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2010 NEW TAX LAW LETTER

Responding to a weak economy and its desire to overhaul the health care system, Congress passed three significant tax bills this year: **1) The *Hiring Incentives Act of 2010* (HIRE Act)** to promote hiring; **2) The *Health Care Act of 2010* (Health Care Act)** to overhaul the health care industry (which also contains an array of tax provisions), and **3) The *Small Business Jobs Act of 2010* (Jobs Act)** to help spur the economy with tax incentives that encourage businesses to make capital investments. Collectively, this legislation contains an extended menu of new tax breaks and temporary tax incentives for individuals and businesses alike. **We are sending you this letter to keep you abreast of the tax provisions that we believe will have the greatest impact on our clients.**

One of the key features of the ***Health Care Act of 2010*** (Health Care Act) is that its expansive provisions are phased in over an eight-year period. Thus, it will take several years before the full impact of this massive legislation is felt. For example, most of the *Health Care Act's* insurance coverage mandates are **not required until 2014**, however several of the most important *tax changes* are effective **as early as 2010**, and other key tax changes **become effective in 2011**. Therefore, individuals and businesses have several years to prepare for the insurance coverage mandates, but the *tax changes* will require more immediate attention.

Most of the tax provisions in the ***Hiring Incentives To Restore Employment Act of 2010* (HIRE Act)** and the ***Small Business Jobs Act of 2010* (Jobs Act)** have a very short life, with some of the tax breaks **available only in 2010**, and several **others expiring in 2011**.

In light of the temporary nature of many of these tax incentives, and the delayed effective dates of others, it is extremely important that you pay special attention to the **effective date** and **sunset date** (if applicable) for each provision, which we **highlight prominently** in each segment. To help you identify the items of interest to you, we have divided this letter between the new tax provisions that impact primarily "**individuals**" versus those that relate largely to "**businesses**." We also present these provisions in the order they become effective (starting with 2010), to help you determine which items need your immediate attention.

Planning Alert! We highlight only *selected* provisions of the new tax legislation. If you have heard or read about any tax development not discussed in this letter, feel free to call our office. This letter also contains planning ideas. However, you cannot properly evaluate a particular planning strategy without calculating your overall tax liability (**including** the *alternative minimum tax*) with and without the strategy. You should also consider any state income tax consequences of a particular planning strategy. We recommend you call our firm before implementing any tax planning technique discussed in this letter, or if you need more information.

SELECTED PROVISIONS IMPACTING PRIMARILY *INDIVIDUAL* TAXPAYERS

PROVISIONS EFFECTIVE IN 2010

Self-Employed Individuals May Deduct Health Insurance Premiums In Calculating Self-Employment Taxes For 2010 Only. For tax years beginning in 2010, the *Jobs Act* allows self-employed individuals to deduct their health insurance premiums for S/E (Social Security and Medicare) tax purposes, as well as for regular income tax purposes. **Planning Alert!** For 2010, the S/E tax rate is 15.3% for the first \$106,800 of self-employed income, and 2.9% on the income exceeding \$106,800. Thus, if your self-employed income for 2010 does not exceed \$106,800, this temporary deduction will generally save you S/E tax equal to 15.3% of the cost of your health insurance. **Tax Tip.** If you are self employed and you are planning to pay health insurance premiums in the early part of 2011, **accelerating that payment into 2010** will salvage a deduction for S/E tax purposes that would otherwise be lost.

Recordkeeping Rules For Cell Phones Relaxed. Effective for tax years beginning after 2009, the *Jobs Act* provides that cell phones and similar telecommunications equipment (including PDAs and Blackberry devices) are no longer classified as "listed property". In order to obtain a deduction for the business use of listed property, detailed contemporaneous recordkeeping is required. Therefore, after 2009, the general documentation rules for business deductions apply to cell phones and similar devices used for business.

Tax-Free Medical Benefits Extended To Children Under Age 27. Effective March 30, 2010, the *Health Care Act* allows tax-free reimbursements from an employer-provided health plan to any child of an employee **who is not age 27 as of the end of the tax year.** This exclusion applies even if the taxpayer cannot claim the child as a dependent for tax purposes. Previously, an employer could only reimburse "tax free" the medical expenses of an employee, the employee's spouse and the employee's dependents.

