Health Care Reform

The 2010 Health Care Act and 2010 Reconciliation Act are full of major changes to healthcare legislation. While the scope of these changes is far beyond what can be covered by this newsletter, we would like to point out some of the key points as well as provide a link to access a more detailed summary of the changes. (Courtesy of Thomson Reuters Checkpoint.)

Penalty for remaining uninsured- For tax years ending after Dec. 31, 2013, non-exempt U.S. citizens and legal residents will have to maintain minimum essential coverage or pay a penalty.

Tax credits for small employers offering health coverage- For tax years beginning after Dec. 31, 2009, an eligible small employer will be given a tax credit for non-elective contributions to purchase health insurance for its employees.

Surtax on unearned income- For tax years beginning after Dec. 31, 2012, a 3.8% surtax (called the Unearned Income Medicare Contribution) will apply to net investment income of higher income taxpayers. The threshold amount is $250,000 for a joint return or surviving spouse, $125,000 for a married individual filing a separate return, and $200,000 in any other case. Estates and trust may also be subject to the surtax.

Restricted definition of medical expenses for employer provided coverage- For purposes of employer provided health coverage (including FSAs, HSAs, and MSAs), the cost of over-the-counter medicine (other than insulin or doctor prescribed medicine) cannot be reimbursed through a health FSA or HRA nor can it be reimbursed on a tax-free basis through an HSA or Archer MSA. These changes for HSAs and Archer MSAs apply for amounts paid out with respect to tax years beginning after Dec. 31, 2010.

Increased tax on nonqualifying HSA distributions- For distributions made after Dec. 31, 2010 the additional tax for HSA withdrawals before age 65 that are used for purposes other than qualified medical expenses is increased from 10% to 20%.

Modified threshold for claiming medical expense deductions- For tax years beginning after Dec. 31, 2012, the adjusted gross income threshold for claiming the itemized deduction for medical expenses will be increased from 7.5% to 10%. However, the 7.5%-of-AGI threshold will continue to apply through 2016 to individuals age 65 and older

reform legislation. Go to www.LMGW.com for more detailed information,

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LMGW Certified Public Accountants, LLP

In Balance

Issue No. 7 Q2 2010

HEALTH SAVINGS ACCOUNTS (HSAs)

Most people are familiar with the basics of how an HSA works but there are some details you should know about HSAs or you may find yourself making non deductible contributions or subject to penalties.

To be eligible for an HSA you must be covered under a high deductible health plan (HDHP), have no other health coverage (except certain coverages permitted by the IRS), not be enrolled in Medicare, and not be claimed as a dependent on another taxpayer's return. If you are a dependent you are not allowed to take a deduction for your HSA contributions, even if the other person does not claim you as a dependent on their tax return.

The maximum HSA contributions for 2010 are $3,050 for self-only coverage and $6,150 for family coverage. Taxpayers over the age of 55 can contribute an additional $1,000. It's important to remember that the contribution limits are the maximum per year, not per HSA account or per person. Contributions made by your employer that are excluded from your taxable income count toward your annual maximum contribution. Married taxpayers where both spouses have separate family HDHP plans are treated as having one family plan and are therefore limited to a maximum contribution of $6,150. The same is true if one spouse has self-only coverage and the other spouse has family coverage. Contributions in excess of the allowable amounts may be subject to a 6% penalty.

Distributions taken from your HSA to pay for qualified medical expenses are tax free. Distributions taken for any other reason are taxable and may be subject to a 10% penalty. There are also situations in which a deemed distribution can result, such as if your HSA is used as security for a loan. These deemed distributions are also taxable and subject to the 10% penalty.

Remember that California does not recognize HSAs so these rules apply for federal purposes only.

There are many more questions

continued on page 2

LMGW.com has a new look!

We have totally revamped our website. Be sure to check it out for updates, extended articles and more!

Obtaining a Business Loan

One of the most difficult tasks for small business owners is finding money to start and grow their business. Being prepared with a loan package that is comprehensive and anticipates most common lender questions can drastically improve your chances of obtaining the funding you need to make your business prosper.

