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(Addresses of colleagues & friends are also welcome.)



More On The 2010 Tax Act

In our last issue we discussed the Estate and Gift tax provisions contained in the recently passed 2010 Tax Act (the Act) and as promised, in this issue we continue our coverage of the Act

Enhanced Equipment Expensing:

Generally, the cost of equipment purchased for use in a business must be depreciated over several years. Thus, the tax benefit and the resulting tax savings of such investment are also realized over an extended period.

In recent years, there has been a trend in the tax law to allow for more rapid recovery of the cost of investing in equipment. The Act continues this trend.

Under the Act (and other recently enacted legislation), up to \$500,000 of the cost of qualifying property (generally, tangible personal property and certain off-the-shelf computer software) may be deducted as a current expense for property placed in service during 2011. The maximum amount of expensing deduction available is phased out dollar for dollar if the total cost of equipment purchased during the year exceeds \$2,000,000. For years beginning in 2012, the maximum allowable expensing deduction is \$125,000 and the dollar for dollar phase out is \$500,000. After 2012, the maximum allowable expensing deduction will be reduced significantly to \$25,000 with a phase out set at \$200,000.

As the economy improves Congress will likely shift its focus away from economic stimulus and toward deficit reduction. The window to receiving immediate tax benefits from equipment investment may be closing. Business clients would be well advised to take these scheduled reductions of tax benefits into account when addressing their capital budgets for 2011 and 2012.

Bonus Depreciation:

Bonus depreciation is similar in many respects to the expensing deduction described above with some important exceptions.

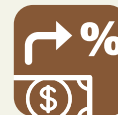
Bonus depreciation does not have a taxable income limitation and it applies to new property only. There is no dollar limitation to the amount of bonus depreciation which may be claimed, nor is there a phase out of the deductions.

Generally, the cost of qualifying property acquired and placed in service after September 8, 2010 and before January 1, 2012, is eligible for 100% bonus depreciation in the year placed in service.

What About Passenger Automobiles Used in a Trade or Business?

Annual depreciation allowances for passenger automobiles used in a trade or business are subject to limitation. The first year annual limitation for passenger automobiles placed

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Individual CT Sales and Use Tax

Connecticut imposes a 6% sales and use tax on the purchase of certain tangible personal property and various enumerated services. Connecticut retailers of goods and services are required to collect the tax and remit it to the state. Use tax is the tax you pay when Connecticut sales tax is not paid to a retailer. The use tax is complementary to the sales tax and applies to the same items of tangible personal property and services as the sales tax.

The Connecticut use tax is, in effect, self-assessed and is paid with your individual income tax return. If you are not required to file a Connecticut income tax return, use tax is reported and paid using Form OP-186 which also must be filed by April 15th. If you purchase taxable goods or services for use in Connecticut and the retailer does not collect sales tax, you are obligated to pay the use tax on these purchases.

The Connecticut Department of Revenue Services has information sharing agreements with several states and various departments of the federal government. As a result, it receives information concerning out-of-state purchases and items imported by Connecticut residents.

Connecticut charges a 10% penalty and interest at 1% per month on any unpaid use tax assessment.

There is a section in the tax organizer that we provide to you where you can provide us with the information we need to help you avoid these rather onerous charges.

For more information on how we at DHL&S can help with these and other tax planning opportunities, please contact us at 203-929-3535, or visit our website at www.dhls.com.



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in service in 2010 is \$3,060. There are annual limitations for subsequent years, and similar rules apply to trucks and vans. Note that the annual limitations are subject to inflation adjustment.

The good news is that qualified passenger vehicles and light trucks and vans rated at 6,000 pounds gross weight or less (1) used predominately for business (more than 50%), (2) where its original use begins with the taxpayer after 12/31/2007 and (3) which is placed in service on or before 12/31/2012 is eligible for \$8,000 of bonus depreciation for the year placed in service. The bonus depreciation is in addition to the normal first year annual allowance. Thus, a passenger automobile purchased and placed in service in 2010 is eligible for total first year depreciation allowance of \$11,060. Similar rules apply for 2011 and 2012.

Along with many of the other provisions of the Act, the first year bonus depreciation provisions applicable to passenger automobiles also sunset as of 12/31/2012.

“Heavy” SUV’s (in excess of 6,000 pounds) qualify for an expensing deduction of \$25,000 for the year the vehicle is placed in service. This is in addition to normal depreciation. Thus, total allowable first year depreciation for a heavy SUV costing \$45,000 would be \$29,000. The remaining cost is recovered over the subsequent four years without regard to the annual depreciation dollar caps for passenger vehicles and vans. Heavy SUV’s also qualify for a first year bonus depreciation.

Tax Season Tips, Reminders and Developments:

In addition to extending the Bush tax cuts, providing relief from the Alternative Minimum Tax (AMT), and cutting the payroll tax by two percentage points, the Act extends a host of other tax breaks for businesses and individuals. Some of the more important provisions are noted below.

Individual tax relief

The following tax breaks for individuals that expired at the end of 2009 have been retroactively reinstated by the Tax Relief Act and extended through 2011:

- The election to take an itemized deduction for State and local general sales taxes instead of the itemized deduction permitted.
- The above-the-line deduction for qualified higher education expenses.
- The \$250 above-the-line tax deduction for teachers and other school professionals for expenses paid or incurred for books, certain supplies, equipment, and supplementary materials used by the educator in the classroom.
- The increased contribution limits and carryforward period for contributions of appreciated real property (including partial interests in real property) for conservation purposes.
- The provision that permits tax-free distributions to charity from an Individual Retirement Account (IRA) of up to \$100,000 per taxpayer, per tax year. **(More on this in our next issue)**
- The increase in the monthly exclusion for employer-provided transit and vanpool benefits to equal that of the exclusion for employer-provided parking benefits.

In addition, the new law extends through 2011 the rule allowing premiums for mortgage insurance to be deductible as qualified residence interest.

Business tax relief

On the business side, the following business tax breaks that expired at the end of 2009 have been retroactively reinstated and extended through 2011 by the Act:

- The research and development credit.
- 15-year writeoffs for qualified leasehold and retail improvements, and restaurant buildings (and certain improvements to such restaurant buildings).

DHL&S Family News and Events

■ Congratulations to Nicholas DaPaz who has been promoted to Manager in our Accounting and Auditing Department. Nicholas joined us in 2002 as an intern.

- 7-year writeoffs for certain motorsports racetrack property.
- The employer wage credit for activated military reservists.
- Look-through treatment of payments between related controlled foreign corporations.
- The new markets tax credit.
- The special expensing rules for certain film and television productions.
- Expensing of environmental remediation costs.
- The enhanced deduction for contributions of food and book inventories, and computer equipment for educational purposes.
- A liberal rule for S corporations making charitable donations.
- Empowerment zone tax incentives.
- The work opportunity credit (extended for four months, through the end of 2011).

In addition, the new law extends for an additional year (i.e., through 2011) the temporary exclusion of 100% of gain on the sale of certain small business stock.

Energy provisions

The following energy provisions were extended by the Act (through 2011):

- The credit for manufacturers of energy-efficient new homes.
- The energy efficient appliance credit.
- The credit for energy-efficient improvements to existing homes.
- The 30% investment tax credit for alternative vehicle refueling property.