Lassus Wherley

Building Better Futures

News Notes

January 2011

People and Puppy News

The good news is that we're all back! Martha and Nancy are literally our bookends. Martha kicks off the process with either an appointment or log-in by mail or drop off. Nancy wraps it all up when she assembles the final return .

Laurie, Pat and Cynthia are the CPA's burning the midnight oil.

Peg joined us in February last year and scans and scans and scans.

Chen and Linda get it all in the computer and then turn around and get it out, whether by electronic filing or print. **Jaime** helps out wherever she is needed.

Planners and support employees are involved in taxes as well. **Lisa, Chad, Charles** and **Betty** have addressed tax planning initiatives throughout the year.

Pat, Jonne and Jaime handle the IRA contributions, the required minimum distributions, charitable gifting and cash needs to pay taxes.

Abigail, Bunker and Sammi —Puppies are fatter, getting lots of walks and enjoying all the puppies who visit with their client owners.

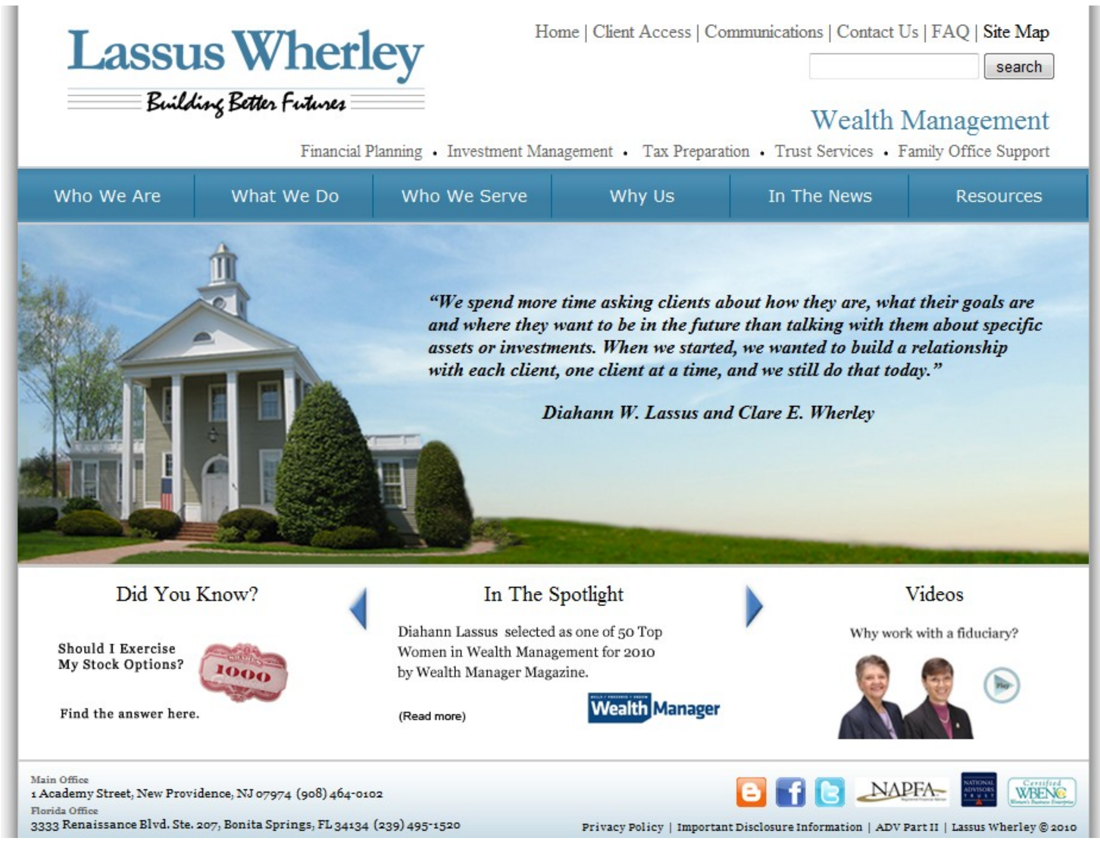
In the end it all stayed the same… for two years.

Income Tax Changes: We spent the entire year waiting for Congress to take action. Finally, the last week of the year they decided to extend the Bush tax cuts—which essentially were a "no-changes-at-all-scenario". Well, not exactly. There are some real changes going forward. See back page. The real significance of two more years is this. Capital gains rates for sales and qualified dividends will stay at 15% through 2012. Since rates will probably go up in 2013 consider selling those highly appreciated assets that you've been thinking about selling. It will also be important to continue to harvest losses to either offset current gains or to add losses to any carryover losses you've already accumulated. These losses could offset future gains being taxed at a higher rate.

Ordinary income rates will probably also rise in 2013 , so think about what tax bracket you are in and whether you should shift income. Schedule A deductions and tax credits remain important. If Congress eliminates or starts limiting deductions like mortgage interest, significant decisions will need to be considered.