Adoption Credit Increased And Made Refundable For 2010 And 2011. For tax years beginning in 2010 or 2011, the *Health Care Act* makes two significant changes to the adoption credit: 1) the maximum adoption tax credit is **increased to \$13,170**, and 2) the credit becomes "refundable" (this generally means that, to the extent the credit exceeds your income taxes before the credit, the IRS will send you a check for the excess). **For 2010**, the adoption credit is phased-out as your modified adjusted gross income increases from **\$182,520 to \$222,520** (whether you're married filing a joint return, or single). **Tax Tip.** Generally, for domestic adoptions you are allowed the adoption credit in the tax year *following the year* the qualifying adoption expense is "paid." However, the credit is allowed for adoption expenses paid in the same tax year that the adoption is finalized. Therefore, qualified expenses for a domestic adoption paid by **December 31, 2010** will generally generate a refundable credit **in 2011**. However, if you can *finalize* the adoption on or before **December 31, 2010**, you can qualify for the credit **in 2010**.

"Qualified Small Business Stock" Exclusion Temporarily Increased To 100%. As a result of the *Jobs Act*, if you sell "qualified small business stock" (QSBS) **acquired after September 27, 2010 and before January 1, 2011**, you may be able to exclude the **entire gain** from taxable income (the gain will also be exempt from the alternative minimum tax). QSBS is generally stock of a non-publicly traded domestic "C" corporation engaged in a qualifying business, purchased directly from the corporation, and **held for more than 5 years**; where the issuing corporation meets certain active business requirements and owned assets at the time the stock is issued of \$50 million or less. Businesses engaged in a professional service, banking, hotel, motel, restaurant, or farming activity generally *do not* qualify. **Planning Alert!** If you are considering investing in a small business, we would be glad to help you evaluate whether structuring your investment as QSBS will work to your overall tax advantage. However, you must act promptly to take advantage of this narrow window of opportunity to qualify for the 100% exclusion. Only stock acquired **from September 28, 2010 through December 31, 2010** qualifies for the 100% exclusion. Also, to qualify, you must purchase the stock directly from the corporation that is issuing the stock or from an underwriter of the stock (stock purchased from other third parties does not qualify).

Partial Relief From Penalties For Failure To Disclose Certain Tax Information. Taxpayers who invest in certain *designated tax shelters* are required to file disclosure information with their tax returns using IRS Form 8886. Failure to disclose these investments can result in penalties of up to \$100,000 for individuals and up to \$200,000 for others. The *Jobs Act* places a cap on these **penalties assessed after 2006**. **Tax Tip.** If you

have been assessed a penalty after 2006 for failing to disclose a tax shelter transaction, please give us a call. You may be entitled to a refund of a portion of the penalty.

PROVISIONS EFFECTIVE IN 2011

Reimbursements Of Over-The-Counter Drugs No Longer Tax Free. Before the *Health Care Act*, taxpayers were allowed tax-free reimbursements for most *nonprescription* drugs and medicines from a health savings account (HSA), health flexible spending arrangement (FSA), health reimbursement arrangement (HRA), or other qualified employer health plans. **Effective for expenses incurred after 2010**, reimbursements for drugs and medicines will be tax free *only for* a prescribed drug or insulin. **Planning Alert!** If you have been using a tax-favored reimbursement arrangement to pay for your over-the-counter medications (e.g., to treat a chronic medical problem such as allergies or asthma), these reimbursements will generally be taxable **starting in 2011**, unless you have a prescription. **Tax Tip.** The IRS has stated that you may receive tax-free reimbursements **after 2010** for non-prescription drugs **that you purchased on or before December 31, 2010**. In addition, reimbursements for over-the-counter medications may still be tax free after 2010 if you have a prescription for the medication. In other words, obtaining a prescription for a medication (even though not required) will enable the medication to qualify for tax-free reimbursement.

New Law Clarifies Tax Treatment Of “Partial” Pay Out Option By Nonqualified Annuity Contracts. If you receive annuity payments from a tax-deferred, nonqualified annuity contract (i.e., a contract held outside of a qualified retirement plan or IRA), a portion of each payment representing your investment in the annuity is generally excluded from income based on an “exclusion ratio.” The remainder of the payment is included in your income for income tax purposes. **For amounts received in tax years beginning after 2010**, the *Jobs Act* permits you to receive a *part* of the annuity in the form of a stream of annuity payments, provided that the annuity payments are for a period of *at least* 10 years, or during one or more lives. **Tax Tip.** This change will make it easier to annuitize a *portion* of an annuity contract while allowing the remaining amount to grow tax-deferred. **Please call** our firm if you need additional information.

