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# Tax Madness

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**January 27, 2010**





# Tax Madness

- Federal Estate Tax
- Healthcare Reform
- 2010 Roth Conversion
- Making Work Pay Credit
- Other Items of Interest - 2009





# Federal Estate Tax

- The Temporary Tax Debacle and Balancing Act
- Estate tax as of December 31, 2009 expired
- Prior to 1/1/2010
  - 45% top rate
  - \$3.5 million death exemption (FMV at time of death)
  - \$1 million lifetime gifts
  - Annual gift exclusions \$13,000



# Federal Estate Tax

- Law in 2010
  - If a person dies in 2010 no more stepped up basis or FMV at date of death
  - Replaced with the Modified Carryover Basis for appreciated assets greater than \$1.3 million
  - No Generation Skipping Tax for transfers made after 12/31/2009
  - Gift tax is retained
  - Congress has until September 1 to retroactively retain the old estate tax



# Federal Estate Tax

- Congress wants to make permanent the estate tax back to 2009 rules and rate (45%)
- House and Senate disagree with the exemption amount between \$3.5 to \$5.0 million.



# Federal Estate Tax

- 2010 Rules
  - Carryover basis
    - Basis from decedent is carried over
    - Allows a limited step-up in basis of property
      - ✓ \$1.3 million of general basis
      - ✓ \$3 million to surviving spouse ( can be combined for surviving spouse)
      - ✓ Executor must allocate on reasonable basis



# Federal Estate Tax

X dies on January 2, 2010 – leaves (FMV at DOD) \$4 million (4,000 shares) of stock to spouse and \$2 million (2,000 shares) to son. Basis in stock is \$100 and FMV is \$1,000 per share. Executor allocates basis to \$3 million to spouse and \$1.3 million. Spouse and Son immediately sells shares upon decedent death.

	Spouse	Son
FMV at DOD	\$4,000,000	\$2,000,000
Basis Allocation	\$3,000,000	\$1,300,000
Remaining Value	\$1,000,000	\$700,000
Remaining Shares	1,000 shares	700 shares
Basis	\$100,000	\$70,000
Gain	\$900,000	\$630,000
Tax 15%	\$135,000	94,500



# Health Care Reform

- House versus Senate
- Senate version to be working copy for house
- President feeling good at Christmas that Health Care package to be passed before his State of the Union Address
- Wrong – Massachusetts!
- Entire reform is currently in doubt



# Health Care Reform

- Core Concepts
  - All individuals would be required to obtain health care
  - Employer provided health care qualifies
  - Public option if non available (House not Senate versions)
  - Employers who do not provide health care coverage would be subject to additional payroll withholding



# Health Care Reform

- Individual Coverage
  - H.B. - If you have no coverage by the taxpayer's own choice then taxpayer pays a tax of 2.5% of the taxpayer's modified AGI.
  - S.B – Requires minimum essential coverage after 2013. If don't meet requirement pay a penalty starting at \$95 in 2014, \$495 for 2015, \$750 for 2016 and index thereafter
  - Both have minimum income levels for poverty, religious objectors, and Medicare exceptions



# Health Care Reform

- **Employers**

- H.B. – Employers must provide minimum coverage of at least 72.5% of premium for an individual or 65% for families
  - If don't meet minimum coverage then employer subject to additional payroll tax of up to 8% of employee's annual salary
- S.B. – No minimum coverage, but mandatory enrollment by large employers (50 or more employees)
  - Penalty to employer is monthly for an infraction of 1/12 of \$750 per month X the number of F/T (30 hours or more a week) employees in that month
  - Large employers that have waiting periods over 30 days would be liable of an additional tax of \$600 for each F/T employee
  - IRS to create new form to tax employers



# Health Care Reform

- Small Business
  - H.B - Provides a tax credit of up to 50% of qualified health care coverage for less than 25 employees for 2 years
    - Employer must has average annual compensation of \$40,000
  - S.B – Same as H.B



# Health Care Reform

- Surtax/Payroll Tax
  - H.B. – imposes a 5.4% surtax on married couples making over \$1 million AGI
  - S.B. – no provision
- Additional Medicare Payroll Tax
  - S.B. – imposes .9% Medicare payroll tax for individuals earning over \$200,000 and Married over \$250,000



# Health Care Reform

- Tax on High Cost Insurance
  - S.B. – Impose a 40% nonrefundable excise tax on group insurers (i.e. HMSA, UHA, HMAA) for High end plans.
  - When premiums exceed \$8,500 for individuals and \$23,000 for families
  - Although premiums paid by insurers, the cost will increase overall premiums



# Health Care Reform

- Medical Expense Deduction
  - S.B. – Increase itemized deduction threshold from 7.5% to 10% of AGI
  - H.B. – would keep at 7.5%
- Indoor Tanning Services
  - S.B. – imposes a 10% tax
  - H.B. - none



# Health Care Reform

- Cafeteria Plans
  - H.B. – no exclusion from pre-tax salary reduction for health care premiums
  - S.B. – relaxes rules to encourage greater use of pre-tax salary reduction
- COBRA
  - H.B. – would allow COBRA coverage until former employee is covered by another employer
  - S.B. – no provision



# 2010 Roth Conversion

- No AGI Limitation
- Defer and spread income recognition to tax years 2011 and 2012
- Tax-free growth
- Reversible if value goes down
- Ideal Conversion Candidates
  - Wealthy
  - Same or higher income in retirement years
- Consult with your Wealth Advisor



# Making Work Pay Credit

- 6.2% of Earned Income
- Up to \$400 for Single, \$800 for Joint Filers
- Phase-out begins at \$75,000 AGI for Single and \$150,000 for Joint Filers
- File Schedule M with Form 1040
- Reduced if \$250 was received for economic recovery payment (i.e. Social Security)



# Other Items of Interest - 2009

- AMT Patch Extended
- 3, 4, or 5 year NOL Carryback
- First-time Homebuyers credit of \$8,000 extended to April 30, 2010
- Up to \$250,000 of Section 179 expensing
- 50% Bonus Depreciation
- Annual Gift Exclusion \$13,000
- Maximum 401(k) contribution \$16,500
- Maximum IRA contribution \$5,000



# Other Items of Interest - 2009

- Hawaii Changes
  - Higher tax rates (up to 11%)
  - No Capital Goods Excise Tax Credit from 5/1/09
  - Limitations on QHTB investments from 5/1/09
  - No deduction for gambling losses



# Questions?

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