



June 30, 2010

## Health Reform Timeline

### 2010

- 10% excise tax on indoor tanning services, effective July 1.
- Adoption credit is now refundable. The qualifying expenses limit has been increased and the credit is extended through 2011.

### 2011

- Although not considered taxable income, the value of employees' health care benefits must be reported on their W-2.
- Over-the-counter medicines no longer count as qualified medical expenses for flexible spending accounts (medical reimbursement) or HSA distributions.

- The penalty for non-qualified use of HSA funds increases from 10% to 20%.

### 2012

- Adoption credit sunsets.

### 2013

- Flexible spending account contributions capped at \$2,500.

- Additional 3.8% tax on investment income for high-income taxpayers (Married filing joint-\$250,000, all others-\$200,000)

- Itemized deductions threshold for medical expenses increases from 7.5% to 10% of income, unless taxpayer or

spouse is age 65 by end of year. (For those 65 or older by year end, 10% threshold becomes effective 2017.

### 2014

- Penalties began for those required to have healthcare coverage. Penalties start at \$95 and by 2016 increase to \$695.

### SPECIAL POINTS OF INTEREST:

- Thank you to all for a good tax season.
- RMDs for your IRA are required to start up again in 2010.



- Thank you to those who shared our name and passed on referrals this tax season.

## Proposed Tax Changes for 2011

It should come as no surprise that there are tax changes on the horizon. Quite a few tax cuts, credits and deductions are set to expire at the end of this year, unless Congress takes action to extend them.

The tax cuts of 2001 and 2003, which lowered the top two tax brackets to 33% and 35% are set to expire, putting individuals with incomes over \$200,000 (families over \$250,000) in 36% and 39.6% brackets beginning

in 2011. In addition, the long term capital gain rate would revert from 15% back to 20%.

High income households are limited on the amount of itemized deductions that they can claim. That limit was set to expire at the end of 2010. The new proposal is to cap itemized deductions at 28%. What this will mean is, if you are in a bracket of 28% or higher, your itemized deductions (including mortgage interest, charitable contribu-

tions, etc.) will be capped at 28% of your income and any remainder will be available for carryover to the next year.

The budget calls for a one-year extension of the Making Work Pay Credit (the program that added a few dollars to each of your paychecks). BEWARE: this is the program that caused some of you in two-income or high-income households to not have enough withholding last year, and

(continued page 2)

**LET'S START NOW**  
Start now, to make sure you end the year with the tax picture you were hoping to see.

### INSIDE THIS ISSUE:

Proposed Tax Changes	<b>2</b>
Converting IRA to Roth?	<b>2</b>
Facing Debt Collectors	<b>3</b>
IRS Audit Triggers	<b>3</b>

## Proposed Tax Changes for 2011 (continued)

increased the amount of tax due at filing time. If you haven't already made any adjustments to your withholding at work, it is not too late to ask your payroll department for a W-4 and have a little more taken out each paycheck.

Expanding the child-care tax credit is also on the plan. For those families making less than \$85,000 that are paying for child care—the amount of credit that you qualify for will double.

The American Opportunity Tax Credit made tuition credits refundable. Prior to this, if you

had qualifying tuition payments, you could receive a credit of up to the lesser of your tax liability or \$2,000. The American Opportunity Tax Credit increased the credit to \$2,500 and, if the credit is more than your tax liability, the government will cut you a check for the difference. The proposal is to permanently extend this credit.

These, of course, are all still in the proposal stage and could change before year-end.



### REMINDER:

IRA AND RETIREMENT  
PLAN RMD (REQUIRED  
MINIMUM  
DISTRIBUTIONS)  
WERE SUSPENDED  
FOR 2009, BUT MUST  
ONCE AGAIN BE  
TAKEN FOR 2010.

## Converting IRA to Roth this year?

For a one year window, the income restrictions on who is eligible for converting a traditional IRA to a Roth, is lifted.

You will have a choice to report all of the income in 2010 and be taxed at once, OR split the income reported in half and report 50% in 2011 and 50% in 2012. Whichever route you choose, will be the election required for all of your conversions (if there was more than one). For married filing joint taxpayers, each spouse will get to choose their own treatment for a conversion.

For flexibility and protection, consider using separate Roth IRAs for different asset classes. If one of your Roth investments drops while the others increase in value, you can 'uncover' by switching the underperforming Roth back to an IRA tax and penalty free. Including tax filing

extensions, you will have until October 17, 2011 to make this decision.

