

# SOLUTIONS

January ♦ 2011

## Professionally Speaking

Please join us in welcoming recently hired Staff Accountants **Michael Lynch, Nicole Misnik, and Trina Picardal**, who will work in our Conshohocken, PA office with responsibilities for tax returns, financial statements, accounting and auditing.

As a sponsor of the Greater Philadelphia Chamber of Commerce Nonprofit Series and Small Business Series, we recently presented two GPCC educational workshops. In November 2010 Accounting and Auditing Manager **Frances Sperling Feldbaum, CPA**, advised nonprofit organizations on Maximizing Charitable Contributions, with the participation of Tax Manager **Cheryl Post, CPA**. Shareholders **William P. St. Clair, CPA; Hal J. Michels, CPA; Alan B. Gubernick, CPA** and Principal **James F. Knight, CPA** presented Year-End Tax Planning for Small and Family-Owned Businesses in December 2010.

In October and November Accounting and Auditing Manager **Stephanie S. Sommers, CPA**, gave presentations to high school students interested in the accounting profession at Temple University and Delaware Valley University as a member of the PICPA Greater Philadelphia Chapter's Relations with Schools and Colleges Committee.

Our tax experts, business consultants, Intuit Certified QuickBooks ProAdvisors, and wealth management advisors are available to speak to your organization or company. Please call 800-732-1016 or email [events@stclaircpa.com](mailto:events@stclaircpa.com) if you wish to schedule a workshop or presentation.

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## Dear Clients and Friends

### Leveraging Global Resources

#### St. Clair CPA Solutions Participates in Global Conference on the Aftermath of the Economic Crisis and the New Key Business Players

Leading accountants from around the world have been told that emerging markets like China and India are key to the success of a global economy. To learn more about strategies for doing business abroad, William ("Bill") P. St. Clair, CPA, managing shareholder of St. Clair CPA Solutions, met with fellow financial professionals in Rome, Italy, in early November for BKR International's Annual Worldwide Meeting. Bill was joined by nearly 200 delegates representing 90 independent accounting firms from around the world.

As Keynote Speaker, *Financial Times* and *Investment Week* columnist David Stevenson advised delegates that understanding how businesses and local cultures work in these emerging markets is a business imperative, one that is not always understood. He also told delegates that prospering countries must have incentives to keep investing in emerging markets, and that those countries will follow America's lead.

"Emerging markets are important for all of us," says Bill St. Clair. "In order for our clients to conduct business in these new areas, we must be able to advise them on both the business and cultural issues they are likely to encounter. As a result of our participation in the conference, our firm now has a greater understanding of the financial implications of trading with emerging nations."

Additional conference speakers included Professor Innocenzo Cipolletta, chairman of UBS Italia SIM SpA, who provided valuable information about the state of the EU following the global financial crisis in Europe.

Dr. Peter Cochrane, a technology expert based in London, discussed innovations in technology and how new technologies will change industries and impact businesses, their clients, and their customers.

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### 2010 Tax Relief Act Extends Bush-era Tax Cuts

After weeks of intense negotiations between the White House and Congressional leaders, on December 17, 2010 President Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (H.R. 4853), a two-year extension of soon-to-have-expired Bush-era tax cuts, including extension of current individual tax rates and capital gains/dividend tax rates. Called the most sweeping tax law in a decade, the new law does much more than just extend existing tax rates: it also provides a temporary across-the-board payroll tax cut for wage earners, a retroactive AMT "patch," estate tax relief, education and energy incentives, and many valuable incentives for businesses, including 100 percent bonus depreciation and extension of many temporary tax breaks.

The following overview highlights some of the new law's key incentives and benefits for individuals and businesses. You can find further information about these provisions on the In The News page of our website at [www.cpasolutions.net](http://www.cpasolutions.net).

#### 2010 Tax Relief Act: Benefits for Individuals

**Tax rates.** Among the most valuable tax breaks for individuals are a two-year extension of individual income tax rate reductions and a payroll tax cut. Both will deliver immediate tax savings starting in January 2011. The new law also extends full repeal of the limitation on itemized deductions and the personal exemption phase-out for two years. Married couples filing jointly will also benefit from extended provisions designed to ameliorate the so-called marriage penalty.

**Payroll tax cut.** The payroll tax cut is designed to get more money into workers' paychecks and to encourage consumer spending. Effective for calendar year 2011, the employee share of the OASDI portion of Social Security taxes is reduced from 6.2 percent to 4.2 percent up to the taxable wage base of \$106,800. Self-employed individuals also benefit. Self-employed individuals will pay 10.4 percent on self-employment income up to the wage base (reduced from the normal 12.4 percent rate).

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## 2010 Tax Relief Act Extends Bush-era Tax Cuts, *continued*

**Capital gains/dividends.** The new law also extends reduced net capital gains and qualified dividend tax rates. Individuals in the 10 and 15 percent rate brackets can take advantage of a zero percent capital gains and dividend tax rate. Individuals in higher rate brackets will enjoy a maximum tax rate of 15 percent on capital gains.

