

TAX FORMS

To further save money and encourage taxpayers to file returns electronically, rather than on paper, the IRS has decided not to mail tax form booklets to individuals or businesses anymore. The agency will send postcards to filers who filed by paper last year instructing them on where to get forms.

ESTATE TAXES

The new bill signed last week raises the estate exemption (the amount of assets that are free of federal estate tax) to \$5 million per person for 2011 and 2012. The maximum estate tax rate is leveled at 35%. There are other details to be ironed out in this bill, including the step up in asset basis, but they will be effective for 2011. There will not be any retroactive estate tax for 2010!

AUDIT FACTS

The IRS is enhancing its auditing of high-wealth individuals, and it looks like the requests for documents are pushing many accountants over the edge. Among the documents sought...full details of all businesses owned domestically and abroad, family limited partnership information, charity giving records, and hedge fund investment documents. Agents want a complete picture of the taxpayer's wealth. To earn this level of scrutiny, taxpayers will need either \$10 million of assets or income.

For businesses, the IRS has provided QuickBooks accounting software training to its Small Business/Self Employed examination division. While the training was limited to that particular software, it will change the information and documentation of all small business audits.

POLL ON WHAT TEENS ARE BADGERING PARENTS FOR RIGHT NOW

- 33% - A tattoo
- 25% - An ear piercing
- 21% - Nothing, thank God!
- 13% - A nose piercing
- 5% - Another tattoo
- 3% - A nose job

DO BETTER WRITERS MAKE BETTER HIRES?

All things being equal between job candidates why should you hire the superior writer?

1. People talk the way they write. If they have trouble putting together a sentence, they'll have trouble making an introduction or a presentation.
2. E-mail is based almost entirely on the ability to write.
3. When mishandled, e-mail can offend people and even trigger lawsuits.
4. The ability to convey ideas and persuade using the written word makes an employee an asset to your organization.

The type of writing you are looking for is not the kind of writing used in term papers. You will know good writing when you see it. You will need a test. Pick something that you didn't talk about in the interview and that isn't on the applicant's resume. Send the candidate a note or e-mail asking a detailed question-something that will elicit a response of several paragraphs. To get enough specifics, make sure you ask the candidate's opinion.

2011 PLAN LIMITS: UNCHANGED FROM 2010

On October 28, 2010, the IRS announced cost of living adjustments applicable to retirement plan contribution limits for 2011. As a result of low inflation over the previous 12 months, the contribution limits remain unchanged. The table below shows the 2010 and 2011 contribution limits for 401(k) plans:

401(K) Limits for Plan year	2011	2010
401(K) Elective Deferrals	\$16,500	\$16,500
Annual Defined Contribution Limit	\$49,000	\$49,000
Annual Compensation Limit	\$245,000	\$245,000
Catch-Up Contribution Limit	\$5,500*	\$5,500
Definition of Highly Compensated Employee	\$110,000	\$110,000
Social Security Wage Base	\$106,800	\$106,800

* the catch up provision expires in 2011 unless Congress extends it.



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HAPPY HOLIDAYS!!!



The Partners and Staff of
Brinker, Simpson & Company
send you

*Warm Wishes for a
Joyous Holiday Season
and a Healthy, Happy, and
Prosperous New Year!*



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What's New at Brinker, Simpson & Company



Bob Simpson, Head Coach Hohensee of the Philadelphia Soul and Cos Denecola, Co-owner of the Philadelphia Soul enjoying the official "Welcome Back" party for the 2008 Arena Bowl Champion Philadelphia Soul on September 16, 2010 at Chickie's & Pete's in Philadelphia.

The Adopt-A-Family program is well underway. Thank you to staff and clients who have contributed gifts to four families in need. Brinker, Simpson & Company staff will be making the deliveries on December 17th so the families will be sure to have the gifts in time to enjoy a wonderful holiday!

For Thanksgiving this year, our staff decorated, filled and delivered beautiful Thanksgiving baskets for several local families in need. Pictured below are a few baskets in our conference room before distributing them.



Partners and staff attended the premier event in November for the opening of the Sun Center Movie Production Studio currently under construction in Aston, PA.