So what should be in the loan package? Although the requirements may vary from lender to lender, the list below is essential for most loan packages:

- Business plan – A well written business plan is a great way to give a lender an overall picture of your business.
- Cash flow projections – A detailed projection of what you expect to earn and what you will have to pay out.
- Financial statements – Compiled, Reviewed or Audited business financials, and personal financial statements may be reviewed for determining net worth and possible collateral sources.
- Business and personal tax returns – 2 years minimum.
- Credit history – Obtain a credit report on yourself and your business before you apply, so you will be looking at the same information as your lenders and so you can address any inaccuracies prior to submitting your loan package.

continued on page 3

Gotcha!

Use of TurboTax Is Not a Defense
The Tax Court rejected a taxpayer's argument that their use of TurboTax to prepare their returns caused them to misstate their income, which resulted in an IRS assessment and an accuracy related penalty. In the case Aileen Yat Muk Lam , TC Memo 2010-82 (Tax Ct.) the wife argued that they consistently filled out their tax returns using TurboTax and she consistently confused capital gains and losses with ordinary income and expenses. The court rejected her argument noting that "tax preparation software is only as good as the information one inputs into it." Just one more reason to use a professional tax preparer!

Check us out on Yelp!
http://www.yelp.com/biz/lmgw-certified-public-accountants-saratoga-2

HSA s
continued from page 1

that can arise when dealing with HSA transactions. Medical benefits transactions have tax consequences and it's important to keep your tax preparer in the know about your HSA transactions in order to maximize the tax benefits and reduce the potential for penalties. Talk to your LMGW advisor today to make sure you know all the facts about the tax benefits and consequences of an HSA.

New Law Alerts

- Fraudulent E-Mails- Phony e-mails claiming to be from the IRS have been circulating. As fraudulent e-mails containing harmful viruses or requesting personal information in an identity theft scam are becoming more and more frequent we want to remind our clients that the IRS does not send unsolicited e-mails to any taxpayers nor do they request personal information via e-mail. Visit www.irs.gov/privacy for more information.
- Report of Foreign Bank and Financial Accounts (FBAR)-If you have an interest in or signature authority over a foreign financial account, you may have a FBAR filing requirement if the aggregate value of these accounts was $10,000 or more at any time during 2009. FBARs are due by June 30, 2010 and there are hefty penalties for failing to file a timely FBAR.
- Converting to a ROTH IRA- This is a reminder that beginning in 2010, all taxpayers regardless of income level can convert a traditional IRA to a ROTH IRA as the $100,000 AGI limitation previously in place has been lifted. Also, for 2010 conversions only you can elect to spread the income triggered by the conversion evenly over 2011 and 2012, thereby deferring the federal income tax due on the converted amount.
- Energy Credits- There have been some changes to the energy credits available for 2010. Individual taxpayers may be eligible for the Residential Energy Efficient Property Credit, which is limited to 30% of the cost of qualified property or the Nonbusiness Energy Property Credit, which is limited to 30% of the cost of qualified energy efficient improvements and/or residential energy property. Each credit is generally limited to $1,500, although certain types of property may not be subject to a limitation. The certification requirements are also now more stringent and require a written statement from the manufacturer that the property meets the energy efficient requirements.
- CA Mortgage Forgiveness Debt Relief- California has extended the Mortgage Forgiveness Debt Relief law through December 31, 2012. Under prior law, if your home loan was forgiven in 2009 you could have taxable cancellation of debt (COD) income for state purposes. Under the new law most joint filers will be able to exclude up to $500,000 of COD income (single, RDP, and separate filers can exclude up to $250,000) for debt forgiven between January 1, 2009 and December 31, 2012. The COD exclusion applies only to your qualified principle residence, although relief may be available under other provisions of the law for rental property, vacation homes, etc.
- CA New Home Credit- California now allows a new home or first time home buyer credit for purchases made between May 1, 2010 and December 31, 2010 (if you are under contract by December 31, 2010 you may be able to take the credit if you close escrow on or before July 31, 2011.) The credit, limited to 5% of the purchase price of the home with a maximum credit of $10,000, is taken ratably over 3 years and is available on a first come, first serve basis until the funds reserved for the credit are exhausted. The new home credit is available for purchases of a never previously occupied home. The first time home buyer credit is available to individuals (and their spouses) who have not owned a principal residence in the previous 3 years. You cannot claim either credit if you claimed the New Home Credit in 2009.

