

Taxing Times

Tax information for clients and friends of Stambaugh Ness



December 18, 2009

Alert!

The government has released the new mileage rates for 2010. The new rate is 50 cents per mile.

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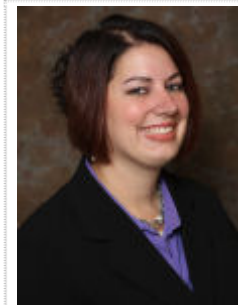
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By Tax Advisor Colette Brownson
Tax Specialist Melissa J-L Myers

INDIVIDUAL TAX NEWS TAX PLANNING SERIES

In the May through October issues of the Taxing Times, we provided you with various tips for tax planning in 2009. We have now concluded our Tax Planning Series. If you would like to review these previous suggestions, please refer to our website at www.stambaugh-ness.com. The past monthly editions are located there for your convenience.



*Tax Advisor
Melissa J-L Myers*

Individual Retirement Account Rollovers

Individuals may be eligible for a Roth IRA in 2010; all you currently need is a Traditional IRA. A Roth IRA provides its recipients with tax-free withdrawals, a tax-free inheritance for your heirs, and no requirement to tax minimum distributions from the account.

It is important to note that money invested in a Traditional IRA is pre-tax, whereas money invested into a Roth IRA is after-tax. Therefore, individuals will need to pay tax on the money invested in a Traditional IRA once it is converted to a Roth IRA. However, the tax due on the income from the Roth IRA conversion may be split between 2011 and 2012 if the individuals wish to do so.

Below is some basic information regarding Roth IRAs:

- Contributions are nondeductible
- Contribution limits are \$5,000 or \$6,000 if age 50 or older
- Minimum distributions are not required for individuals aged 70 ½ or older
- Contributions are made after-tax; therefore, distributions are not taxable

MELISSA'S COMMENTS: *"If an individual's income is less than \$100,000, you may convert to a Roth IRA immediately. Otherwise, you may have the opportunity to convert your account in 2010, when everyone, regardless of income, will be eligible to convert to a Roth IRA. Also, the tax due on the conversion may be paid in 2010 at the time of the conversion, or individuals may spread the tax due between 2011 and 2012."*

Employee Expense Rules and Substantiation Requirements

As you may know, business meals, lodging, and incidental expenses incurred while traveling away from home may be deductible if properly substantiated. Although taxpayers have the option of keeping the actual records of travel expenses, IRS-provided per diem allowances may be used instead to substantiate the business travel expenses.

Within the continental United States, different per diem rates have been established for the many different localities to which an employee may travel. These simplified per diem rates that employers can use to reimburse employees for expenses incurred during business travel away from home were recently updated and are effective for travel on or after October 1, 2009. For travel within the continental United States, the taxpayer has the option of using the 2008/2009 fiscal per diem rates, or the October 1 – December 31, 2009 rates, as long as they are consistently applied.

MELISSA'S COMMENTS: *"An alternative per diem method called the 'high-low' substantiation method has been provided to simplify the employer's administrative burden. Under the 'high-low' method, a uniform per diem rate has been established for localities that are classified as high-cost, and another rate for all other localities within the continental US, which are classified as low-cost. For transportation industry employees, business travel expenses may be computed periodically rather than daily, and special M&IE rates apply."*

Have You Possibly Missed A Tax Deduction?

"Tax Time" is quickly approaching. Soon, taxpayers will start gathering their W-2 statements, mortgage interest rates, as well as other information their tax advisor will need to prepare their 2009 income tax return. Don't forget about some of the following commonly missed deductions:

- 1. Estate Tax on income in respect of a decedent.** Individuals may be given an income-tax deduction for the

amount of estate taxes paid on IRA assets inherited.

2. **Jury pay turned over to an employer.** Many employers continue to pay employees' full salary while they serve jury duty, and some employers may require employees to turn over their jury pay to the company coffers. However, individuals must include their jury fees as taxable income on their tax return, but the individual may deduct the amount paid to his employer to offset the income.

3. **Casualty-loss deduction for nonitemizers.** For 2009, individuals who claim the standard deduction can assign casualty losses to their standard-deduction amounts if the loss occurred in a presidentially designated disaster area. Also, the casualty-loss deduction for losses in presidentially declared disaster areas is not subject to the usual reduction equal to 10% of your adjusted gross income.

4. **Break on the sale of demutualized stock.** Taxpayers won an important court battle with the IRS in 2009 over the issue of demutualized stock. A life insurance policyholder receives demutualized stock when the insurer switches from being a mutual company owned by policyholders to a stock company owned by stockholders. In the past, the IRS has taxed demutualized stock at 100% of the proceeds of the sale. However, the court has ruled that determination incorrect; therefore, individuals will need to keep basis information on demutualized stock.

