

A decorative graphic consisting of three overlapping circles of varying sizes, each with a dark blue center and a lighter blue outer ring. These circles are arranged in a vertical line, with the largest at the top, a medium one in the middle, and the largest at the bottom. Two thin blue lines intersect at the top left and extend diagonally across the page, framing the circles.

Tax Tips

A Service of Sederburg & Associates

As a service to our valued clients, we will be sending out tax tips and reminders on a quarterly basis beginning with this issue.

John Sederburg
5/24/2010

Reminders:

- You may still order tickets to St. Louis Cardinal Baseball games through Sederburg & Associates for: Sunday, August 1st or Sunday, August 22nd. Tickets for both dates are available through our office at a discount, and come with a free hot dog and drink. Profits from ticket sales go to our local Animal Rescue Foundation.
- The due date for second quarter estimated tax payments is June 15th.
- If you entered into a binding contract for the purchase of a home prior to May 1st, you must close on the purchase by June 30th to qualify for the First Time Homebuyer Credit.

Tax Law Changes for 2010:

- The Required Minimum Distributions from qualified retirement plans is back in effect for 2010. This means that if you reached the age of 70 & ½ during or prior to 2009, you must take a distribution during 2010. Required Minimum Distributions are not required for Roth accounts or Defined Benefit pension plans.
- The adoption credit has been increased to \$13,170 for qualified adoptions.
- Small business owners may qualify for a credit for providing health insurance to workers. The credit is up to 35% of the cost of the group insurance premium. Businesses must have 10 or fewer employees with average annual wages of less than \$25,000.

Roth IRA Conversions:

- There are a lot of discussions about converting Traditional IRAs to Roth IRAs. The reason is simple. Distributions from a Roth IRA are not taxed in retirement (but there are penalties if you take early distributions). Also, there are no Minimum Required Distributions for Roth accounts.
- There is no longer an income limit for converting a Traditional IRA to a Roth IRA. That means anyone is eligible. The downside is that you pay income tax on the amount converted. For conversions taking place during 2010, you have the choice of paying the tax on your 2010 return or spreading the tax over the 2011 and 2012 returns. For higher income taxpayers, it may make more sense to pay the tax on your 2010 return. We will be happy to review your situation to determine which would be the best option for you.
- If you convert to a Roth, you may want to make estimated tax payments to avoid penalties for underpayment of estimated tax.
- If you have decided to convert, the earlier in the year the better. If you convert early, and your Roth grows, you will have realized tax free appreciation in your account. If, however, the value of your account drops significantly, you simply re-characterize (move back) to a Traditional IRA and reconvert next year.
- Should everyone convert to a Roth? No. It only makes sense if you expect to be in the same or a higher tax bracket in retirement than you are now. If you expect to be in a lower bracket, it would be to your advantage to stay with a Traditional IRA.

IRS Hot Issues:

- Some of the items the IRS seems to be targeting lately are business expenses (including employee business expenses). They seem to be especially targeting deductions for business mileage and entertainment expense. Your best defense is good documentation.
- Subchapter S Corporations are facing more audits if the principal shareholders are not paying themselves a reasonable salary. The purpose is to increase collection of Social Security and Medicare Tax.
- The IRS is also taking a harder look at employers who hire independent contractors as opposed to payroll employees. If you issue 1099 Miscellaneous to your workers instead of a W-2, be prepared to document that the workers really are self-employed contractors.
- First Time Homebuyers are facing increased audits. More than 200,000 taxpayers claiming the First Time Homebuyer Credit will be audited this year.

If you receive any government correspondence related to your tax return, or if you have tax related questions, contact Sederburg & Associates @ 636-928-1040.

Visit us @ www.TaxTeam1040.com for more info.

P.S. Thank you for making our 2nd **Annual Shred Day** a success!