If you would prefer to receive our newsletter via e-mail, please send a note to Hannah Leese at hleese@brinkersimpson.com and she will send this via e-mail.

We welcome Denise Farrell, CPA to the firm as a Manager in our Audit Department. Denise brings her extensive experience in Audit and Tax Engagements to us. Denise can be reached at dfarrell@brinkersimpson.com

Brinker, Simpson & Company was a lead sponsor in the Delco Run for Heroes 5K Run in Springfield on October 10th. The Run raised \$35,000 for a 10 year total of close to \$300,000, all to support the Delco Hero Scholarship Fund.

We recently became Associate Members of the Health Care Association of New Jersey.

Tax season is fast approaching. Look for your appointment card and organizer to be mailed to you by the end of January.



TAX & BUSINESS UPDATE

Winter 2010-2011, Volume 5, Issue 1

2010 TAX PLANNING STRATEGIES

The end of 2010 is here, and we held our printers off just long enough to see some light at the end of the tunnel of "Tax Rate Guessing". On December 6th, President Obama announced he was recommending a continuation of the current income tax rates (Bush Tax Cut) for 2011 and 2012...for all levels of income. In addition, the current lower rate long term capital gain and qualified dividend income will remain at a maximum of 15%. This new plan has not been approved by Congress (as of December 7), but we have crafted our planning recommendations based on anticipated approval and enactment by year end.

So the basics:

- Two year extension of the current rates (see chart below)
- Employee social security tax reduced from 6.2% to 4.2%
- Extension of college tuition credit for middle income taxpayers
- Expansion of \$1,000 child tax credit for lower income taxpayers
- Unemployment benefits extended for 13 months for long term jobless
- Up to 100% expensing for capital expenditures by business
- Increasing the research and development credit
- Estate Tax rate changes...see page 5
- Two year patch on the AMT exemption that was about to expire
- IRA payments direct to charities extended
- Standard deduction for state and local taxes extended
- Teachers expenses allowed in 2010 and 2011
- Use of tuition and dependent care to offset AMT

letters next year. If Congress decides, instead, to make changes to these proposals before passing, we will do our best to inform everyone of the impact. Stay close to our website for the latest updates.

Depreciation – There are various ways to gain a tax advantage through accelerating depreciation. Congress recently increased the amount of business assets purchased during 2010 that are eligible for the Section 179 – first year write off to \$500,000, with certain limits imposed. So, if you have a business need to invest in new equipment, computers, furniture, and the like, you can make those purchases by year end, finance them and pay for them later, but get a full deduction in 2010. Some of the limits are tricky, so we recommend you contact us if you are planning some substantial business asset investments. In addition to the first year write off, there are other accelerated methods of depreciation allowed as tax deductions, which can result in substantial deductions for assets purchased at the end of the year.

Health Insurance Credit – The Health Insurance Act of 2010 did institute a credit for certain health insurance premiums paid on behalf of your eligible employees. The credit (dollar for dollar against tax) is available for companies that employ less than 25 people (full time and full time "equivalents"), with average wages less than \$50,000. When we prepare your business tax returns, we will consider this credit for all employers who do provide health insurance as a benefit to their employees. The rate of the credit is 35% of health premiums paid, with certain state limits imposed. It is a very complicated formula, and we will need to know the hours worked for each employee, salary, and premiums paid on their behalf.

Since many of these provisions effect only 2011, those will be expanded on in our upcoming news-

(Continued next page)

2010 Tax Brackets – Taxable Income Levels

SINGLE	BRACKET	MARRIED/JOINT
\$0 - \$8,375	10%	\$0 - \$16,750
\$8,375 - \$34,000	15%	\$16,750 - \$68,000
\$34,000 - \$82,400	25%	\$68,000 - \$137,300
\$82,400 - \$171,850	28%	\$137,300 - \$209,250
\$171,850 - \$373,650	33%	\$209,250 - \$373,650
\$373,650 +	35%	\$373,650 +

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YEAR END TAX SAVINGS STRATEGIES FOR ***BUSINESSES & INDIVIDUALS***

Business Expenses – One of the most common questions we’re asked is whether a certain item qualifies as a business expense and is “deductible”. Answers will differ for each company and each circumstance, but if you can qualify the expense as “ordinary” and “necessary” for your company to pursue a profit, than that item is likely a deductible business expense. However, what is determined to be ordinary and necessary for your business, is likely not the same for others, so care needs to be used when there may be some disagreement on the criteria. If your business is audited by the IRS or a state tax agency, the auditors will use the ordinary and necessary definition to make final determinations on deductions.

