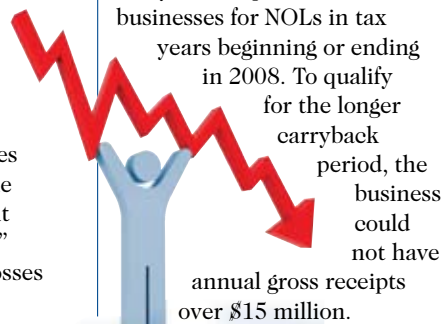
Business Losses

When business expenses exceed business income for a tax year, the result is a "net operating loss" (NOL). Current-year losses can be carried back to prior profitable years to

offset income and generate a tax refund. Losses can also be carried forward to offset income in future years. Prior to recent tax law changes, losses could generally be carried back two years and forward for 20 years.

Two tax laws passed in 2009 included expansions of the two-year net operating loss carryback period.

The stimulus law signed in February, 2009 allowed a carryback for three, four, or five years to qualified small businesses for NOLs in tax



years beginning or ending in 2008. To qualify for the longer carryback period, the business could not have annual gross receipts over \$15 million.

The Worker, Homeownership, and Business Assistance Act, signed November 6, 2009, expanded the longer carryback period to include businesses of any size. The longer carryback is generally available for NOLs incurred in either 2008 or 2009.

One important restriction: An NOL carried back to the fifth year is limited to 50% of the taxable income for the year. Any remaining NOL may offset income in the remaining four years.

The new carryback rules are filled with planning opportunities. If your business incurred a net operating loss in either 2008 or 2009, a careful analysis of your circumstances may well pay significant tax-saving dividends.

COBRA Subsidy

The defense spending bill signed last December included

an extension of the COBRA subsidy. COBRA is the law that lets workers who lose their jobs keep their former employer-provided health insurance for up to 18 months if they pay the premiums.

The February, 2009 stimulus law provided up to nine months of government subsidy for 65% of the premium cost for those who lost jobs between September 1, 2008, and December 31, 2009. The extension makes the 65% subsidy available for an additional six months and changes the job-loss eligibility cut-off date from December 31, 2009, to February 28, 2010.



HOW TO IMPROVE YOUR CHANCES OF GETTING A BUSINESS LOAN

Despite the recent bank bailouts, credit is still tight for small business owners hoping to expand their operations or entrepreneurs embarking on new ventures. How can you improve the chances of obtaining a bank loan for your small business? Take a lesson from the Boy Scout motto: Be prepared. Specifically, you will need to gather documents to provide the lender with a complete picture of your situation. In addition, be prepared to present a persuasive argument in your favor.

Documents

What documents do you need? The list may vary slightly from bank to bank, but typically you'll be required to produce these five items.

1. Business plan. Draw up a blueprint for business operations for at least one year. Demonstrate how you expect to use the loan proceeds.

2. Cash flow projections. This may be a component of the business plan, but the lender will also expect a detailed analysis of what you expect to earn and the manner in which it will be spent.

3. Prior tax returns. For an on-going business, provide past returns for a minimum of three years. Owners of start-ups may substitute individual returns.

4. Financial status data. The lender will likely ask you to list your main personal assets (e.g., home and cars) and outstanding debts.

5. Credit rating report. A good credit history enhances your viability as a borrower. Obtain a free or low-cost credit report from one of the three major reporting agencies – Equifax, Experian, or TransUnion.

Questions

The next step is to convince the lender that you deserve the loan. Be prepared to give answers to some basic questions, such as:

- How much money do you need?
- How much do you intend to finance personally?
- How will you spend the money?
- How do you intend to repay the loan?
- What type of collateral do you have to secure the loan?

- What type of expertise do you have in your business?
- How will you proceed if you don't receive the loan?

When responding to these questions, don't be overly assertive, but try to project an air of confidence. The lender will want you to show the leadership qualities that can

sustain a business through both good times and bad. The interview is as much about you, the business owner, as it is about the business.

For assistance in preparing your loan request, give us a call at 630-953-4900.



CORPORATE MINUTES- BE READY FOR IRS SCRUTINY

Writing up the minutes of board of directors' meetings is not exactly a high priority for most business owners. Yet well-documented corporate minutes can provide valuable supporting evidence if your tax positions are ever questioned.

Minutes are especially important where any kind of related-party transactions occur, such as payments, loans, or distributions between the company and its owners. For example, the IRS may challenge the amount of compensation paid to a business owner as unreasonable. Corporate minutes that document the factors considered by the board in approving the compensation can be a strong defense against such a challenge.

Another area that receives close scrutiny from the IRS is the amount of earnings that are retained in the business rather than distributed as taxable dividends. A penalty applies to retained earnings over a certain limit unless they can be justified by business needs. Corporate minutes can be a strong piece of supporting evidence if they clearly spell out the reasons that the company needs to retain funds – for example, to purchase assets or for working capital.

If your company has a tax-qualified retirement plan or a stock option plan, the minutes should show decisions by the board adopting or modifying the plan. They should also document annual decisions on the percentage of contribution to profit-sharing plans and any decisions on fringe benefits, such as medical reimbursement accounts.

Corporate minutes need not be lengthy, but they should provide a clear record of corporate actions and the business factors that were considered when those actions were taken. You should think of your minutes as a key element of your tax planning strategy.



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Expensive Breaks Identified

A report issued by the Joint Committee on Taxation analyzed the amount of tax revenue lost to the federal government due to tax benefits available to certain taxpayers. The two benefits that will result in the largest revenue loss between fiscal years 2009 and 2013 are the home mortgage interest deduction and the exclusion from income of employer-provided health benefits. The mortgage interest deduction will "cost" \$572.9 billion over the four-year period, and the health benefit exclusion will cost \$568.3 billion in tax revenue.

FUTA Surtax Continues

The federal unemployment surtax was scheduled to

end after 2009. The surtax has, however, been extended through June, 2011 in order to help offset the cost of extending unemployment insurance benefits for the unemployed.

Slow Service At The IRS

In her annual report on the IRS, National Taxpayer Advocate Nina Olson singled out poor telephone service as the agency's most serious issue. The IRS has set a target for 2010 of answering 71% of taxpayer calls, a goal that leaves three of every ten calls unanswered. Those taxpayers who do get through to the IRS will have an average wait of 12 minutes. Olson's report recommended that the IRS increase staff so that 85% of calls can be answered with an average wait time of five minutes.

BY THE NUMBERS**IMPORTANT DATES FOR SPRING 2010****March**

March 15 – Deadline for calendar-year corporations to elect S corporation status for 2010.

Deadline for filing 2009 tax returns for calendar-year corporations.

March 31 – Deadline for taxpayers who file electronically to file 2009 information returns (such as 1099s) with the IRS.

Deadline for employers who file electronically to send copies of 2009 W-2s to the Social Security Administration.

April

April 15 – Deadline for filing 2009 individual tax returns.

Deadline for filing 2009 partnership returns.

Deadline for filing 2009 gift tax returns.

Deadline for making 2009 IRA contributions.

First installment of 2010 individual estimated tax is due.

June

June 15 – Second installment of 2010 individual estimated tax is due.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.

**CRAY, KAISER LTD.**

1901 SOUTH MEYERS ROAD
SUITE 230
OAKBROOK TERRACE, IL
60181
T: 630-953-4900
F: 630-953-4905
E: INFO@CRAYKAISER.COM

John W. Kaiser, Jr., CPA
Roger L. Reitz, CPA
James K. Scherzinger, CPA
James H. Slager, CPA
Deanna L. Salo, CPA