GRANITE POINT TAX GROUP, LLC

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Annual Newsletter, Vol. 2

The GRANITE POINT TAX GROUP Celebrates Its First Year!

It is hard to believe a year has gone by since we first opened our doors for business, but it has and we can now celebrate the conclusion of a very **successful and rewarding** first year.

With the addition of many new clients and continued loyalty from clients that have been with Matt, Garth, and Rachel over the years our 2010 filing season was a full and busy one. Our new office has been popular with clients; everyone seems to enjoy the brightness of the space and our views to the East as well as the ease of finding us and the parking! We have had significant growth in all our practice areas and in particular in our tax reporting for individuals, businesses, estates & trusts, and non-profits. Rachel has also done a great job servicing an ever-increasing number of clients with accounting and payroll needs.

All-in-all it has been a great year and we want to express our gratitude to all our clients and referral sources, both new and old, for helping us succeed beyond our expectations.

Thank you!!

Granite Point's Online Presence.

We have made numerous improvements to our website over the past year and are excited to announce you can now choose to receive our invoices by e-mail if you would like. You can sign up for this service on the e-Billing page at www.granitepointtax.com. Additionally, you can now pay your Granite Point bill online – just click the "Buy Now" button on our Payment page – no Paypal account is needed, they simply provide the secure platform for the transaction. Last but not least, you can now "like" us on Facebook and follow us on Twitter for announcements, reminders, and other helpful tidbits.

Security and privacy issues are always on our mind. We used SecureDrawer for the exchange of sensitive information with many clients in 2010 and expect that the use of this service will increase in 2011. Please call or e-mail if you would like us to set up a free SecureDrawer account for you.

Hot Issues for Individuals

Tax Rates. Tax rates are locked in at 2009 levels until the end of 2012. The speculation on Capitol Hill is that the rates will be extended another year and a tax overhaul will occur in 2013 after the election year has passed. With continuing high levels of borrowing to fund day-to-day operations by the US Government and the drama of possible government defaults occurring in Europe it seems inevitable that federal tax increases will eventually happen. Who gets stuck with bigger bills remains to be seen, but high income earners seem to be a favorite target. For the present, we have historically low tax rates to work with. You can't get any lower than zero as the current rate for capital gains for taxpayers in the lower income brackets on regular income. Even the maximum 15% rate for long term capital gains is a good rate for this type of investment income. Enjoy it while it lasts!

Tax Relief for Certain Itemizers. Beginning in 2011 and continuing through 2012 high income itemizers will not be required to reduce their Schedule A itemized deductions total. The same is true for their personal exemptions. These reductions used to cut heavily into these deductions so this represents a nice tax break for higher income families.

Energy Improvement Credits. The trend seems to reflect a pull-back of sorts on these credits. For 2012 we are losing Oregon credits for energy efficient appliances and alternate fuel/electric vehicles. The Federal credit for insulation and replacement doors and windows had already dropped to 10% of cost up to $500 for 2011 and is gone for 2012. Generous credits are still available on federal and Oregon returns for solar system installations and Oregon is still offering a credit for energy efficient heating and air conditioning systems.

Retirement Planning. We should all make saving for retirement a priority every year that we have income. That can be hard to do when the budget gets tight, but the tax code definitely helps with good deductions available for your retirement contributions. Maxing out your 401k contributions at work and striving to meet your employer's highest matching contribution is a good place to start. With a 401K plan you never see the retirement savings in your pay check so it all happens automatically and you are not tempted to spend the savings. If you cannot participate in an employer plan (and maybe even if you do) making a traditional IRA contribution is the next best thing. The IRA contribution is fully deductible if your income is not too high. The limits for 2011 are $5,000 if you are under age 50 and $6,000 if you are 50+. Your 2011 contribution can be made up until April 17, 2012.