Shareholder Basis – One of the areas the IRS has announced an audit concentration for 2011 is in the “basis” and “at risk” computations used by shareholders in an S Corporation (and Members in an LLC). The shareholder in an S Corporation that has losses can deduct those losses currently so long as they have basis, and that basis is at risk, and equals, or exceeds the loss amount. The computation of basis is defined as:

Amounts paid for stock
Add: Amounts loaned (and not repaid) to the company
Add: Share of company profits
Less: Profits distributed
Less: Losses claimed in past years

The IRS is looking at S Corporations with negative amounts in their equity sections, and if shareholders have taken losses in excess of their allowed at risk amounts. Members in LLC’s have an expanded definition for basis, which can include Members’ share of company liabilities, and guarantees of financing by the company. Losses that are not deductible currently due to basis limitations are usually carried over to subsequent tax years, and deducted when the basis is sufficient.****Planning Point**** If you are limited by basis in deducting losses, you can lend or contribute money to the company and bring your basis up to allow for the deduction and subsequent tax savings.

Retirement Plans – Still one of the best tax deductions for businesses and individuals is funding retirement plans. Taxpayers enjoy current tax deductions, and the investments grow tax deferred. There are many plans available to businesses with employees, but you must be aware of the non-discrimination rules and minimum funding requirements. A nice perk to the company portion of plan funding... it can be delayed until the business tax returns are filed...with the allowed extensions, and the deduction is taken in the current year. So, if you have a corporation who’s year ends on December 31, you can extend the filing of the return and the funding of the retirement plan until September 15 of the following year.

Long Term Capital Gains – Long term capital gains (assets held longer than one year) continue to be taxed at lower rates for 2010, with the maximum federal rate at 15%. These rates were extended through 2012.

Mortgage Interest

Interest on mortgage debt, for a first home and a second home continues to be deductible in full, up to certain cost limits (\$1 million of original acquisition and \$100,000 of qualifying home equity loans).

The IRS initiated audits in this area for taxpayers who they believe may be deducting interest beyond these levels, first looking at 2007 returns. If your total debt between two homes exceeds \$1.1 million, you may need to limit the amount of interest you deduct.

Charitable Contributions – Gifts to charities continue to be deductible in 2010 as they have been in past years. Generally, gifts made by year end (including those charged to a credit card) are deductible up to 50% of your income. Any excess gifts can be carried to the next year with the same limits.

Residential Energy Credits – This is the last year for tax credits for replacing windows, doors, heating systems, and insulation in your home. So if you are planning on any of these items, you need to get them finished this year.

Required Minimum Distributions (RMD) – Taxpayers who are older than 70 ½ must make IRA minimum distributions by the end of 2010. Congress will not extend the one year waiver of this rule. If you turned 70 ½ in 2010, you have until April 1, 2011 to take your 2010 distribution (and you will also need to take your 2011 distribution in 2011). The penalty for missing the distribution can be as high as 50% of the amount not taken...so be careful with this.

Maximize Exemptions – If you support an elderly parent or other qualifying relative, you can claim a dependency exemption for that family member if you meet certain conditions. Basically, you have to provide more than 50% of that person’s support, and his or her annual gross income (not including tax-free Social Security benefits) can’t exceed the personal exemption amount (\$3,650 for 2010). Monitor the support you are providing near the end of the year if you believe you qualify for an exemption.

Bunch Deductions – One way to deduct more of your medical and miscellaneous expenses is to “bunch” two years of expenses into one year so you exceed the applicable deduction floor. To boost your medical deduction for 2010, you could schedule and pay for elective surgery, dental work, and eye appointments in late 2010.