### Conversion not for everyone.

There are circumstances that can make this a good year for conversion. The conversion may be a good option if you fit in the descriptions below:

1. Have sufficiently large ordinary losses in 2010 and 2011.
2. Have enough cash outside the IRA account to pay taxes on conversion.
3. Will likely be in a higher tax bracket in the future.

### Advantages of conversion.

The Roth has:

1. Income tax free growth
2. Income tax free distributions (provided the account

has been in existence for at least 5 years).

3. No required minimum distribution at age 70 1/2.
4. Non-spouse beneficiaries can continue to receive income tax free growth and distributions.

### Disadvantages of conversion.

1. Income tax must be paid on entire amount being converted, with the choice of claiming 100% in 2010, or splitting between 2011 and 2012 (tax rates for 2011 and 2012 are unknown at this time).
2. Conversion amount will be treated as income, possibly affecting the taxable portion of Social Security benefits and possibly limiting itemized deductions or other tax return items.

## Facing Debt Collectors

Many Americans are behind on their bills due to high unforeseen medical bills, extended unemployment, or mounting credit card debt. Being contacted by a debt collector can be an upsetting and stressful experience. It is important to know your rights to protect yourself from abusive, deceptive and unfair collection practices.

The Fair Debt Collection Practices Act (FDCPA) protects consumers by outlawing some collection practices and regulating others. *Here are some of your rights under the Act:*

- The debt collector can not discuss your debt with third

parties. They may contact third party to find your address, phone number or where you work, but are not permitted to discuss your debt.

- Debt collectors may not harass you or third parties. They may not use threats of violence or harm, use obscene language, use the phone to annoy someone or call during unusual hours (before 8am or after 9pm).
- Debt collectors can not lie to you when trying to collect a debt. For example, they may not claim that they are with a government

agency or that you have committed a crime.

- Debt collectors are prohibited from saying you will be arrested if you don't pay your debt or that they'll seize, garnish, attach, or sell your property or wages unless they are permitted by law to take the action and intend to do so.
- Report any problems with debt collectors to the state Attorney General's office ([www.naag.org](http://www.naag.org)) and the Federal Trade Commission ([www.ftc.gov](http://www.ftc.gov))

DEBT COLLECTORS ARE  
LOOKING FOR AN  
EMOTIONAL REACTION.  
THE MORE EMOTIONAL  
THEY CAN MAKE YOU, THE  
BETTER THE CHANCES  
YOU WILL PAY THEM TO  
GO AWAY. KEEP YOUR  
COOL, AND DEAL WITH  
THEM IN MATTER-OF-FACT  
TONES.

## IRS Audit Triggers and Red Flags

Everyone wants to avoid being audited by the IRS, but here are some common triggers and red flags. Keep in mind, however, that just because something on your return might attract the attention of the IRS does not mean it's wrong. It simply means you need to be fully prepared to defend yourself if you are audited.

Common triggers include:

**Large charitable donations:** Especially if the donations are large in comparison to your income. It is more important than ever to have cancelled checks, receipts, statements or other acknowledgements to defend your deductions. Without them, the deduction will be disregarded and your tax bill will increase.

**Cost basis on stock sales:** If you sold stocks this year, you must go back and find the exact price of the stock when you purchased it so the IRS can determine how much profit you made on the stock sale. In the future, investment companies are required to disclose your cost basis on investment purchases.

**Home-office and Self-employed deductions:** With more Americans losing their jobs, more taxpayers will be trying to claim home-office and self-employed deductions. The IRS has become increasingly skeptical of the legitimacy of home-based and cash-based businesses, which could make audits in this category more likely. To show that your

home-business is legitimate, you must keep detailed and accurate records of business income and expenses and you should keep separate business and personal bank accounts.

**High Income:** It's a fact--higher income earners are audited more often. In 2008, taxpayers earning less than \$200,000 were audited .95% of the time, while those earning more than \$1 million were audited at a rate of 5.57%. The point here is that audits in this income group are, more often than not, simply triggered by your income level. As long as your documentation is in place you should be fine.

MDW Tax & Financial Services is about planning through client service and education. If there are any items in this newsletter that raise questions in your situation, please do not hesitate to call Mark Williams (816-223-2067), so that we can plan for and hopefully reduce financial surprises.

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## TAX CALENDAR-2010

Tax Calendar:

July 30—Employer's quarterly tax returns due.

September 15—3rd Quarterly estimated payment due.

October 15—Income tax returns put on extension are now due.

October 30—Employer's quarterly tax returns due.

January 15, 2011—4th Quarterly estimated payment due.

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MAKING YOUR DREAMS  
WORK FOR YOU

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