Roth Conversions. We get a lot of questions about Roth conversions or making a Roth contribution instead of a regular IRA contribution. The Roth account has its pluses, but we find there are only a limited number of people that will really benefit from a Roth investment over the traditional IRA. Converting an existing IRA to a Roth will also be the right choice for only a very few clients. Please contact one of us before you automatically choose a Roth for your retirement account contribution or make a conversion to see if it really makes sense to do so. A planning opportunity exists for sole proprietors who pay their minor children for services and contribute to a Roth IRA on their behalf. Call for details.

IRA to Charity Distributions. The ability to send your IRA Required Minimum Distribution to a charity and avoid the extra income was available again in 2011 under special legislation and at least one of our sources predicts it will be available again in 2012. If you don't need the income from your IRA and have to take a distribution under the RMD rules this might be a good option for you to consider. If it becomes available in 2012 you can do this for up to $100,000 of IRA distributions.

Debt Forgiveness Income and Foreclosures. We have helped many clients with homes that are underwater deal with the special tax reporting that goes with the loss of a home in these circumstances. We are looking for improvements in the Portland area housing market to eventually come our way. It appears that Portland has suffered far less than many other parts of the country and, we feel, Portland's market will recover quicker because it is a growing population center. With a high inventory of bank-owned homes that still needs to be cleared out, the recovery is probably still years away so we expect clients will continue to suffer through the trauma of losing a home. One piece of good news is the strength of the rental market. If a home is not too far underwater and monthly expenses can be covered or mostly covered by a rent payment it might make sense to reconfigure your living arrangement, rent the home and try to wait out the market. If you go through a short sale or foreclosure or simply abandon your home please bring this to our attention as this requires detailed tax reporting, but often no addition to taxable income.

Foreign Asset Reporting. IRS continues its scrutiny of off shore accounts and assets owned abroad. For 2011 we have enhanced reporting rules for clients with assets falling into this category. Please bring any foreign assets to our attention. It is okay to own foreign assets, the IRS just wants you to report them and any income derived from them on your US tax return. Reporting the income may or may not be painful depending on how much income there is, but not disclosing the existence of the assets carries steep penalties, so compliance with these rules is important. The details are quite complicated, but in theory you should not have to worry about being double-taxed on foreign income by both the foreign government and again by the US government.

Hot Issues for Businesses

1099 Reporting Changes – Again. That's right, the rules for issuing 1099s have changed again. The threshold for issuing a 1099 remains at $600 of services rendered, but now only includes payments made by cash or check. Payments made by credit or debit card should NOT be reported on Form 1099-Misc, as the merchant service companies will now begin issuing Form 1099-K for those transactions. We anticipate a bit of a mess as many businesses miss that important distinction and inadvertently generate 1099-Misc forms that overlap the income shown on 1099-K. The good news is that the short-lived requirement that 1099s be issued to corporations has been dropped, along with the requirement that landlords issue 1099s for their rental units.

New Health Insurance Law. Pieces of the recent Federal legislation mandating health insurance coverage are being implemented as each year passes. Here is a summary of certain provisions implemented to date and those coming for 2012 and beyond.

The following changes were effective beginning in 2010: insurance companies can no longer impose life time coverage limits; children under 27 can remain on their parents' plans; children cannot be denied coverage due to a pre-existing condition; a small business tax credit became available to help cover the cost of employee insurance premiums; a high risk pool has been created for anyone uninsured due to a pre-existing condition.

Starting in 2012, businesses that provide employees with health insurance benefits must track the cost for each employee and report the total amount at year-end in Box 14 of the employee's Form W-2. The payments remain a tax-free fringe benefit making rumors that employees will be taxed on their insurance benefit incorrect. Businesses with fewer than 250 employees do not have to comply with this provision until 2013.

In 2013 higher income earners will pay more Medicare taxes through payroll deductions as well as on their investment income.

