



Individual Highlights

As 2010 comes to a close here are some items that may help guide your overall tax planning:

- If you expect your tax rate will be *higher* next year, you may want to accelerate income into this year and defer deductions into next year.
- If you expect your tax rate will be *lower* next year, you may want to consider deferring income to next year and accelerating deductions into this year.
- Some popular but temporary individual tax incentives expired at the end of 2009. They include the state and local sales tax deduction, the teacher's classroom expense deduction and the higher education tuition deduction. At the time, it is unclear which of the individual tax extenders would be included in the final bill.
- On December 6th it was announced that the Bush-era individual and capital gains/dividend tax cuts are expected to be extended for two years.

FEDERAL TAX RATES

Under current law, the individual income tax rates range from 10% to 35%, depending marital status and income.

WHEN DOES A DEPENDENT HAVE TO FILE A RETURN

A dependent has to file a return if the dependent has:

1. Earned income only and the total is more than \$5,700.
2. Unearned income only (i.e. income which is not compensation for services) and the total is more than \$950.
3. Both earned and unearned income and the unearned income is more than \$300 or the total income is more than \$5,700.

SOCIAL SECURITY NUMBERS ARE REQUIRED FOR ALL DEPENDENTS CLAIMED

STANDARD MILEAGE ITEMIZED DEDUCTION RATES

The standard mileage rate allowances for 2010 are 14 cents for charitable miles, 16.5 cents for moving and medical miles.

KIDDIE TAX

Children who have investment income greater than \$1,900 may be subject to tax based on their parents' income. This tax has been expanded in a very complex manner to potentially apply to children under the age of 24 as of year end. This extended version of the kiddie tax targets two groups who have attained age 18: 1) those who reach their 18th birthday during the year, and 2) those in full-time student status for at least five months of the year who attain their 19th through 23rd birthday during the tax year. There is a further test for those in the age 18-23 group. The kiddie tax only applies if the earned income of the child (wages and self-employment income) does not exceed one-half of the child's support for the tax year. In calculating support, amounts covered by scholarships are not taken into account. The tax does not apply to a child who is married and files a joint return for the tax year.

STANDARD DEDUCTIONS

		<i>Add'l for elderly and/or blind</i>
Single	\$5,700	\$1,400
Head of Household (HOH)	\$8,400	\$1,400
Married Filing Joint (MFJ)	\$11,400	\$1,100
Married Filing Separately (MFS)	\$5,700	\$1,100

If an individual can be claimed as a dependent on another taxpayer's return, the regular standard deduction is limited to \$950 or the dependent's earned income plus \$300 up to the regular standard deduction. If the individual is over 65 years of age and/or blind, the additional deduction will be added to the above.

TAXATION OF SOCIAL SECURITY BENEFITS

A portion of social security benefits will be taxed if income reaches certain thresholds:

Filing Status	% Taxed	Income Threshold
Single, HOH, QW, MFS apart all year	Up to 50%	\$25,000-\$34,000
MFJ	Up to 50%	\$32,000-\$44,000
Single, HOH, QW, MFS apart all year	Up to 85%	Over \$34,000
MFJ	Up to 85%	Over \$44,000
MFS living with spouse	Up to 85%	\$0

PERSONAL EXEMPTION

The personal exemption for 2010 is \$3,650. For a parent to claim an exemption for a full-time student who earns more than \$3,650, the student must be under 24 years of age as of the close of the year. A full-time student must attend school for at least 5 calendar months. There is no phase out for personal exemptions in 2010.

ITEMIZED DEDUCTIONS

The itemized deduction phase out threshold does not apply in 2010.

CHILD TAX CREDIT

In 2010 the non-refundable credit for each child under the age of 17 is \$1,000. For taxpayers with incomes above \$75,000 (\$110,000 for joint returns), the credit is phased out by \$50 for each \$1,000 of adjusted gross income above the threshold amount. This credit is expected to be extended through 2012.

STUDENT LOAN INTEREST

Taxpayers paying qualified education loans may be able to deduct up to \$2,500 of interest on the loans in 2010. There is a phase out that begins for taxpayers with modified adjusted gross income above \$60,000 for single taxpayers and \$120,000 for married filing joint taxpayers.

