

# THE LEDGER

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## NEW RULES PROVIDE 2011 TAX PLANNING OPPORTUNITIES

Sunset was postponed last December, at least in the world of taxes. Many existing laws, which had been due to expire, or “sunset” at the end of 2010, were extended through 2012. At the same time, new rules that can impact your tax planning came into effect. With so many changes, you’ll want to make sure you understand the possibilities available to you as you finalize last year’s return and look ahead to 2011. Here are some suggestions.

### **Business tax planning**

There’s a new twist on an existing option for accelerated write-off of assets you purchase from September 9, 2010, through December 31, 2011. You can choose to expense 100% of the cost of new equipment, such as machinery, some vehicles, and computers, under expanded “bonus” depreciation rules.

While this sounds similar to Section 179, which also allows immediate expensing of assets you’d otherwise have to write off over several years, differences between the two methods exist.

For instance, the amount of Section 179 expensing you can claim may be limited by your income. In contrast, bonus depreciation can create an operating loss that you may be able to carry back to prior years to generate a refund.

Another depreciation break was also extended: the 15-year life for certain leasehold and retail improvements and restaurant buildings and improvements. These assets will no longer qualify for 15-year depreciation after 2011.

And what about the rules for Section 179? The expensing limit was increased to \$500,000. Your deduction begins to shrink if you buy more than \$2 million of assets.

### **Investment planning**

Capital gain rates will remain at a maximum of 15% (and a minimum of 0%) through December 31, 2012. The rates apply to qualified dividends and long-term gains from investments you sell. That makes 2011 a good time to implement strategies for potential tax savings.

**One example:** You may be able to manage your income to stay within the 10% or 15% income tax brackets, which would allow you to take advantage of the 0% capital gain rate.

Alternatively, you could gift

appreciated stock to family members in those brackets. For 2011, the cutoff for the 15% bracket is \$69,000 of taxable income when you’re married filing jointly (\$34,500 for singles).

### **Estate and gift tax planning**

The new rules for estates include a maximum tax rate of 35% and a \$5 million exemption for 2011 and 2012. The exemption is the amount you can leave to heirs, tax-free, and it applies to lifetime gifts as well. Therefore, you and your spouse could gift up to \$10 million of cash, investments, or ownership in a business without incurring gift tax. That’s in addition to

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## CRAY KAISER SUPPORTS UIC’S FAMILY BUSINESS DAY

On April 20, 2011, the UIC Family Business Council will host “Family Business Day”. Every year the FBC recognizes an outstanding leader who has inspired entrepreneurs and family business owners. The annual Leadership Award will be presented to Jimmy John Liautaud, founder of the popular sandwich chain Jimmy John’s. He will share the story of his business success from its launch when he was just 19 years old as a college town sandwich shop to over 1,000 stores across the country. The event is open to the public. To find out more information on the event, contact Deanna Salo or Roger Reitz at our office.

Cray, Kaiser Ltd. is a strategic sponsor of the UIC Family Business Council. We welcome our clients and associates to join us.

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## ARE YOU SAVING ENOUGH? HERE'S HOW TO GET YOUR SAVINGS PROGRAM ON TRACK

With the economic downturn still fresh in the minds of most Americans, you'd think rates of saving would be climbing through the roof. Surely people recognize—at long last—the need to sock away more money. After all, the job market is unstable, the stock market uncertain, and housing values notoriously unreliable. But one recent study showed that American savings rates have increased only slightly in the past decade, from 2.9% to 3.6%. That's substantially less than Americans were saving in the 1980s, and much lower than savings rates in some other developed countries.

### **So what's to be done?**

How can we ramp up our savings? Clearly, cutting back on cable television channels,

packing a lunch once a week, or dropping a magazine subscription won't generate substantial savings. If you're really committed to building wealth, it's essential to focus on the big stuff. For many Americans, that means attacking household debt with a vengeance.

If your credit card payment is big, your car payment bigger, and your mortgage payment even bigger, your savings accounts may be starved. And without enough cash to cover emergencies, many folks resort to credit cards and lines of credit to cover unforeseen expenses. So the cycle continues.

### **How can you get ahead of the curve?**

First, build up an emergency fund before life's inevitable crises happen. How much should you set aside?

The general rule is enough to cover three to six months of living expenses. As a first step, track your expenses for a month. Discover how much you really spend on groceries, utilities, and dinners out. Then project those expenses out three to six months.

Next, look at your income. How stable is your job? Do you have one or two salaries? How long might it take to find another job in your field? Use those factors to determine the target for your emergency account. Finally, think about where to stash your savings. You want the funds to be available—without withdrawal penalties or tax consequences—when you need them. With that in mind, a money-market or interest-paying savings account is often the best place to park an emergency fund.