PROVISIONS EFFECTIVE IN 2013

Additional .9% Medicare Surtax On Earned Income Of Higher-Income Taxpayers. Payroll taxes imposed on your W-2 earnings include both a Social Security tax and a separate Medicare tax. Under current law, the overall Medicare tax rate is 2.9% (1.45% imposed on the employee and an additional 1.45% imposed on the employer). If you are self employed, you must pay the entire 2.9% Medicare tax on your income from self employment. Generally, effective for wages and self-employed earnings (S/E income) **received after 2012**, the *Health Care Act* imposes an additional .9% Medicare Surtax on the amount by which the sum of your W-2 wages and your S/E income exceeds \$250,000 if you are married and file a joint return (exceeds \$200,000 if you are single). For couples filing a joint return, the W-2 wages and the S/E income of each spouse is added together in determining if the sum of the W-2 wages and S/E income exceeds the \$250,000 threshold and is, therefore, subject to the .9% tax.

New 3.8% Medicare Surtax On Investment Income. Since the inception of the Medicare program, the Medicare tax has only been imposed on an employee’s “wages” and a self-employed individual’s “income from self employment.” **Starting in 2013**, a new 3.8% Medicare Surtax is imposed on the *net investment income* (e.g., interest, dividends, annuities, royalties, rents, and capital gains less applicable expenses) of married individuals filing jointly with modified adjusted gross income (MAGI) exceeding \$250,000 (exceeding \$200,000 if single). **Tax Tip.** The following types of investment income are not subject to this 3.8% Surtax: tax-exempt bond interest; gain on the sale of a principal residence otherwise excluded under the home-sale exclusion rules; and distributions from qualified plans (e.g., §401(k) plans, IRAs, §403(b) annuities, etc.).

PROVISIONS EFFECTIVE IN 2014

Penalty For Failing To Carry Health Insurance. Beginning in 2014, the *Health Care Act* provides a penalty for individuals who do not have “minimum essential health coverage.” The penalty will be paid with an individual’s income tax return. Certain individuals may be granted an exemption from this penalty, including individuals having financial hardship or religious objections.

SELECTED PROVISIONS IMPACTING PRIMARILY BUSINESS TAXPAYERS

PROVISIONS FIRST EFFECTIVE IN 2010

\$179 Deduction Increased From \$250,000 To \$500,000 For 2010 And 2011. For the last several years, Congress has temporarily increased the maximum §179 up-front deduction for the cost of qualifying new or used depreciable business property to \$250,000 to help spur the economy. However, for **property placed-in-service in tax years beginning in 2010 and 2011**, the *Jobs Act* has increased the cap from \$250,000 to **\$500,000**, and has also increased the beginning of the deduction phase-out threshold from \$800,000 to **\$2,000,000**. In addition, the *Jobs Act* provides that for **2010 and 2011 purchases**, a taxpayer may elect for “qualified real property” (discussed in the next segment) to be §179 property. Prior to this change, real property did not generally qualify for the §179 deduction. **Tax Tip.** If you plan on making substantial acquisitions of machinery, equipment or other property qualifying for the §179 deduction, these new limitations will enable you to acquire more property during your 2010 year and obtain an up-front §179 deduction. However, if you want the §179 deduction this year, make sure you place the property in service on or before the end of your tax year. Generally, “placed-in-service” means the property is ready and available for use. If you want to take the §179 deduction **for 2010**, to be safe, qualifying property should be set up and tested on or before the last day of your tax year. **Please Note.** If your business is considering significant business asset purchases, we will gladly help you develop a strategy to maximize tax savings.

May “Elect” To Treat Up To \$250,000 Of “Qualified Real Property” As §179 Property For 2010 And 2011. Traditionally, the §179 deduction has been limited to depreciable, tangible, “personal” property, such as equipment, computers, vehicles, etc. The *Jobs Act* temporarily allows taxpayers to “elect” to treat qualified “real” property as §179 property, provided the property is **placed-in-service in tax years beginning in 2010 or 2011**. The maximum §179 deduction that is allowed for *qualified real property* is \$250,000. “Qualified Real Property” includes property within any of the following three categories: **1) Qualified Leasehold Improvement Property** (generally capital improvements to an interior portion of certain leased buildings that are used for nonresidential commercial purposes); **2) Qualified Retail Improvement Property** (generally capital improvements made to certain buildings which are open to the general public **for the sale of tangible personal property**); and **3) Qualified Restaurant Property** (generally capital expenditures for the improvement, purchase, or construction of any building (new or used), if more than 50% of the building's square footage is devoted to the preparation of, and seating for, the on-premises consumption of prepared meals). If you elect to take up to \$250,000 of the §179 deduction on qualified real property, the \$500,000 overall §179 deduction limitation is reduced to \$250,000 (\$500,000 - \$250,000). In other words, the \$250,000 §179 limitation for “qualified real property” is a part of the overall \$500,000 §179 limitation and not in addition to the \$500,000 limitation. **Planning Alert!** If you are currently acquiring business assets or making capital improvements to “qualified real property,” and you want to take the §179 write-off **for your tax year beginning in 2010**, you must place the building (or capital improvements) in service by the end of your 2010 tax year. A certificate of occupancy will generally constitute placing the building or improvement in service.