AMERICAN OPPORTUNITY TAX CREDIT

The American Recovery and Reinvestment Act of 2009 creates a \$2,500 higher education tax credit that is available for the first four years of college. The credit is based on 100% of the first \$2,000 of tuition and related expenses (including books) paid during the tax year, and 25% of the next \$2,000 of tuition and related expenses paid during the tax year, subject to a phase-out for AGI in excess of \$80,000 (\$160,000 for joint returns). 40% of the credit is refundable. The credit temporarily replaces the Hope Credit and is expected to be extended through 2012.

LIFETIME LEARNING CREDIT

If a taxpayer, spouse, or dependent is a student, the taxpayer may be eligible for a non-refundable credit of up to \$2,000 (20% of the first \$10,000 of qualified tuition and expenses). The credit is allowed for an unlimited number of years on a per taxpayer basis. It covers all 4 years of post-secondary education as well as graduate school and courses to improve job skills. There is a phase out for taxpayers with modified adjusted gross income above \$50,000 (\$100,000 for joint returns).

COMPUTERS AS AN EDUCATIONAL EXPENSE

A provision permits computers and computer technology to qualify as qualified education expenses in 529 education plans. This credit expires at the end of 2010.

MAKING WORK PAY CREDIT

The law provides an individual tax credit in the amount of 6.2% of earned income not to exceed \$400 for single returns and \$800 for joint returns in 2010. The credit is phased out at adjusted gross income (AGI) in excess of \$75,000 (\$150,000 for joint returns). This credit expires at the end of 2010. The president's plan does not renew the Making Work Pay Credit but, in its place, provides for a one-year, two percent reduction in OASDI tax for wage earners, from 6.2 percent to 4.2 percent.

ALTERNATIVE MOTOR VEHICLE CREDIT

An income tax credit is available for qualified fuel cell motor vehicles, advanced lean-burn technology motor vehicles, qualified hybrid motor vehicles, and qualified alternative fuel motor vehicles. The credit amount is computed differently for each type of vehicle and may vary considerably. This credit expires at the end of 2010.

GIFTING

A gift worth up to \$13,000 of income producing property cannot only avoid gift tax but can transfer future income from that asset to a lower-bracket donee. A married couple can apply a combined exclusion of \$26,000 to a gift property.

RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT

Taxpayers are allowed a 30% credit for the purchase of qualified property placed in service before 2017 including:

- Qualified solar energy property used to generate electricity.
- Qualified solar water heating property.
- Fuel cell property producing electricity. This credit is capped at \$500 for each .5 kilowatt of capacity.
- Qualified small wind energy property that uses wind turbines to generate electricity.
- Qualified geothermal heat pump property.

NON-BUSINESS ENERGY PROPERTY CREDIT

The "American Recovery and Reinvestment Act of 2009" increased the credit to 30% for the cost of any insulation or other energy-saving investments, such as new window or doors, can again be taken as a tax credit in 2010, however this is the final year. This is limited to an overall cap of \$1,500 for 2009 and 2010 combined. In the case of geothermal systems this 30% credit has no dollar cap.

CREDIT FOR FIRST-TIME HOME BUYERS

If a binding contract to purchase a home is entered into on or before April 30, 2010, and the residence is actually purchased on or before September 30, 2010, you qualify for up to an \$8,000 credit with phase outs starting at \$125,000 for singles and \$225,000 for married couples.

2010 if the first year automatic recapture will take place for taxpayers who took advantage of the 2008 first-time homebuyer credit. The recapture is set to be paid back over a 15-year period, interest free.

CREDIT FOR EXISTING HOME OWNERS

Those who have owned and occupied the same principal residence for at least five of the preceding eight years qualify for a tax credit on the purchase of a different principal residence. The same expiration dates and income phase outs apply as the first-time homebuyer credit. The credit is also 10% of purchase price, but is limited to \$6,500.