**AMT patch.** To prevent the AMT from encroaching on middle income taxpayers, Congress has routinely enacted so-called “AMT patches.” The new law continues this trend by providing higher exemption amounts and other targeted relief.

**Energy.** The new law extends the Code Sec. 25C energy tax credit through 2011 but reduces some of its benefits. The credit rewards individuals who install energy efficient furnaces or add insulation, or make other improvements to reduce energy usage.

**Education.** To encourage saving for education expenses, the American Opportunity Tax Credit (AOTC) was extended through 2012, along with the higher education tuition deduction, the student loan interest deduction, the exclusion for employer-provided educational assistance, enhanced Coverdell education savings accounts, and special rules for certain scholarships.

**Estate tax.** The new law revives the estate tax, but with a maximum estate tax rate of 35 percent with a \$5 million exclusion. The revived estate tax is in place for decedents dying in 2011 and 2012. H.R. 4853 gives estates the option to elect to apply the estate tax at the 35 percent/\$5 million levels for 2010 or to apply carryover basis for 2010. It also allows “portability” between spouses of the maximum exclusion and extends some other taxpayer-friendly provisions originally enacted in 2001.

**More incentives.** Along with all these incentives, the new law extends many popular but temporary tax breaks, including the \$1,000 child tax credit, enhanced earned income tax credit, adoption credit with modifications, dependent care credit, and deduction for certain mortgage insurance premiums.

The new law also extends retroactively some other valuable tax incentives for individuals that expired at the end of 2009. These include the state and local sales tax deduction, teacher’s classroom expense deduction, charitable contributions of IRA proceeds, and charitable contributions of appreciated property for conservation purposes.

## Leveraging Global Resources, *continued*

David Steele, Jaguar Cars Global Product Marketing Director, outlined strategies for marketing in emerging countries. Steele was responsible for the launch of Jaguar’s new XJ sedan.

Don Timmins, Chairman of BKR International and Partner at Welch LLP Chartered Accountants in Ottawa, said, “Understanding global markets and how they operate is key to global business success in the future. Clearly, emerging markets like China and India are important. Our goal is to disseminate relevant information to our member firms so that they can provide their clients with the most current informa-

## 2010 Tax Relief Act: Benefits for Businesses

**Bonus depreciation.** The new law makes 100 percent bonus depreciation available for qualified investments made after September 8, 2010 and before January 1, 2012. It also continues bonus depreciation, albeit at 50 percent, on property placed in service after December 31, 2011 and before January 1, 2013. There are special rules for certain longer-lived and transportation property. Additionally, certain taxpayers may claim refundable credits in lieu of bonus depreciation. 100 percent bonus depreciation is a valuable tax break and businesses have only a short window to take advantage of it.

**Code Sec. 179 expensing.** Under current law, the Code Sec. 179 dollar and investment limits are \$500,000 and \$2 million, respectively, for tax years beginning in 2010 and 2011. The new law provides for a \$125,000 dollar limit (indexed for inflation) and a \$500,000 investment limit (indexed for inflation) for tax years beginning in 2012 (but not after).

**Research credit.** Many businesses urged Congress to make the research credit permanent after the credit expired at the end of 2009. While this proposal enjoyed significant support in Congress, its cost was deemed prohibitive. Instead, Congress extended the research tax credit for two years, for 2010 and 2011.

**Energy.** One of the most valuable business energy incentives is the Code Sec. 1603 cash grant in lieu of a tax credit program, which encourages the development of alternative energy sources, such as wind energy. Other business energy incentives extended by the new law include excise tax and other credits for alternative fuels, percentage depletion for oil and gas from marginal wells, and other targeted incentives.

**More incentives.** Other valuable business incentives in the new law include extensions of the 100 percent exclusion of gain from qualified small business stock, transit benefits parity, Work Opportunity Tax Credit (with modifications), New Markets Tax Credit (with modifications), differential wage credit, brownfields remediation, active financing exception/look-through treatment for CFCs, tax incentives for empowerment zones, special rules for charitable deductions by corporations and other businesses.

This far-reaching multi-billion dollar tax package affects almost every taxpayer. Keep in mind that many of its provisions are temporary. It is important to plan early to maximize your tax savings.

tion available on how to deal with the changing global economy.”

Bill St. Clair said that St. Clair CPA Solutions became an independent member of BKR International, a leading global association, to provide the firm’s clients with access to the expertise of more than 135 member firms specializing in every practice area in 70 countries. “As a BKR member, we offer clients all the capabilities of a larger firm while maintaining our ability to deliver high-quality, personal service,” said Bill. “We are also held to a higher standard of ethical and professional excellence.”

Please contact us at 800-732-1016 if you have any questions.