50% Bonus Depreciation Extended Through December 31, 2010. The original 50% up-front bonus depreciation deduction was first allowed in 2001 and generally sunset after 2004. In 2008, Congress reinstated the 50% bonus depreciation deduction for calendar year 2008, and later extended it to calendar year 2009. The *Jobs Act* extends the 50% bonus depreciation for one more year, **through** calendar year **2010**. Therefore, the 50% bonus depreciation deduction is available for new “qualifying property” **acquired and placed-in-service during calendar years 2008, 2009, and 2010** (2011 for certain long production period property or specified aircraft). **Planning Alert!** Whether your business uses a fiscal or calendar tax year, the 50% bonus depreciation deduction is allowed only if “qualified property” is “acquired” and “placed-in-service” **during calendar years 2008, 2009, or 2010**. **Qualifying 50% bonus depreciation property** is generally *new* property that has a depreciable life for tax purposes of 20 years or less (e.g., machinery and equipment, furniture and fixtures, cars and light general purpose trucks, sidewalks, roads, landscaping, depreciable computer software, farm buildings, qualified motor fuels facilities) and “qualified

leasehold improvements" (capital improvements to certain commercial buildings under lease). **Planning Alert!** These are only examples of qualifying property. If you have a question about property that we have not mentioned, call us and we'll help you determine if it qualifies.

- **Special Rule For Long-Term Contractors.** For property placed-in-service in 2010 that has a **depreciable life of 7 years or less**, the *Jobs Act* provides that income reported under the "percentage of completion" method will be determined without taking into account the 50% bonus depreciation. If your business is using the percentage of completion method for long-term construction or production projects, **please call our office**. We will give you more information on how this "**2010 only**" provision could provide tax relief to your business.
- **Bonus Depreciation For Passenger Automobiles, Trucks, And SUVs.** The maximum annual depreciation deduction (including the §179 deduction) for most *business automobiles* is capped at certain dollar amounts. For a business auto first placed in service in calendar year 2010, the maximum first-year depreciation deduction is generally capped at \$3,060 (\$3,160 for trucks and vans not weighing over 6,000 lbs). However, Congress previously increased the first-year depreciation cap for vehicles qualifying for the §168(k) up-front bonus depreciation deduction by \$8,000 for 2008 and 2009. The *Jobs Act* **extends this \$8,000 increase through 2010 for new vehicles qualifying for the §168(k) depreciation deduction**. **For example**, let's say you are self employed and you are planning to purchase a *new vehicle* weighing 6,000 lbs or less that will be used 100% in your business. If you buy a new car and place it in service before the end of 2010, your first-year depreciation deduction will be \$11,060. If you wait until 2011 (assuming Congress doesn't extend the bonus depreciation deduction and the 2011 first-year depreciation cap is the same as for 2010), your first-year depreciation deduction would be only \$3,060. **Trucks and SUVs with loaded vehicle weights over 6,000 lbs** are generally exempt from the passenger auto annual depreciation caps discussed above. However, the §179 deduction for an *SUV* is limited to \$25,000 (instead of \$500,000 for 2010 and 2011). However, *pickup trucks* heavier than 6,000 lbs are *not* subject to the \$25,000 limit imposed on SUVs, if the truck bed is at least six feet long.

Tax Incentives To Hire The Unemployed. Under the *HIRE Act*, an employer that *hires a qualified unemployed worker after February 3, 2010 and before January 1, 2011*, is exempt from the employer's 6.2% share of the Social Security taxes on wages paid to the employee from **March 19, 2010 through December 31, 2010**. In addition, for each qualified worker retained for at least 52 consecutive weeks, the employer will also generally get an "income tax" credit, of up to \$1,000. A **Qualified Unemployed Worker** generally includes workers who began employment **after February 3, 2010 and before January 1, 2011**, if the new worker: **1)** has been employed for no more than 40 hours during the 60-day period immediately preceding the date the employment begins, **2)** is not related to a more than 50% owner of the employer, **3)** signs an affidavit (using Form W-11) that he or she meets the 40-hour/60-day requirement, and **4)** was not hired to replace an existing worker who was terminated (*unless* the previous worker terminated voluntarily or was terminated for cause). **Planning Alert!** In determining if a worker has been employed more than 40 hours during the 60-day period ending with the date employment begins, self-employment does not count as "employment."