MELISSA'S COMMENTS: *"These are only some examples of commonly overlooked tax deductions. Other deductions may include reinvested dividends, charitable contributions, child-care costs, refinancing points, and sales tax paid on the purchase of a new vehicle."*

***What's on Your Mind ...
"TAXING" QUESTIONS***

Dear Colette and Melissa,

I heard some changes were made to health insurance this year regarding coverage for dependent children. Can you please provide some insight into these changes?

Cancellation of Debt Income

Section 61(a) of the Internal Revenue Code discusses gross income, and in this section there is mention that income from the discharge of indebtedness must be included in gross income.

The new law Section 108(i) of the code says a taxpayer can elect to put off the recognition



**Tax Advisor
Colette Brownson**

**Thanks,
Logan,
McSherrystown, PA**

Dear Logan,

On June 10, 2009, Governor Rendell signed Act 4 of 2009 into law. Act 4 allows qualified adults up to age 30, under certain conditions, to remain covered by their parents' health insurance. The coverage expansion occurs at the discretion of the employer and does not preclude an increase in premiums related to covering children for these additional years.

The law applies to new health contracts and renewals occurring 180 days after June 10, 2009, and then on a rolling basis as contracts are made or renewed. Policies that are issued or renewed less than six months after June 10, 2009 will wait until next year to enact this expansion.

Qualifications of eligible children include:

- Unmarried
- Have no dependents
- Are residents of the commonwealth or enrolled as a full-time student
- Are not provided private insurance coverage or enrolled/eligible for government benefits

**Until next month,
Colette and Melissa**

If you have a general tax question you would like to have answered in a future edition, please email mmyers@stambaughness.com.

of COD income realized in 2009 and/or 2010 due to the "reacquisition of an applicable debt instrument" until 2014. And then, the amount of COD income can be reported ratably over the years 2014 – 2018.

For example, in 2009 the bank agrees to accept \$1 million from ABC, Inc. in satisfaction of a \$3 million promissory note. ABC, Inc. elects to defer recognition of COD income. ABC, Inc. realizes \$2 million of COD in 2009, but does not recognize that income in 2009. ABC, Inc. recognizes \$400,000 (\$2 million/5) in each of the five tax years from 2014 to 2018. Reacquisition includes acquisition of debt instrument for cash, exchange of a debt instrument for another debt instrument, debt for equity conversion, contribution of capital, and complete forgiveness of debt.

COLETTE'S COMMENTS: *"For more information on taking advantage of this deferral of debt income you can refer to Rev. Proc 2009-37. A taxpayer or pass-thru entity must file an election with a timely filed income tax return or information return."*



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For more information about any of these tax topics or other tax-related concerns, please contact our SNPC tax professionals, Colette or Melissa, at 717-757-6999/800-745-8233.

You may also visit [our website](#) or reply to this email. Links to [past issues of "Taxing Times"](#) can also be found on our website.



CORPORATE TAX NEWS

Extended NOL Carryback

Prior to the ARRA enacted earlier this year, Section 172(b)(1) of the Code stated: "a net operating loss for any taxable year shall be a net operating loss carryback to each of the 2 taxable years preceding the taxable year of such loss, and shall be a net operating loss carryover to each of the 20 taxable years following the taxable year of the loss." The enactment of the American Recovery and Reinvestment Act of 2009 (ARRA) allowed eligible small businesses to make an election to carryback a 2008 NOL for 3, 4, or 5 years. This election was irrevocable and could be made for only one year. An eligible small business is defined as having less than \$15 million in revenues in the year.

Then came along the Worker, Home Ownership and Business Act of 2009 (WHBA) and the NOL provisions were again modified by changes to Code Section 172(b)(1)(H). These changes allow any taxpayer to elect to carryback an applicable NOL for 3, 4 or 5 years to offset taxable income in the preceding years. The small business requirement was eliminated. Companies are able to revoke an election made to forego the 2008 NOL carryback until the due date of their 2009 tax return. Taxpayers, other than small businesses, can make the election for only one year.

Unlike the ARRA of 2009, the WHBA limits the amount of an NOL that a taxpayer elects to carry back to the 5th taxable year preceding the taxable year of the loss to 50 percent of the taxpayers' taxable income for the carryback taxable year. This 50 percent limitation does not apply to any eligible small business that elected to carry back its 2008 NOL under the ARRA of 2009. However, the 50 percent limitation will apply to any 2009 NOL incurred by an eligible small business.

COLETTE'S COMMENTS: *"To clarify the 50 percent limitation, let's say your company had a \$500,000 loss in 2009 and wanted to carry this NOL back to 2004 and the taxable income for this year was \$600,000. You would only be able to offset 50% of the \$600,000 of income. The excess of the amount of the loss over 50 percent (\$200,000) for the carryback taxable year is carried to later taxable years."*