

## Major Tax Changes in 2010

By Kevin J. Bassett, CPA

Most business owners know that they are facing higher taxes in future years – especially in 2011 and beyond. Fortunately 2010 isn't too bad from a tax standpoint. Many of the goodies from the stimulus package have expired and congress also failed to renew a number of favorable business tax breaks. Nonetheless tax rates will remain at their current level this year and a few new tax breaks are available.

Below I have outlined some of the important tax changes for 2010 and some strategies for business owners to keep more money in their pockets:

First the bad news:

- Bonus depreciation will no longer be available.
- The standard mileage rate has been reduced from 55¢ to 50¢.
- Many tax credits and deductions expired at the end of 2009. These include the R&D Credit, New Markets Tax Credit, the tuition deduction and the sales tax deduction. However, it's possible that congress may reinstate some of these credits and deductions.

Now for the good news:

- Most importantly this is the final year for the lower tax rates. Higher tax rates, capital gain rates and health care tax increases will not take effect until 2011.
- You can contribute up to \$49,000 to certain business retirement plans in 2010.
- You can take a \$134,000 first year write-off of business assets. Although this is lower than the \$250,000 available in 2008 and 2009, this is still relatively high. There are also some discussions in congress about increasing this limit in a stimulus bill.
- The domestic production activities deduction has increased from 6% to 9%. This deduction is available to businesses in the manufacturing, construction, engineering, architecture and software industries.
- Many of the energy tax credits are still available in 2010.
- The \$8,000 first-time home buyer's credit has been extended until June 30, 2010.
- A new \$6,500 credit for homeowners has also been added.
- A finally the big one .... In 2010 you can convert your regular IRA into a Roth IRA regardless of your income. You also can choose to pay ½ the tax 2011 and ½ in 2012. The only catch is that you might be subject to higher tax rates in those years.
- A great strategy to maximize this Roth IRA conversion is to make \$5,000 non-deductible contributions to a traditional IRA for 2009 and 2010 before making your conversion. Then you will have an additional \$10,000 to convert to a Roth. The deadline for making a 2009 contribution is April 15, 2010.

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