Small Employers Get New Credit For Providing Employee Health Insurance. One of the pleasant surprises included in the *Health Care Act* is a new tax credit for "**eligible small employers**" that **1)** provide health insurance to employees, **2)** pay a uniform percentage of the cost for each covered employee, and **3)** pay at least 50% of the cost of insurance. For tax years beginning **after 2009 and before 2014**, the *Health Care Act* allows an *eligible small employer* a credit of up to 35% (up to a 25% "refundable" credit for tax exempts) of the employer's cost of qualifying employee health insurance. For tax years beginning **after 2013**, the maximum credit increases to 50% (35% for tax exempts). To receive any credit, an **Eligible Small Employer (ESE)** must have less than **25 full-time equivalent employees** (FTEs) during the year, and **average annual FTE wages of under \$50,000**. In addition, to receive the full 35% or 25% credit, the employer must have no more than 10 FTEs and average FTE wages of no more than \$25,000. The credit is phased out as FTEs go from 10 to 25 and as average FTE wages go from \$25,000 to \$50,000. **Tax Tip.** The IRS has recently added links to its main website (www.irs.gov) providing "tax tips," "guidance," and "answers to frequently asked questions" with respect to this credit.

"Eligible Small Businesses" Get Temporary Tax Breaks For General Business Tax Credits. Generally,

a business that does not have sufficient tax liability to use its general business tax credits may carry its unused credits back one taxable year to offset the taxes it paid in that previous year. Any remaining amount may be carried forward up to 20 years to offset future tax liabilities. Moreover, many business tax credits are not available to offset a taxpayer's alternative minimum tax (AMT) liability and, therefore, have limited benefit. Under the *Jobs Act*, "eligible small business credits" **determined in the first tax year beginning in 2010** can be carried back to the 5 years (instead of 1 year) preceding 2010 and carried forward for up to 20 years. These 2010 credits may also offset the taxpayer's AMT during 2010, the carryback years and/or the carryforward years. An "*eligible small business credit*" is a general business credit generated by a taxpayer: **1)** that is a sole proprietorship, a partnership (which generally includes a limited liability company), or a non-publicly traded corporation (which includes S corporations and closely-held C corporations), and **2)** that has \$50 million or less in average annual gross receipts for the prior three years. **Planning Alert!** Businesses that wish to take advantage of this temporary tax break should take all necessary steps to make the expenditure, or place the property in service, that generates the business credit – **no later than the end of the tax year beginning in 2010.**

Up-Front Deduction For Business Start-Up Expenses Increased For 2010 Only. If you start a new business, you are generally not allowed to deduct any portion of your start-up expenses until the tax year your business actually begins operations. Start-up expenses are generally expenses incurred prior to the date you "begin business" (e.g., before you open your doors for business). Under the *Jobs Act*, for tax years **beginning in 2010**, the first \$10,000 (previously \$5,000) of start-up expenses are deductible up-front. However, the \$10,000 up-front deduction is reduced for each dollar the total start-up expenditures exceed \$60,000. As under prior law, start-up expenses in excess of the up-front deduction amount are amortized over 180 months beginning with the month business begins. **Tax Tip.** If you are in the process of starting a new business (whether a sole proprietorship, corporation, partnership, or LLC), and wish to take advantage of the increased deduction for *start-up expenses*, you should take steps to establish that your business has actually begun operations on or before the end of your 2010 tax year. You may be able to show your business has begun operations by offering your product or service to the public, engaging a client or customer, opening your doors for business, beginning manufacturing operations, etc.

Expanded Roth Account Options For Employer-Sponsored Retirement Plans. In 1997, Congress enacted legislation that created the Roth IRA. Starting in 2006, employers were able to offer employees a Roth account within a §401(k) plan or a 403(b) plan. **Effective for tax years beginning after 2010**, the *Jobs Act* authorizes governmental §457(b) plans to also offer a Roth account within the plan. In addition, **after September 27, 2010**, the *Jobs Act* allows §401(k) and §403(b) plans that offer a Roth account option to permit participants to transfer their pre-tax account balances into a designated Roth account within the plan.