HOME OFFICE EXPENSES

Expenses related to a home office are generally deductible if:

- 1) you use the office exclusively on a regular basis as your principal place of business or a place patients, clients, or customers use in meeting or dealing with you;
- 2) you are an employee and the business use is for the convenience of your employer; or
- 3) you use it exclusively and regularly for administrative and management activities of your business if there is no other fixed location to perform such activities.

ROTH IRA CONVERSIONS

An opportunity formerly limited to taxpayers whose income was less than \$100,000, are now available without income limitations (though such limitations still apply to future contributions). Conversions in 2010 can be taxed in 2010 or the resultant income can be deferred and taxed over two years, in 2011 and 2012, at the taxpayer's then rates. Roth conversions can be made from IRAs, 401(k)s and other related pension plans.

CAPITAL GAINS FOR INDIVIDUALS

The maximum capital gains rate for sales of long-term capital assets (held more than 12 months) is 15% (0% for taxpayers in the 10% and 15% brackets). For 2010, qualified dividends will continue to be taxed at the same rates as long-term capital assets.

ADOPTION CREDIT

The adoption credit can now be taken on expenses up to \$13,170. The phase out applies for filers with AGIs between \$182,520 and \$222,520. If the sum of your 2010 refundable credits exceeds your tax liability, the excess amount will be treated as an overpayment that can be refunded to you.

PENALTY FREE IRA WITHDRAWALS

Penalty free withdrawals from all IRAs are permitted for undergraduate and graduate expenses (tuition, books, and room and board). The law also allows individuals to receive distributions from their IRAs up to a \$10,000 lifetime limit to pay for first-time home buyer expenses. "First-time home buyers" are defined as someone who has not owned a home for two years.

ESTIMATED TAX PAYMENTS

No penalty for failure to pay estimated tax applies for taxes payable less than \$1,000. If you don't meet this exception, you are required to pay the lower of:

1. Pay at least 90% of the tax shown on the current year return, or
2. Pay 100% of the tax shown on the prior year's return.

For individuals with adjusted gross income for 2009 in excess of \$150,000, the estimated payments should be 110% of the prior year tax liability.

GAIN FROM SALE OF PRINCIPAL RESIDENCE

A taxpayer generally may exclude up to \$250,000 (\$500,000 for joint returns) of gain realized on the sale or exchange of a principal residence. The taxpayer must have owned and occupied the residence as a principal residence for at least two of the five years before the sale or exchange. Exclusion may be limited by non-qualified use, such as vacation or second homes. The IRS Reform Act says homeowners can receive a portion of the exclusion based on how long they live in the home as long as the move is due to a change in place of employment, health, or unforeseen circumstances.

FEDERAL ESTATE TAX

EGTRRA abolished the federal estate tax for decedents dying on or after January 1, 2010 and on or before December 31, 2010. In its place, a carryover basis regime applies but only for 2010. Pre-EGTRRA estate tax rates (and certain gift tax and generation skipping transfer (GST) tax provisions) are scheduled to return after 2010. The president's plan would provide for a maximum estate tax rate of 35% and a \$3.5-\$5 million exclusion amount for two years, through December 31, 2010.

CHARITABLE CONTRIBUTIONS

Remember all charitable contributions now require documentation of the contribution. It must include name of donee, date of contribution, and amount.

FLEXIBLE SPENDING ACCOUNTS (FSAs)

Don't forget that you cannot set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin, antacids, etc. (2010 is the last year that FSAs can be used to nonprescription drugs).

Business Highlights

STANDARD MILEAGE AND PER DIEM RATES

The standard mileage rate allowance under the optional method for vehicle expense is 50 cents per business mile for 2010. A “high-low” method is available for meals and incidental expenses (M&IE) where the deduction amounts for January 1 through December 31 is \$52 for low cost areas and \$65 for high cost areas as defined by the IRS. A “high-low” simplified method is available for combined lodging and M&IE to employees who have been reimbursed by their employer. This method avoids the need to keep a list of the rates in effect for a given city. The combined rate for January 1 through September 30 is \$258 for high cost localities and \$163 for all other localities. These rates decrease to \$233 and \$160 respectively beginning October 1. The special M&IE rate for the transportation industry is \$59 per day in the continental US and \$65 per day outside the US from January 1 to December 31.