### **How can you stay on track?**

Once you have an emergency fund, follow these steps to keep your savings plan on track.

Treat your savings as your

most important monthly bill. Write a check to savings first, or have your savings automatically deducted from your checking account or paycheck.

Tax-deferred retirement accounts offer a smart way for you to save money for retirement. If your employer offers a 401(k) or SIMPLE retirement plan, contribute the maximum amount allowed. If your employer offers no plan, contribute to an individual retirement account (IRA). The money you contribute to a retirement account can reduce your taxable income and grow tax-free until withdrawn.

When it comes to saving, think "control." For example, control the use of your credit cards. The amount you pay each month in finance charges could go to savings instead. Also, control the use of your ATM card. Get in the habit of giving yourself a regular cash allowance, and try to live with it.



## BUSINESS PLANNING

## A NEW BABY CAN BRING A LOWER TAX BILL

If you had a baby in 2010, or you're planning on having one in 2011, you are not only getting a little bundle of joy, but you're also getting a significant tax deduction. The amount of the deductions and credits certainly won't cover the cost of raising your child, but every little bit of tax savings helps. A few of the tax issues that you should be aware of include the following items.

**Additional exemption.** Your new baby generates an additional exemption to claim on your return, and with the 2010 exemption level at \$3,650 (\$3,700 for 2011), that could

equate to some significant tax savings.

**Child tax credit.** You are also allowed a \$1,000 credit against your taxes for your new family addition. And if your tax liability is less than the maximum credit, Uncle Sam will give you a refund for the difference.

**Dependent care credit.** If you pay for child care to allow you to work or look for work, you may qualify for the dependent care credit.

Don't overlook savings for college. The sooner you can start saving, the more you can accumulate to be used for future education expenses. Here are

three tax-advantaged ways to save for your new baby's future college expenses.

**Coverdell education savings account.** You can deposit up to \$2,000 annually into this account with withdrawals treated as tax-free if used for education.

**529 college savings plan.** This is another savings vehicle that allows you to put away even larger amounts for college expenses, with

the earnings on the account treated as tax-free if used for education.

**Roth IRA.** When your little one gets a bit older and begins to work, consider depositing some of that income into a Roth IRA account. This account can be used for education, or just for general investment, with no taxes due on qualified withdrawals.

So don't overlook the benefits in the tax code if you have a new addition to the family!



# MAKE BUSINESS PLANS REALISTIC AND USEFUL

Many prospective entrepreneurs regard business plans as annoying academic exercises, useful only to provide file stuffing for potential lenders or investors. Ironically, lenders and investors who receive such plans are apt to view them the same way and move on to the next applicant.

A real business plan should be regarded as a useful and dynamic tool. It should be able to help guide business decisions and serve as a yardstick for measuring outcomes. If external events invalidate some aspect of the plan, it should be revised to conform to the new evidence. Thus, the plan can continue to serve as a relevant guide while remaining ready for use as a reference for providers of capital.

A useful plan must be grounded in reality. Start by defining a significant customer problem that your proposed product or service can solve. The problem's existence should be supported by real evidence such as surveys, verifiable interviews, or marketing research studies. These sources should also help clarify your prospective customer base; i.e., the group that actually has the problem your product or service will solve.

Next, explain how you'll reach your customer base and motivate these people to buy. Once again, your assertions should be based on hard evidence, such as surveys and in-

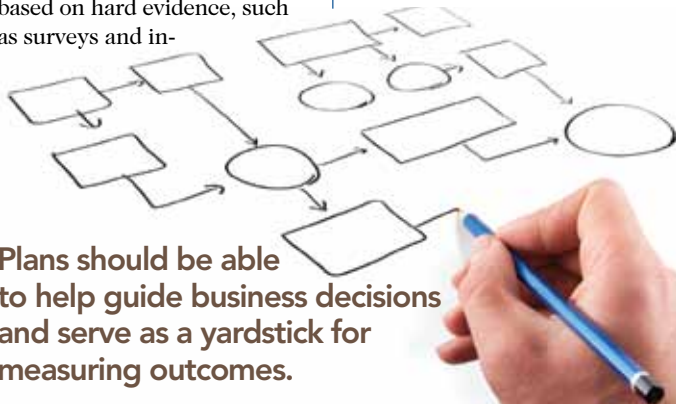
terviews of actual prospects. You should also include any secondary evidence, such as published studies, that supports the size and accessibility of your market.

Wherever possible, your surveys or interviews should be conducted using actual members of your prospective customer base. This means you must either conduct the research yourself or hire an outside professional to do the legwork.

Every business has particular factors that are vital to success, such as location, owner or employee skills, or access to essential materials. Your plan should identify the vital factors applicable to your business and explain how you will meet their requirements.