Estate Tax Changes: The laws did change for the better in the estate tax arena, but again, only for two years. There's a $5-million-dollar exemption, a $5-million-dollar gift exemption and lower rates, to 35%. The exemption can be ported between spouses and the law was made retroactive to January 2010. Estates from 2010 can choose whether to apply the new law or the provisions in effect in 2010. Here too, the fact that the changes will lapse at the end of 2012 makes planning very difficult. Contact your attorney to be sure your estate documents are up-to-date.

LW News



See our new web site

www. lassuswherley. com

Information Security and Other Safety Measures

Last year we explained our new email policy which, briefly, was to only send tax and other personal information via fax, secure email or by uploading to a virtual place. We were actually ahead of the curve. In March 2010 Massachusetts passed an Information Security law that prohibited emailing personal data. We are subject to the law since we have clients in Massachusetts. It is also expected that other states will pass similar laws in the near future.

Personal data includes name combined with social security number, account numbers, credit card numbers or driver's license number.

There are other measures we've implemented as well. You'll notice new locks on all our doors. They require electronic information to open (battery operated) and record employees entering the building. Providing audit trails is the most critical new requirement in the law. We've implemented systems and procedures to audit which employees access what information both in systems and on the web.

Other enhanced security measures include interior locks on all doors, including the server room and employee work centers. Stronger password encryption, hard-drive encryption and strong wireless, virtual private network and remote access protection are also in place.

Our antivirus protection updates daily or more often. Data is also backed up off site .

To Roth (convert) or not. That is the question!

Effective in 2010 Congress lifted the $100,000 income limit for converting IRA assets to the tax free status of a Roth IRA. That is tax free going forward—of course. Tax is due on the conversion for the portion of the conversion that was originally deductible plus any earnings. Any IRA amounts contributed that were not deducted are considered basis, and only a portion of those assets can be moved to an IRA if less than 100% of all IRAs are converted.

Example: $100,000 in two IRA accounts, $50,000 in each. $10,000 in basis (contributions you couldn't deduct). On conversion of one IRA, you will pay tax on $45,000.

In 2010 the law allowed tax on a conversion to be paid in two segments, half in 2011 taxes and half in 2012. The same result can be accomplished by converting half of a total in 2011 and half in 2012.

SO—the question is—Should you or shouldn't you?

There is no right answer to this question. It all depends on what you think the future holds for your personal tax situation. The three main considerations are 1) current versus future tax rates, 2) your current versus future taxable income, and 3) the potential growth in the assets and the horizon you'd like to consider.

There are numerous variations in these considerations. If your future income will drop and your tax rate falls and you need the assets and that horizon is short, then conversion is probably not the best idea. But if you're young (long horizon) and in a lower tax bracket now (than you think you will be), and you think tax rates will go up, then conversion could be a good idea.

Probably the best solution is to consider converting some assets. Only you know what the right amount is for you.

Our new company picture has everyone in it!

Tax Stats FY 2009

Returns	# Filed	$ Paid
Individual	144,103,375	$1,175,422,000,000
Corporate	2,475,785	$225,482,000,000
Employment	30,223,289	$858,164,000,000
Excise	809,461	$46,632,000,000
Gift	245,262	$3,094,000,000,
Estate	47,320	$21,583,000,000

Taxpayers Earnings

TY 2008

Top 1% earn more than	$380,354
Top 10% earn more than	$113,799
Bottom 10% earn less than	$5,942
Median Adjusted Gross Income	$33,048

Tax Highlights for 2011

Almost all the changes approved for 2011 are effective for two years through 2012…

- ***Temporary Payroll Tax Cut (2011 only) means 4.2% of salary will go to FICA instead of 6.2%.***
- ***Qualified Charitable Distributions from an IRA permitted up to the same $100K.***
- ***Extension of Unemployment Insurance is an extension of the qualifying dates for the various tiers of benefits, and not additional weeks of benefits.***
- ***The lowest bracket of 10% is extended as are the 25%, 28%, 33% and 35% brackets through 2012.***
- ***Temporarily repeals the personal exemption phase-out and the itemized deduction limitations.***
- ***Dividend rates for those under the 25% bracket remains at 0% and at 15% for those above the 25% rate.***
- ***Capital Gains rates are the same as dividend rates.***
- ***Certain Child Tax Credits are extended.***
- ***Marriage penalty relief is temporarily extended.***
- ***Credits are increased for people with child care expenses from $2,400 for one child and $4,800 for two or more children to $3,000 and $6,000, respectively.***
- ***Adoption Credits restored for adopting parents.***
- ***Student Loan Interest Deductions are restored (i.e. if you make less than a certain amount you can deduct up to $2,500 in interest payments).***
- ***AMT relief provided in the form of extending and increasing the exemption amount under the AMT calculation.***
- ***Smaller Credits allowed for renewable energy initiatives.***
- ***$250 above-the-line tax deductions for teachers still allowed***
- ***Estate tax exemption is increased to $5,000,000, and the gift tax exemption also rises to the same amount.***
- ***Eligible business owners can deduct the cost of health insurance for themselves and their family in their calculation of the 2010 self-employment tax.***

I am proud to pay taxes in the United States; the only thing is, I could be just as proud for half the money.
Arthur Godfrey

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