- **2011 Business Mileage Rate increases to 51 cents per mile.**

HEALTH DEDUCTION FOR SELF-EMPLOYED

The self-employed health deduction for 2010 is 100%. **New for 2010:** The deduction for health insurance costs of a self-employed taxpayer (and his or her family) is deducted in computing net earnings from self-employment.

PAYROLL TAX FORGIVENESS

The HIRE Act of 2010 waives the qualified employer’s 6.2% share of the FICA tax with respect to qualified employees who begin work after February 3, 2010 and before January 1, 2011. Qualified employers include any employer who has wages subject to FICA.

EMPLOYEE RETENTION CREDIT

The HIRE Act of 2010 gives a maximum \$1,000 for an employee hired after February 3, 2010, and prior to January 1, 2011. The employee has to be employed by the same employer for a period of not less than 52 consecutive weeks and whose wages meet the specific criteria.

SMALL BUSINESS HEALTH CARE TAX CREDIT

This credit begins in 2010 and is available to small employers that offer health insurance to their employees and is equal to 35% of qualified premium costs. The maximum credit available to employers with no more than 10 full-time employees earning average annual wages of \$25,000 or less. The credit is phased out as the number of employees increases to 25 and average annual wages increases to \$50,000.

BONUS DEPRECIATION

The Small Business Jobs Act of 2010 provides for bonus (accelerated) depreciation by allowing a bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service in 2010.

SECTION 179

The section 179 expense election on depreciable property is \$500,000 if the asset was placed in service during 2010. However, for SUVs (rated 6,000 to 14,000 pounds gross vehicle weight) the expensing amount is limited to \$25,000. Any vehicle with an open cargo area of at least 6 feet in interior length, which is not readily accessible front passenger compartment (e.g., a pickup truck) is not considered an SUV for expensing purposes.

For tax years beginning in 2010 and 2011, the small Business Act allows \$250,000 of the total \$500,000 total section 179 allowance to be used for new qualified real estate. This new qualified real estate includes leasehold improvements, qualified restaurant property, and qualified retail improvement property. The states do not allow the higher limits.

NET OPERATING LOSS (NOL) CARRY-BACK

Law permits a 2009 NOL to be carried back up to 5 years. However, the amount of the NOL in the fifth year is limited to 50% of a business’ taxable income for that fifth preceding tax year.

Wisconsin Highlights

TAX RATES

Wisconsin's individual income tax rates range from 4.6% to 7.75% depending on marital status and income.

RECIPROCITY

Individual income tax reciprocity between Wisconsin and Minnesota ended January 1, 2010. As a result, Wisconsin and Minnesota residents who work across the border must file returns in both states for 2010 and beyond if they meet minimum filing requirements.

SALES AND USE TAX

If your purchase taxable goods or services from an out-of-state mail-order company, television shopping channel, internet seller, or internet auction service and no Minnesota tax is charged by the vendor you are required to report and remit the unpaid tax to the state on your personal income tax return.

HEALTH COVERAGE FOR ADULT NONDEPENDENT CHILDREN

For Wisconsin purposes beginning with tax year 2010, employees and self-employed individuals will need to include in Wisconsin taxable income the fair market value of the policy providing health coverage for their adult nondependent children.

EMPLOYER-PROVIDED ADOPTION ASSISTANCE

For Wisconsin purposes, the 2010 dollar limitation on the exclusion is \$12,170. Any federally-excluded amount over \$12,170 per eligible child must be included in Wisconsin wages. This should be reflected in Box 16 of the 2010 Form W-2, or on a separate "Wisconsin-only" W-2 issued by the employer. A schedule I must be completed to adjust the Wisconsin income.

TAX RETURN FILING INFORMATION

Individuals filing a 2010 Form 1 or 1NPR must use Wisconsin Schedule I, Adjustments to Convert Federal Adjusted Gross Income and Itemized Deductions to the amounts allowable for Wisconsin, to adjust the difference between the Wisconsin and federal income tax treatment of health care benefits for non-dependent children under age 27.