In 2014 insurance companies can no longer limit the annual medical costs they will cover for each insured. The insurance mandate for individuals also begins. There will be modest penalties assessed for the failure to comply. We assume there will be reporting forms to complete and file each year showing your insurance coverage. Massachusetts currently uses this system. Also in 2014 certain employers will be required to pay health insurance costs for full time employees. This mandate applies to large employers (at least 50 employees) who will be subject to penalties if they do not comply with the coverage mandate.

The US Supreme Court will rule on the validity of this health insurance law in 2012 or 2013. If the Court finds the legislation is unconstitutional we will be back to square one trying to resolve these difficult issues.

Retirement Plans for Sole Proprietors and Small Corps. For business owners without employees looking to make a retirement contribution in excess of the traditional IRA limits, we continue to recommend an Owner 401k. This type of retirement plan is easy and cheap to establish and allows you to contribute up to 25% of the business' net earnings as well as an "employee" share of up to $16,500 for 2011 and $17,000 for 2012. The two contributions together cannot exceed $49,000 plus $5,500 for employees over age 50. The SEP IRA continues to be another good option for self-employed folks, especially those with no (or few) employees.

Hire a Vet! There is a new credit available to employers to help pay the salary of war veterans hired between November 21, 2011 and January 1, 2013. The amount of the credit varies depending on how long the veteran has been out of work and is computed as a percentage of pay (e.g. 40% of first $14,000 paid to veteran unemployed for 6 months). And if you had employees that qualified for the payroll holiday provisions of the Hire Act last year, they may qualify your business for a different credit if you retained them for more than 52 weeks. You should plan on discussing all new hires with your tax adviser to determine whether any of the multiple new-hire credits are available.

Asset Purchases. Although the amount of bonus depreciation for new assets placed in service in 2012 is dropping to 50% and the Section 179 deduction limits are also lowered, most businesses will still benefit from both of these accelerated depreciation methods. With profits down over the last few years and tax rates still at historic lows, it is not a bad idea to stretch the expense deduction of depreciable assets over a number of years anyway. When and how to deduct the cost of equipment and asset purchases is always an interesting and challenging question and it is good to have these different options to choose from.

Mileage Rates. IRS has published the mileage deduction rates for 2012. Business use of a vehicle is deducted at 55.5 cents per mile; a deduction of 23 cents per mile is available for medical and moving expenses and charitable miles are deducted at 14 cents per mile. The 2011 business rate was 51 cents per mile for the first half of the year and 55.5 cents per mile for the second half.

Gift and Inheritance Tax Update

Legislative Changes. During 2011 the Oregon legislature tackled some significant changes to our inheritance tax. The exemption was left at $1 million, but the tax rates were adjusted to remove higher rates at the lower end of the scale. The current lowest rate is now 10% on assets valued over $1 million. The rates climb to 16% for assets valued over $9.5 million. Another important change exempts non-Oregon residents with intangible personal property from the inheritance tax. Real and personal property located in Oregon and owned by non-residents will still be subject to tax. Examples of intangible personal property are cash, stocks, bonds and contract rights.

Gifting Opportunity. Oregon still does not add life-time gifts to the taxable estate and does not have a gift tax. With the federal gift and estate tax exemption at $5 million for 2012 this gives estates with total assets below this amount the opportunity to escape both estate and gift taxation by making life-time gifts to reduce the estate below $1 million (Oregon's exemption amount). Making substantial gifts of this nature should be approached with caution and only done after consulting an estate planning attorney and tax professional.

In Conclusion

As you can see, there is plenty to chew on this year. If you have any questions about the material presented here, please do not hesitate to call. Also, please let us know if you have suggestions for improving our business – we may not be perfect, but we would like to get as close as possible! We recently added an anonymous "suggestion box" to our website, so if you have a suggestion you would prefer to send incognito, log on and type away. Thank you all so much for your trust and your business. We are very fortunate to be blessed with such wonderful clients and look forward to serving everyone for years to come. **See you soon!**