

Tax Bytes

MGM Financial Group

January 2011

2010 TAX RELIEF ACT:

Many of the tax breaks established under President Bush were extended through 2012. Here are a few of the provisions impacting many of our clients.

TAX RATES: Tax rates remain the same for all taxpayers including both regular tax and capital gains tax.

STANDARD DEDUCTION: Extends the elimination of the "Marriage Penalty" by retaining a higher standard deduction for married couples, saving their deduction of approximately \$1,900.

ALT. MIN. TAX: Extends the higher exemption amounts through 2012. Without this extension of the increased exemption approximately 1/3 of our clients would have seen an increase in their 2010 tax bill.

TEMPORARY DROP IN SOCIAL SECURITY TAX: Both employees and self-employed individuals will pay 2% less in Social Security Tax during 2011. This tax savings only applies to those who pay into Social Security and is not supposed to impact their benefits.

ESTATE TAXES: This increases the Estate Tax Exclusion from 1 million (2 million for married couples) to 5 million (10 million for married couples) and lowers the rate from 45% to 35%. Proper estate planning is always necessary to maximize your benefits here so make sure you discuss your situation with your tax advisor.

MORTGAGE INSURANCE PREMIUMS: Premiums incurred on loans beginning in 2007 will continue to be deductible along with mortgage interest.

Required Minimum Distributions From Pensions and IRA's:

For tax year 2010 and forward those who are over age 70 1/2 must take a minimum amount out each year or face a very severe penalty. You are allowed to take out more than the required mini-

mum distribution amount.

REINSTATED CHARITABLE CONTRIBUTIONS FROM IRA ACCOUNTS: The provision that permits taxpayers age 70 1/2 or older to make DIRECT tax free transfers to charities from an IRA account up to \$100,000 per taxpayer has been extended through 2012. Furthermore, **TRANSFERS OCCURRING IN JANUARY 2011 CAN BE APPLIED TO YOUR 2010 TAX RETURN.**

Dependant Care Credit:

In order to claim the dependant care credit, the child must be under age 13 and be claimed as a dependant on your tax return. Depending on your income the credit ranges from 20-35% of the qualifying expenses, up to \$3000 per child. To claim the credit your tax preparer will need the name, address, phone number and tax id number of the person or organization that provided the care for the child.

If a Grandparent is paid a small amount to care for their grandchild(ren) while the child's parent works, they should pay tax on that amount. However, they do not need to pay social security tax on the amount received.

If you pay someone to come into your home to care for your child(ren), they may be considered to be a household employee. If you are a household employer, you may have to withhold and pay Social Security Tax, Medicare Tax and Unemployment Tax for the caregiver.

Automobile Mileage Rates:

	2010	2011
Business	50¢ / mile	51¢ / mile
Medical & Moving	16.5¢ / mile	19¢ / mile
Charitable	14¢ / mile	14¢ / mile

Retirement Account Contribution Limits

Plan Type	2010	Age 50 & Over	2011	Age 50 & Over
403(b), 401(k)	\$16,500	\$22,000	\$16,500	\$22,000
IRA, Roth IRA	\$5,000	\$6,000	\$5,000	\$6,000
SIMPLE IRA	\$11,500	\$14,000	\$11,500	\$14,000
SEP IRA	20% of Income up to \$46,000 per year			

Need help planning for your retirement?

We can help make the most of your retirement money with many investment options.

Are you interested in opening an IRA for 2010?

We have a number of different investment choices that can save you taxes on your 2010 return. You have until April 15th to open and fund your account and get the deduction on your previous year's tax return.

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Residential Energy Credits:

A personal nonrefundable tax credit is available for the purchase of specific residential alternative energy equipment installed on a taxpayer's residence located in the United State. The residential alternative energy credit has been expanded and extended through 2010. The credit is 30% (up to \$1,500) of the following items:

- Solar Electric property
 - Solar water heating property
 - Fuel Cell Property (may not exceed \$500 per kilowatt of capacity)
 - Small wind energy property
 - Geothermal heat pump property.
 - Energy Star Efficient Exterior Windows & Doors
 - Insulation
 - Energy Efficient Cooling & Heating Systems'
- (THESE CREDITS ARE EXTENDED THROUGH 2011 BUT WITH LOWER LIMITS)**

2008 Homebuyer Credit

Re-payment:

If you received the 2008 first-time homebuyer credit of up to \$7,500 it must be repaid in 15 equal annual payments beginning in tax year 2010. The re-payment is included in your 2010 tax return. If you received the entire credit, your payment will be \$500 a year from 2010-2025 or until the sale of the property.