WISCONSIN HEALTH INSURANCE

DEDUCTIBLE BASED ON EMPLOYMENT

- Unemployed get a 66.7% deduction for health insurance paid.
- Employees whose employer does not pay health insurance are entitled to a 100% deduction for health insurance paid.
- Employees whose employer does contribute to their health insurance receive a 10% deduction for the portion the employee pays.
- Self-Employed generally are entitled to a 100% deduction for health insurance paid.

HEROES EARNINGS ASSISTANCE AND RELIEF ACT

Wisconsin 2009 Act 161 adopts certain provisions of the federal Heroes act. Those include:

- The treatment of qualified reservist retirement plan distributions.
- Military death benefits may be contributed to a Roth IRA or Coverdell ESA.
- State or local bonuses for combat veterans are not taxable income.
- Differential pay is treated as wages for purposes of employer benefits.

These provisions are retroactive, thus, taxpayers who filed 2008 or 2009 Wisconsin income tax return and adjusted the differences between the Wisconsin and federal treatment of any of these items may now file an amended Wisconsin income tax return to reverse the adjustment.

ROTH CONVERSIONS

The 2010 federal provisions relating to converting an IRA or otherwise eligible distribution to a Roth IRA also apply for Wisconsin. This includes default "spread" of payment of tax on the 2010 converted amount over the 2011 and 2012 returns. In addition, the retirement plan and IRA contribution limits that will apply for federal tax purposes for 2011 and after will also apply for Wisconsin.

VETERANS PROPERTY TAX CREDIT

Wisconsin law allows the eligible veterans and eligible unmarried surviving spouses property tax credit to certain disabled veterans or their surviving spouses and the surviving spouses of members of the armed forces who died while on active duty. An eligible veteran means an individual who is verified by the Wisconsin Department of Veterans Affairs.

Minnesota Highlights

TAX RATES

Individual income tax rates are 7.85% for the highest tax bracket; 7.05% for the middle bracket; and 5.35% for the lowest bracket. The AMT rate is 6.4%.

EDUCATION TAX CREDIT

Families with children in grades K-12 may qualify for a refundable tax credit of up to \$1,000 per child for educational expenses paid during the year. The income and credit limits are based on the number of qualifying children. For families with 1 or 2 children, household income must be below \$37,500. For families with more than 2 children, the income limit increases by \$2,000 per child.

MARRIAGE CREDIT

The marriage credit for 2010 provides married taxpayers who each have at least \$20,000 of earned income, a credit against their Minnesota regular tax. The credit ranges from \$2 to a maximum of \$347.

CHARITABLE DEDUCTIONS

Individuals who do not itemize on their federal income tax return are allowed to subtract contributions that would be charitable deductions under the IRS code. Up to 50% of the total contributions for the year in excess of \$500 can be subtracted.

SALES AND USE TAX

If your purchase taxable goods or services from an out-of-state mail-order company, television shopping channel, internet seller, or internet auction service and no Minnesota tax is charged by the vendor you are required to report and remit the unpaid tax to the state on your personal income tax return.

SUBTRACTION FOR SCHOOL EXPENSES

You may subtract a maximum of \$1,625 per qualifying child (K-6) and \$2,500 (grades 7-12) for qualifying expenses. There is no family maximum deduction. The term "qualifying child" is the same as the federal definition of a qualifying child for Earned Income Credit purposes. This will allow a custodial parent who makes educational expenditures for his or her child to claim the subtraction even if the non-custodial parent claims the child as a dependent.

"ANGEL" TAX CREDIT FOR SMALL BUSINESS INVESTMENTS

Starting in 2010, qualified taxpayers will be eligible for a refundable income tax credit for investing in certain small Minnesota businesses.

HEALTH COVERAGE FOR ADULT NON-DEPENDENT CHILDREN

For Minnesota purposes beginning with tax year 2010, employees and self-employed individuals will need to include in Minnesota taxable income the fair market value of the policy providing health coverage for their adult nondependent children.

RECIPROCITY

Individual income tax reciprocity between Minnesota and Wisconsin ended January 1, 2010. As a result, Minnesota and Wisconsin residents who work across the border must file returns in both states for 2010 and beyond if they meet minimum filing requirements.