New 10% Excise Tax On Indoor Tanning Services. The *Health Care Act* imposes a new 10% excise tax on customers of indoor tanning salons, **for services performed after June 30, 2010**. The tanning salon must collect the tax and send it to the IRS quarterly by filing Form 720 ("Quarterly Federal Excise Tax Return").

Increase In Information Return Penalties. The *Jobs Act* increases the penalties for failure to file a correct information return (e.g., Form 1099), effective for information returns that **must be filed after 2010** (i.e., **information returns for the 2010 tax year**). For example, unless there is reasonable cause for the failure, if 2010 1099s are not filed by August 1st 2011, the penalty is generally \$200 per failure. \$100 for failing to file the 1099 with the Internal Revenue Service and \$100 for failing to file a copy of the 1099 with the recipient of the payment. **Planning Alert!** These increased penalties make it even more important that businesses file information returns timely with both the IRS and with the payee.

SELECTED PROVISIONS EFFECTIVE IN 2011

Certain Owners Of Rental Property Required To File Form 1099s For Rental Expense Payments. For payments made after 2010, the *Jobs Act* requires persons receiving rental income from real estate to file a Form 1099 for payments of \$600 or more made to any person providing services in connection with the rental property (e.g., a plumber, a painter, a repair person). Certain taxpayers will be exempt from this reporting rule, such as: **1)** individuals who receive no more than a nominal amount of rent (as will be determined by the IRS), **2)** any individual (including active members of the military or intelligence community) who is renting out his or her principal residence on a temporary basis, and **3)** any other individual where the IRS determines that this

reporting requirement would cause undue hardship.

S Corp 10-Year Built-In Gain Period Temporarily Shortened To 5 Years. If a regular "C" corporation elects "S" corporation status (a "Converted S Corporation"), the election itself generally creates no immediate taxation. However, the Converted S Corporation must generally pay a 35% corporate "built-in gains tax" on the sale of any built-in gain asset, if sold during the first 10 years following the S election ("10-Year Recognition Period"). A *built-in gain* asset is generally any asset with a market value greater than the asset's basis on the effective date of the S election. The *Jobs Act* *temporarily* reduces the original 10-Year Recognition Period to 5 years for tax years beginning in 2011. The Act provides that there will be no tax on the net recognized built-in gain of an S corporation for any taxable year beginning in 2011, if the 5th year (i.e., 12-month period) in the recognition period preceded such year.

SELECTED PROVISIONS EFFECTIVE IN 2012

Employers Will Be Required To Include Cost Of Health Insurance On W-2s. For tax years beginning after 2011, employers will be required to report the annual cost of group health plan coverage on an employee's Form W-2. **Planning Alert!** This is only an information reporting requirement and should not change the tax-free treatment of employer-provided health coverage that exists under current law.

Form 1099 Required For Payments Of \$600 Or More To Corporations. Businesses that make payments of compensation, interest, rents, royalties, income, etc. aggregating \$600 or more for the year to a single payee are required to report the payments to the IRS, generally by filing a Form 1099. Under current law, this reporting requirement, subject to certain exceptions, *does not apply to payments to a corporation*. **Effective for payments made after 2011**, this new Form 1099 reporting rule will apply to payments aggregating \$600 or more to corporations as well as others.

Form 1099 Required For Payments Of \$600 Or More For The Purchase Of Property. Effective for payments made after 2011, the *Health Care Act* requires a person engaged in a trade or business to file a Form 1099 for payments made for the purchase of property, if the gross payments are \$600 or more. **Planning Alert!** This provision has generated a tremendous amount of negative feedback from the business community and various professional groups. Don't be surprised if this reporting requirement is scaled back significantly before it becomes effective in 2012.

SELECTED PROVISIONS EFFECTIVE IN 2014

New Penalty For Larger Employers That Fail To Provide Adequate Employee Health Coverage. The *Health Care Act*, starting in 2014, will generally require employers with 50 or more full-time employees to either provide *qualified* health insurance coverage to employees, or pay a penalty. This penalty will generally *not apply* to any employer that employed on average *less than 50* full-time employees during the preceding calendar year. **Planning Alert!** This new so-called *play-or-pay* penalty contains a host of technical provisions. Please call our firm if you would like additional information.

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. Please call us before implementing any planning ideas discussed in this letter, or if you need additional information.

Note: The information contained in this material represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

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