

There have been several new bills, proposals and extenders in 2010 that affect your taxes. Below is a summary of several key tax provisions. Please contact us if you would like more information on how these provisions will affect your taxes.

Certain S corporation shareholders would be subject to self-employment tax.

Currently, income passed to S corporation shareholders is taxed on their 1040 and defined as un-earned income, thus, not subject to self-employment taxes. Under the proposal, effective for tax years beginning after 12/31/10, shareholders who provide substantial services to the S corporation would be required to pay self-employment ("SE") tax on their pass through income. Further, any relatives of a shareholder required to pay the SE tax who do not render substantial services would be required to pay the SE tax as well.

Employers are required to report the cost of health insurance in employees W-2's

For tax years beginning after 12/31/10, employers are required to disclose on each employee's W-2 the value of the employees health insurance coverage paid by the employer. This provision was recently postponed to take affect on 1/1/12.

We believe this provision will be implemented on the postponed date as some members of Congress wish to tax our heath insurance benefits. This provision will allow Congress to measure the amount of tax that could be generated by taxing health care insurance.

The threshold for deducting un-reimbursed medical expenses increases.

Beginning 1/1/2013, the threshold for deducting un-reimbursed medical expenses as an itemized deduction is scheduled to increase from 7.5% to 10.0%

The top two tax brackets increase and revert back to the "penalty" bracket.

The 33% bracket will increase to 36%, a 9.1% increase in your tax and the 35% will increase and return to the penalty bracket of 39.6%, a 13.1% increase in your taxes.

Additional Medicare tax on earned income.

The health care legislation passed in 2010 imposes an additional 0.9% tax on wages on a married filing joint return in excess of \$250,000, effective 1/1/2013. Thus if your total wages on a joint tax return exceed \$250,000 the incremental tax will be imposed.

If you file single, the tax would be imposed if your wages exceed \$200,000. Thus, two single filers would not have to pay the tax until their wages exceed \$400,000 compared to a couple filing a joint return at \$250,000.

Additional Medicare tax on un-earned income.

Un-earned income includes interest, dividends, annuities, royalties, rents and other passive income. Effective 1/1/13, this income would be subject to an additional 3.8% tax, above certain thresholds.

The thresholds are \$250,000 of modified adjusted gross income ("MAGI") for a joint return and \$200,000 of MAGI on a single return. The definition of MAGI needs to be clarified but currently appears to include most other types of income reported on your tax return.

Capital Gains rates are scheduled to increase for certain tax payers.

Currently net capital gains are subject to various rates ranging from 0% to a maximum of 15%. Effective 1/1/2011, the maximum rate is scheduled to increase to 20% for taxpayers filing jointly with income above \$250,000 and for taxpayers filing single with incomes in excess of \$200,000. These thresholds are to be reduced by the standard deductions and personal exemptions, thus, the \$200,000 level for a single taxpayer would be reduced to \$194,050.

Rental income recipients must report payments on a 1099's.

The Small Business Jobs Act of 2010 requires recipients of rental income to report payment made to a service provider (plumber, painter, contractor, etc) in excess of \$599 on a 1099. This law is different than the one proposed in the health care legislation requiring anyone engaged in trade or business to report any payments in excess of \$599. Our guess is that the provision in the health care legislation will be repealed but the Small Business Job Act provision will remain law. 1099's require certain information including the service provider's tax identification number.

*The above information is a summary and is **not** comprehensive and does **not** include all relevant information. The above information is **not** tax advice. If you require tax advice or tax assistance we encourage you to contact us.*