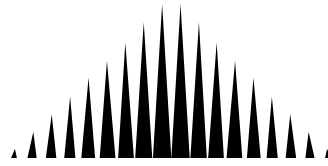


2009 Organizers have been mailed. Tax interview appointments are now available. Please call to schedule your appointment today!

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JANUARY 2010

Word of the Month

TORTUOUS TOR-choo-us\adjective;

1. Marked by repeated turns and bends; as, "a tortuous road up the mountain."

Interesting Facts

- Alaska has more than 3 million lakes.
- Jimmy Carter was the first President born in a hospital.
- Pringles light potato chips may not be labeled as either "Light" or "Potato Chips" per US FDA regulations.
- If you are right handed you will tend to chew your food on your right side. If you are left handed you will tend to

Congress' New Year resolution: finish work on tax bills

Although the Senate approved its massive health care reform bill, the Patient Protection and Affordable Care Act, Congress begins 2010 with a mountain of unfinished tax legislation from 2009. The unfinished tax bills mean practitioners and taxpayers face uncertainty, at least for the immediate future, over important issues such as estate tax, the alternative minimum tax (AMT), health care reform, and more. Some of these bills are on the fast-track for approval in early 2010; others will wait for Congress to finish work on higher priority items.

Estate tax

Effective for decedents dying on or after January 1, 2009, the traditional federal estate tax with its stepped-up basis at death rules no longer apply. New carryover basis at death rules apply. In addition, the generation skipping transfer (GST) tax does not apply to generation skipping transfers made after December 31, 2009. The federal gift tax, however, does continue, albeit in modified form from 2009.

All of these changes were set in motion by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), which abolished the federal estate tax for 2010 but only for 2010. At that time, supporters expected the temporary elimination of the federal estate tax to be made permanent before 2010. They lacked sufficient support in Congress to make that happen. During 2009, many lawmakers in Congress proposed an extension of the 2009 estate tax rules with a \$3.5 million exclusion (\$7 million for married couples) and a top tax rate of 35 percent. In fact, the House passed such a bill. The Senate, however, did not approve the House bill before the end of 2009. Consequently, the rules put in place in 2001 have come into effect in 2010.

What does this mean? The flux in the estate tax adds to uncertainty in estate planning. However, Congress is expected remedy the situation shortly. Congress will enact retroactive legislation in January or early in 2010 to extend the 2009 estate tax regime with its \$3.5 mil-

lion exclusion and 35 percent top tax rate for 2010. Carryover basis at death is expected to be short-lived.

Please contact our office if you have any questions about your estate plan. Congress' inaction at the end of 2009 has caused confusion. We will review your plan and make sure you are well prepared for Congress' expected extension of the 2009 estate tax treatment.

AMT

Another area of uncertainty is the AMT. The AMT was designed to ensure that very wealthy individuals did not evade federal taxes. However, Congress did not index the AMT for inflation. Consequently, the AMT has encroached on more middle income taxpayers, especially two income couples in high tax states.

In recent years, Congress has passed an AMT "patch" to help middle income taxpayers avoid the AMT. The patch provides higher exemption amounts and other relief. Congress enacted a patch for 2009 but re-

cessed for the December holidays before passing a patch for 2010. One stumbling block is the cost of a patch and disagreements in the House and Senate whether the cost should be offset by revenue raisers. We will keep you updated of developments.

Health care

House and Senate Democrats are drafting a final health care reform bill for passage by both chambers, possibly in January. In December, the House and Senate passed similar health care reform bills but with important differences in revenue raisers. The Senate passed, by a vote of 60-39, the Patient Protection and Affordable Care Act late on Christmas Eve. The chief revenue raiser in the House bill is a proposed surtax on higher income individuals (individuals with incomes over \$200,000 and families with incomes over \$250,000). The Senate rejected the House surtax and instead approved a new excise tax on high-dollar insurance plans. Other revenue raisers under negotiation include new limits on health flexible spending arrangements and health savings accounts, a new excise tax on indoor tanning, an additional Medicare tax for higher-income individuals, and more.

The final conference bill is expected to require employers to provide health insurance to their employees. Employers that do not will be subject to an additional tax with an exception for small employers. The final bill could classify a small employer as one with 50 or fewer full time employees or use a lower threshold; for example, 25 full-time employees. The conference bill is also expected to provide tax credits to help small businesses purchase health insurance for their employees. Individuals without coverage generally would be liable for an additional tax unless covered by Medicare or other qualified coverage.

The conference bill will change the fundamental landscape of health care in the U.S. The tax-related pro-

visions in themselves are monumental. To complicate matters, some provisions go into force immediately and some are delayed for up to three years. *Please contact our office if you have any questions about this important legislation.*

COBRA

COBRA continuation coverage provides eligible individuals the opportunity to continue their employer-provided health insurance coverage after a layoff or other qualified event. However, COBRA requires individuals to 100 percent self-pay their premiums. The cost makes COBRA out of reach for many individuals.

In the American Recovery and Reinvestment Act of 2009, Congress created a temporary subsidy to help eligible individuals pay for COBRA coverage. Eligible individuals pay 35 percent of the premium cost and the former employer pays 65 percent, which it recovers through a payroll tax credit. Under the 2009 Recovery Act, eligibility for COBRA premium assistance expired after December 31, 2009.

Congress provided a temporary extension in the FY 2010 Defense Appropriations Bill. This bill extends eligibility for COBRA premium assistance through February 28, 2010.

COBRA premium assistance is limited to eligible individuals (and certain beneficiaries) who are involuntarily terminated from employment. Generally, this means a lay-off or furlough but other separations from employment may also qualify. If you have experienced a separation from employment, please contact our office. You may qualify for COBRA premium assistance.

Jobs bill

Just before recessing for the December holidays, the House approved the Jobs for Main Street

Act. The House jobs bill would extend eligibility for COBRA premium assistance through June 30, 2010. The House bill would also extend unemployment benefits and make the child tax credit available to more taxpayers.

The Senate did not take up the House jobs bill in December. Democrats in the Senate are drafting their own jobs bill, the details of which are expected to be revealed early this year. The Senate bill may include some tax incentives for businesses, such as an extension of bonus depreciation and enhanced Code Sec. 179 expensing. These incentives expired after December 31, 2009.

More bills

On January 1, 2010, the state and local sales tax deduction, the higher education tuition deduction and many other tax deductions and credits expired. These popular incentives are temporary and are known as extenders because Congress usually extends that every year. The House voted to extend these provisions through 2010 but the Senate recessed in December without taking up the House bill. The extenders bill could be put on the back burner until spring.

Congress is also debating whether to impose tougher rules on the reporting of foreign bank accounts owned by U. S. taxpayers. In December, the House passed a bill that would impose new penalties on taxpayers that fail to disclose certain foreign accounts on their tax returns. The House bill would also encourage foreign banks to enter into agreements with the IRS to voluntarily disclose the existence of certain accounts. The Senate did not vote on the House bill before its December recess. The provisions are popular in the Senate, which in the past has promised to crack down on so-called tax havens and Americans who hide money and assets offshore.

Planning

As 2010 unfolds, we'll have a clearer picture of when these and other tax bills will be enacted. *In the meantime, please contact our office if you have any questions about the bills we have*