

July 8, 2010

Dear Client:

The following is a summary of the most important tax developments that have occurred in the past three months that may affect you, your family, your investments, and your livelihood. Please call us for more information about any of these developments and what steps you should implement to take advantage of favorable developments and to minimize the impact of those that are unfavorable.

Deadline extended for closing home purchase to qualify for homebuyer credit. Relief has been provided to taxpayers who couldn't meet a key June 30, 2010, closing date for qualifying for the homebuyer credit. In general, both the regular first-time homebuyer credit of \$8,000 and the reduced credit of \$6,500 for long-term residents expired for homes purchased after Apr. 30, 2010. However, if a written binding contract to purchase a principal residence was entered into before May 1, 2010, the credit could be claimed if the purchase closed before July 1, 2010. Under the relief measure, if a written binding contract to purchase a principal residence was entered into before May 1, 2010, the credit may be claimed if the purchase is closed before Oct. 1, 2010. Thus, this extension allows homebuyers who signed a contract no later than the April 30th deadline to complete their closing by the end of September.

Guidance addresses tax breaks for hiring new employees. Employers are exempted from paying the employer 6.2% share of Social Security (i.e., OASDI) employment taxes on wages paid in 2010 to newly hired qualified individuals. These are workers who: (1) begin employment with the employer after Feb. 3, 2010 and before Jan. 1, 2011, (2) certify by signed affidavit, under penalties of perjury, that they haven't been employed for more than 40 hours during the 60-day period ending on the date the individual begins employment with the qualified employer; (3) do not replace other employees of the employer (unless those employees left voluntarily or for cause), and (4) aren't related to the employer under special definitions. The payroll tax relief applies only for wages paid from Mar. 19, 2010 through Dec. 31, 2010.

Employers may qualify for an up-to-\$1,000 tax credit for retaining qualified individuals. The workers must be employed by the employer for a period of not less than 52 consecutive weeks, and their wages for such employment during the last 26 weeks of the period must equal at least 80% of the wages for the first 26 weeks of the period.

The IRS has issued guidance on these tax breaks in the form of frequently asked questions. They carry valuable information on subjects such as the scope of the exemption, how it interacts with other tax breaks, and when an employer must receive the employee's certification of former unemployment status. For example, the IRS explains that the exemption and credit can be claimed for a new employee replacing a downsized employee.

Detailed guidance released on new small business health care credit. The IRS has issued detailed guidance on the small employer health insurance credit created by the recently-enacted health reform legislation. Under the new law, effective for tax years beginning after Dec. 31, 2009, an eligible small employer (ESE) may claim a tax credit for nonelective contributions to purchase health insurance for its employees. An ESE is an employer with no more than 25 full-time equivalent employees (FTEs) employed during its tax year, and whose employees have annual full-time equivalent wages that

average no more than \$50,000. However, the full credit is available only to an employer with 10 or fewer FTEs and whose employees have average annual full-time equivalent wages from the employer of not more than \$25,000. The new guidance adopts a liberal approach to the new law's requirements, including three alternative methods for figuring total hours of service (important for determining how many FTEs an employer has), and also explains how small employers claim the credit if their State provides a credit or subsidy for employee health coverage. The IRS has released a state-by-state table of average health insurance premiums for the small group market for the 2010 tax year. The table is needed to calculate the credit for this year.

Guidance issued on new under-age-27 rule for health coverage of children. The IRS has issued guidance on the tax treatment of health coverage for children under age 27 under the new health reform law. The new under-age-27 rule, which went into effect March 30, 2010, applies broadly to employer-provided coverage or reimbursements, cafeteria plans, flexible spending arrangements (FSAs), health reimbursement arrangements (HRAs), voluntary employees' beneficiary associations (VEBAs), and the above-the-line deduction for a self-employed individual's medical care insurance costs.

Deadline extended for retirement plans in federally declared disaster areas in eight States. The IRS has administratively extended to July 30, 2010, the April 30, 2010, deadline for restating affected pre-approved defined contribution plans and, if applicable, for submitting determination letters to the IRS, and the Code Sec. 401(b) remedial amendment period for these retirement plans. The relief applies to sponsors of defined contribution plans that were affected by the storms and other severe weather in counties in Alabama, Connecticut, Massachusetts, Mississippi, New Jersey, Rhode Island, Tennessee and West Virginia that were federally declared disaster areas in the period from March 1 through May 31, 2010.

Temporary regulations fill in statutory gaps on new indoor tanning tax. The IRS has issued temporary regulations on the health reform's legislation's new 10% excise tax on indoor tanning services provided on or after July 1, 2010. The regs address practical considerations that may not have been contemplated when the law was drafted. For example, they address prepayments for tanning services and services provided as part of a gym membership.

Capital gains rate, tax rate on dividend income, and top marginal tax rate set to increase in 2011. Under current law (Jobs and Growth Tax Relief Reconciliation Act of 2003), the preferential rate on capital gains (0% and 15%), the preferential tax rate on qualified dividends (15%), and the top marginal tax rate (35%) will expire December 31, 2010. Effective January 1, 2011, the preferential capital gains rate will increase to 20% (10% for certain low income taxpayers) and the tax rate on qualified dividends will increase to the taxpayer's marginal income tax rate. The top marginal tax rate will increase to 39.6%.

For more information, please give us a call.

We hope you find this information helpful and would be pleased to answer any questions you may have.