Take Advantage of Credits – Your student child may be able to claim the American Opportunity tax credit or the Lifetime Learning credit for tuition expenses *you* paid on his or her behalf if no one claims your child as a dependent. This could be a family tax saver if your child can take advantage of the credit and your AGI is too high to claim the credit yourself.

The dependent care credit isn’t limited to children. If you support an elderly parent who lives with you, for instance, you may be able to claim a credit for household and dependent care expenses that enable you to work.

REAL ESTATE LOSSES

Losses from rental properties are generally limited to no more than \$25,000 per individual (or couple). That limit is reduced for taxpayers with adjusted gross income in excess of \$100,000. There’s an exception for real estate professionals who spend more than 750 hours working in real property trades or businesses. In James F. Moss et ux. (135 T.C. No. 18) the taxpayers offered a summary of the time the husband worked on the rental properties. The summary showed that he worked on the properties for less than the 750 hours (645.5 hours) required by the code. The taxpayers however, contended that, in addition to the time the husband actually worked, he was “on-call” for work on the rental properties during the time that he was not at his full-time job and that the “on-call” hours should count toward determining whether the taxpayers met the requirements. The Court held the husband’s “on-call” time did not count toward satisfying the 750-hour requirement, because he did not perform any actual work on the rental properties during the “on-call” hours. Thus, the losses from the rental properties are subject to the limited offset (the \$25,000 exception). The Court held the taxpayers were subject to the accuracy-related penalty for a substantial understatement of income tax. The Court noted the extent of an individual’s participation in an activity may be established by any reasonable means. Contemporaneous daily time reports, logs, or similar documents are not required if the extent of such participation may be established by other reasonable means. Reasonable means for purposes of this paragraph may include, but are not limited to, the identification of services performed over a period of time and the approximate number of hours spent performing such services during such period, based on appointment books, calendars or narrative summaries.

STATE & LOCAL TAXES

As the economic downturn continues, state governments are worried about their finances too. Falling home prices and high unemployment have decimated states’ revenue from income, property, and sales tax collections. To combat this shortfall, many states are considering cutting back on existing tax credits, raising rates, and instituting new taxes that may be invisible to the consumer. So which state is the most tax friendly...Alaska...no income tax, no sales tax, and many residents get refunds because of excess government revenue. So here’s the list:

STATE	Effective State & Local Rate
1. New Jersey	11.8% of income
2. New York	11.7 %
3. Connecticut	11.1%
4. Maryland	10.8 %
5. Hawaii	10.6 %
11. Pennsylvania	10.2 %
48. Wyoming	7.0 %
49. Nevada	6.6 %
50. Alaska	6.4 %

Client Spotlight

SUN CENTER STUDIOS

There’s some Hollywood buzz lately and believe it or not, it is happening right here in Delaware County’s neck of the woods.



That new buzz is the opening of Sun Center Studios. The Studios will be the premier purpose-built facility for film and television production in our region and the only one of it’s kind in Pennsylvania.

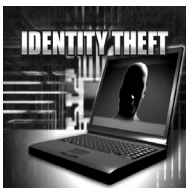
With aggressive tax incentives, an introduction to Hollywood producers, and a love for the movies, Jeffrey B. Rottwitz became a lead partner in building Sun Center Studios. Sun Center Studios (the former site of the Tri-State Sports Complex) is located on 33 acres of land in Chester Township, Delaware County. The site was originally owned by Sun Oil where, in a 44,000 square foot building built in 1950, many of the high school proms and weddings in the county took place.

Sun Center Studios had 2 existing buildings prior to construction which will be utilized in the current business, a 60,000 sq. ft. Mill Building (which will house the lighting & grip department as well) and the 44,000 sq. ft. Sun Center. Rising from an open field are 2 brand new studios, 20,000 sq. ft. each with 30,000 sq. ft. of offices to support the productions on the studios. The studio boasts many state-of-the-art features, including fiber optic connectivity throughout the campus, post production capabilities on-site, and a 216 kilowatt photovoltaic solar array to offset the electric demand of producing films and television shows.