The entire amount is due at the sale of the property or at the time it ceases to be your primary residence if the credit has not been paid back in full. The repayment is equal to the gain of the property up to the amount of the credit. However, if you sell your home to an unrelated party for a loss you may not be required to pay back some or all the credit.

For Example:

- If you have a gain of \$7,500 or greater, you must repay the entire \$7,500. (Unless a portion of it has already been repaid, then you pay the remaining credit amount.)
- If you have a loss of more than \$7,500, you do NOT have to repay the credit.
- If you have a loss of \$5,000, you must repay the difference of \$2,500.

Cancellation of Debt may create taxable income:

If a taxpayer borrows money and the debt is later cancelled or forgiven, taxpayers generally must include the amount discharged in taxable gross income. Most lending institutions will use a 1099-C to report to the government the amount of debt that was cancelled. Most of these involve auto and credit card debt. Foreclosure, short sales, or even restructuring the debt on a personal residence can also result in debt forgiveness. You will receive a 1099-A for abandonment of a secured property when no debt is forgiven.

There are a few exceptions to the general rule of including the amount forgiven as income. They include bankruptcy, insolvency (but only to the degree of insolvency), certain business debts and student loans as well as a few others. In most cases when you walk away from a debt you will have some tax to pay. Before entering an agreement that may lessen your debt it is wise to check with your tax advisor to determine the possible tax consequences of your decision.

Normally, debt forgiveness results in taxable income, however due to the Mortgage Forgiveness Debt Relief Act of 2007, you may be able to exclude some or all of the forgiven debt during years 2007-2012 on a Primary Residence. For more information see IRS publication 4681 or please consult your tax advisor.

Business Cell Phones:

Business Cell Phones are off of the IRS hot list this year. However, you still need to keep good records of your business vs. personal usage of your cell phone for tax purposes.

Everyone has personal calls on their business cell phone, for tax reporting purposes you are only allowed to deduct the business usage of your cell phone bill. For example if you have a family plan, you can not deduct your spouse and children's cell phone expenses on your return. You can only deduct the portion of your bill that relates to the business usage of your personal phone. If you use your phone for business 80% of the time on average, 80% of your portion of the bill can be deducted on your return. The percentage of business use varies for each individual and it is up to you to look through your records to determine what your average business usage is.

2010 Education Credits:

There are 3 education credits you may qualify for: tuition, fees and materials paid to institutions. All credits are subject to phase out based on income.

The American Opportunity Tax Credit has been extended through 2012. This is by far the best credit and should be used first. The maximum credit per student is \$2,500 for the first 4 years of qualified undergrad education. The credit includes tuition, fees and materials— if paid to the institution, i.e. the school bookstore.

The Hope Credit will replace the American Opportunity Credit starting in 2013. The Hope Credit is for the first 2 years of postsecondary education tuition and fees for a maximum credit of \$2,500.

The Lifetime Learning Credit is for undergraduate, graduate or professional courses to further job skills. The maximum credit is \$2000 per individual for qualified tuition and fees and is equal to 20% of qualified tuition paid up to \$10,000.

Qualified Student Loan Interest Paid is deductible up to \$2,500, subject to income phase out..

Who needs to file a tax return?

The Income limits are:

- Married: \$18,700
- Both over 65: \$20,900
- Single: \$9,350
- Over 65: \$10,750
- Dependent Child:
- Wages: \$5,700 **OR**
- Int. & Div.: \$950

Standard Deductions:

- Individuals: \$5,700
- Married Joint: \$11,400
- Head of Household: \$8,350
- Married Separate: \$5,700

Personal Exemptions:

\$3,650 per person

Need more time to file your tax return?

If you need more time to file your return you can get an extension to file until October 15, 2011. If you want us to do that for you, please let us know prior to April 10th. Remember this is only an extension to file, not an extension to pay your taxes.

How long should you keep your tax papers?

Keep your tax returns, W-2's and 1099's indefinitely. You would be surprised how often your returns are needed to document things that may go back many years. Don't throw away your actual return, 1099's or W-2's. Most receipts can be shredded and thrown after 5 years.