Be careful to ensure that your financial projections are as realistic as possible. Revenue projections should be supported by market research to the extent possible. Projected cost categories can be compiled from published materials, but realistic dollar costs should be determined through contacts with prospective suppliers. Try to identify potential pitfalls (such as seasonal revenue variations or inventory shortages) and provide concrete and supportable contingency plans for dealing with them.

If you'd like help with developing your business plan, contact our office at 630-953-4900.



**Plans should be able to help guide business decisions and serve as a yardstick for measuring outcomes.**

# 2011 TAX NUMBERS



## Standard deduction

Single	\$ 5,800
• Joint returns and surviving spouses	\$11,600
• Married filing separately	\$ 5,800
• Head of household	\$ 8,500
• Additional for elderly or blind (married)	\$ 1,150
• Additional for elderly or blind (single)	\$ 1,450

Personal exemption	\$ 3,700
Adoption credit	\$13,360
"Kiddie tax" threshold	\$ 1,900
"Nanny tax" threshold	\$ 1,700
Social security tax wage base	\$106,800
Medicare tax wage base	No limit

## Social security earnings limit

• Below full retirement age	\$14,160
• Full retirement age	No limit

## Maximum retirement plan contributions

• IRA for those under age 50	\$ 5,000
• IRA for those 50 and over	\$ 6,000
• SIMPLE plan for those under age 50	\$11,500
• SIMPLE plan for those 50 and over	\$14,000
• 401(k) plan for those under age 50	\$16,500
• 401(k) plan for those 50 and over	\$22,000

## Income limit for IRA deductibility (with company pension)

• Single/Head of household	\$56,000 – 66,000
• Joint	\$90,000 – 110,000
• When spouse has company pension	\$169,000 – 179,000
• Married filing separately	\$0 – 10,000

## Income limit for Roth IRA eligibility

• Single/Head of household	\$107,000 – 122,000
• Joint	\$169,000 – 179,000
• Married filing separately	\$0 – 10,000
• Rollover of regular IRA to Roth IRA	No income limit

## Health savings account contribution limit

• Individual	\$3,050
• Family	\$6,150
• Additional for 55 & older	\$1,000

## Automobile standard mileage rate

• Business	51¢
• Medical/moving expense	19¢
• Charitable work	14¢

Estate tax top rate	35%
Estate tax exclusion	\$5,000,000
Annual gift tax exclusion (per donee)	\$13,000

## Alternative minimum tax exemption

• Single	\$48,450
• Married, joint	\$74,450
• Married, separate	\$37,225

Section 179 deduction limit	\$500,000
Section 179 purchase limit	\$2,000,000

## TAX TALK

### Electronic deposits required

Businesses can no longer use paper coupons (Form 8109: Federal Tax Deposit Coupon) to deposit federal taxes to an authorized bank. Instead, deposits must be made using the Electronic Federal Tax Payment System (EFTPS) online or by telephone. Businesses with taxes below certain thresholds may still remit taxes due with the tax return being filed.

### Filing threshold raised

Tax-exempt organizations are required to file annual reports with the IRS. Those with gross receipts below a certain threshold amount can file an E-postcard rather than a longer version of Form 990. The IRS has just raised that threshold amount to \$50,000, an increase over the previous filing threshold of \$25,000.

The deadline for nonprofit filings is the 15th day of the fifth month after their year-end. For calendar-year organizations, the filing deadline for 2010 reports is May 16, 2011.

## NEW RULES

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your annual exclusion of \$13,000 per recipient.

Estates of persons who died in 2010 have the option of applying the restored estate tax rules and receiving a step-up in basis on property passing to heirs or having no estate tax but using a carryover of the decedent's basis in property.

The December tax law contains other provisions that offer planning opportunities – almost all of which are temporary. Please give us a call at 630-953-4900 for details and planning guidance.

## BY THE NUMBERS

### IMPORTANT DATES FOR SPRING 2011

#### March

**15** – Deadline for calendar-year corporations to elect S corporation status for 2011.

**15** – Deadline for filing 2010 tax returns for calendar-year corporations.

**31** – Deadline for payers who file electronically to file 2010 information returns (such as 1099s) with the IRS.

**31** – Deadline for employers who file electronically to send copies of 2010 W-2s to the Social Security Administration.

#### April

**18** – Deadline for filing 2010 individual tax returns.

**18** – Deadline for filing 2010 partnership returns.

**18** – Deadline for filing 2010 gift tax returns.

**18** – Deadline for making 2010 IRA contributions.

**18** – First installment of 2011 individual estimated tax is due.

#### May

**16** – Deadline for calendar-year nonprofit organizations to file information returns.

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  
Karen K. Snodgrass, CPA