Tax Record Retention

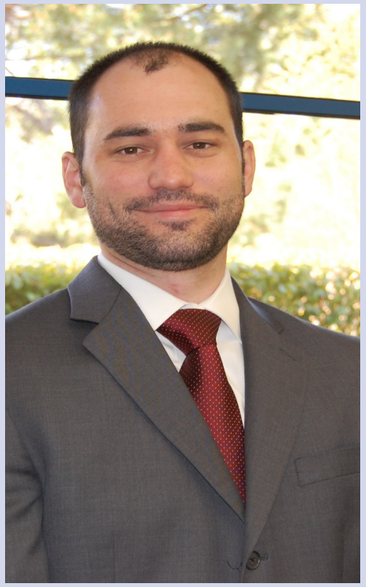
Retaining and storing your income tax records is an important final step of your tax filing responsibility. Here are some guidelines for keeping your tax records.
A good rule of thumb for keeping tax records is to add a year to the IRS statute of limitations period. Using this approach, you should keep your income tax records for a minimum of four years (five years for California returns). To be more prudent, the IRS informally recommends you retain your tax records for seven years and we agree.
Records substantiating the cost basis of property that could eventually be sold, such as investment property or business assets, should be retained based on the record retention period for the year in which the property is sold. Other documents such as tax returns, IRS and state audit reports, or business ledgers should be retained indefinitely.
The IRS permits taxpayers to store certain tax documents electronically but a few requirements must be met to take advantage of an electronic storage system. Contact us if you want more details.
Keep in mind that there may also be non-tax reasons to keep certain tax records beyond the time needed for tax purposes. Your attorney can provide additional guidance.
We hope this brief overview helps you understand the income tax record retention rules. If you are not sure, please call us before you throw it out!

Business Loans
continued from page 1

If you are looking to start a business or take your business to the next level, LMGW can help you prepare a strong and comprehensive loan package. We can also assist in selecting the lender and type of financing that is suitable to your specific business needs. Contact Michael Bryant at LMGW CPAs, LLP with any specific questions or for assistance with creating your loan package.

Featured Staff Member

A. Collin Plehiers,
Staff Accountant



Collin is no stranger to the San Francisco Bay Area. He was born and raised in Emerald Hills, attending local Bay Area schools such as St. Francis High School and San Jose State University. He graduated from SJSU in late 2007, majoring in Business Administration with a concentration in Management.
Following his graduation Collin began a managerial internship during one of the toughest down real estate markets in history, assisting a real estate investor specializing in distressed and damaged properties. His responsibilities included maintaining properties held for development and managing numerous Bay Area rentals.
Collin then joined LMGW in early 2009, ready to learn about the complex world of accounting and taxation. As part of the LMGW team, Collin is responsible for preparing 1099's, business property statements, sales, payroll, and personal tax returns, and works directly with clients on attestation and bookkeeping projects.
Recently Collin completed the Certified Advanced Accountant Proficiency program at Santa Clara University, an intense and rigorous three month program designed for CPA candidates. Collin has since passed the first of four parts of the CPA exam, and is working on completing the remaining 3 parts to become a Certified Public Accountant.

As Collin progresses in his career with LMGW, he hopes to specialize in estate and trust work, real estate and forensic accounting services. In 2011, Collin plans to take classes at Santa Clara University to obtain his MBA in Finance so as to also help grow the business valuation department at LMGW.
In his spare time, Collin enjoys music, following the stock market, being outdoors at Lake Berryessa or surrounded by the wilderness at his cabin in El Dorado Hills, while also continuing to search for the ideal rental property that could provide him with the right amount of net rental losses to help reduce or nullify his taxes. He also enjoys, on occasion, a healthy, frosty mug of beer.