The Studio is very close to completion with the offices expected to be finished mid-January. Recently, a large party was held at Sun Center Studios to celebrate the 25th Anniversary of the Greater Philadelphia Film Office. Around 800 people were in attendance, including Danny Devito, Tony Danza, Kaitlyn Olson and Rob McElhenney amongst many other famous and notable people. Already, M. Night Shyamalan, a Gladwyne PA resident, filmed 2 scenes from The Last Airbender at Sun Center Studios.

It is expected that Sun Center Studios will create many jobs in the five-county region, be a major tourist destination and of course, help position the Commonwealth of Pennsylvania to be very competitive nationally in bidding for film and television production work.

WARNING Re: IRS E-MAILS



Do NOT open ANY e-mails from the IRS, nor FORWARD them. The IRS does not send e-mails, so if you see one, know that it is an identity theft spam e-mail. Delete it immediately and block the sender.

WILL YOU HAVE TO REPAY YOUR HOME BUYER CREDIT?

In 2008, when the housing market was in more trouble than it is now, Congress passed the Housing and Economic Recovery Act to help move an excess number of houses off the market. One of the key provisions was a tax credit for first-time homebuyers. That original provision has since been extended twice, resulting in three different versions. Getting in on the original would have been a mistake. If you claimed a federal income tax credit for a 2008 home purchase, you’ll probably have to pay it back over 15 years starting with your 2010 Form 1040. However, if you claimed the credit in 2009 or 2010, you probably won’t have to pay it back. Following is a review of the three versions:

Version one: A credit of up to \$7,500 for individuals who bought a U.S. principal residence between April 9, 2008 and December 31, 2008 and had not owned a principal residence for the three-year period ending on the purchase date.

Version two: Congress increased the credit to up to \$8,000 for individuals who purchased a U.S. residence between January 1, 2009 and April 30, 2010 and had not owned a principal residence for a three-year period ending on the purchase date. The April 30th closing deadline was extended twice, first to June 30th, then to September 30th for homes under contract as of April 30th.

Version three: This is a \$6,500 credit offered to longtime homeowners defined as those who had owned a U.S. principal residence for at least five consecutive years during the eight year period ending on the purchase date for a new U.S. principal residence. For this third version, the purchase date had to be between November 7, 2009 and April 30, 2010. However, the closing dates were extended

SOCIAL SECURITY UPDATE

Michael J. Astrue, Commissioner of Social Security, unveiled the agency’s newly redesigned home page at www.socialsecurity.gov that will help visitors more quickly and easily find the information and services they need. One of the key features of the redesigned home page is a service channeling guide, which appears in the left hand column of the page. The guide links users directly to the most popular pages on Social Security’s web site -- the services visitors are most likely to want to use. Other features of the new home page include a rotating “show-case” that provides high visibility for significant agency initiatives that benefit the American public. While the look of the website may have changed, the book marked links to users’ favorite pages have not. To visit Social Security’s redesigned home page, go to www.socialsecurity.gov.

For the second year in a row, there will be no cost of living adjustment for Social Security benefits. The maximum earnings subject to the Social Security payroll tax remains at \$106,800, but the employee rate drops to 4.2% for 2011. A frequent question we get is when should a client file for Social Security benefits. Try www.ssincomeplanner.com to test out different strategies. Annual subscriptions range from \$10 to \$40.

SOCIAL SECURITY PROPOSAL

There is a current report prepared by a special deficit reduction panel that will be presented to Congress in December. The report will make some recommendations to sure up the financial stability of the Social Security system for the next 75 years. Among them will be:

- Increase the wage base subject to Social Security tax from the current \$106,800 (scheduled to increase up to \$160,000 in 2020) to \$190,000 in 2020 and up to 90% of all wages subject in 2050.
- Full benefit age to receive any SS benefits will rise to 67 in 2037, 68 in 2050, and 69 in 2075.
- Hardship only distributions allowed at 62.
- Only half benefits available at early ages, then full benefits at a later age.
- Formula for lower benefits for all recipients by 2050.

Some in Congress see the changes as a 36% cut in future benefits, time adjusted, compared to the benefits paid today. Without significant changes, the Social Security system is on schedule to be depleted of assets by 2037.

We will keep you updated as these proposals mature...but bet this is a hot topic in 2011.