



# Wealth Management

KANE COMPANY

A FEE-ONLY REGISTERED INVESTMENT ADVISOR

Certified Public Accountants and Financial Advisors

Kane Company, P.C.

515-270-2727

Summer 2011

## The Twenty Top Tax Breaks In The New 2010 Tax Act

**T**he 2010 Tax Relief Act includes dozens of tax breaks for individuals and businesses. Here are 20 of the top provisions.

### 1. No increase in income tax rates.

Rates in the top two income brackets had been scheduled to rise from 35% to 39% and from 33% to 36%. The new law also preserves relief from the "marriage penalty" for joint filers.

### 2. Status quo for capital gains and dividends.

The maximum tax rate for long-term capital gains was supposed to jump to 20% (10% for low-income individuals), and dividends would have been taxed as ordinary income. Now, the existing 15% rate for long-term gains and dividends remains for most taxpayers through 2012.

**3. Lower payroll taxes.** For 2011 only, the law authorizes a two percentage point drop—to 4.2%—in employees' share of the Social Security tax, due on the first \$106,800 of wages. You get the same break if you're self-employed.

**4. Alternative minimum tax (AMT) relief.** The new law slightly increases the exempt amounts on 2010 and 2011 returns for avoiding exposure to the AMT and its bigger tax bite. The amounts had been scheduled to revert to low, pre-2001 levels.

### 5. No phaseouts for itemized deductions and personal exemptions.

Before 2010, itemized deductions and personal exemptions were phased out for high-income taxpayers. But those limits were repealed for 2010, and the new tax act extends that relief through 2012.

### 6. A bigger break for owning

### qualified small business stock (QSBS).

The maximum 50% exclusion for investments in QSBS had been temporarily increased to 75%. Now, under the new tax act, there's a 100% exclusion for QSBS acquired before January 1, 2012.

**7. An enhanced education credit.** The American Opportunity Tax Credit (AOTC), which expanded the Hope credit for college expenses, was scheduled to expire after 2010. Now, the maximum \$2,500 AOTC is extended

through 2012, though it's still phased out for high-income taxpayers.

**8. A bigger deduction for college savings.** The maximum \$2,000 deduction for contributions to Coverdell Education Savings Accounts, slated to drop to \$500 after 2010, is extended through 2012.

**9. A partial reprieve for Section 179 deductions.** The maximum Section 179 deduction, which rose from \$250,000 to \$500,000 for qualified business property placed in service in 2010 and 2011, was then scheduled to drop to \$25,000. The new law allows a maximum \$125,000 deduction for 2012.

**10. A bonus for bonus depreciation.** The tax act retroactively reinstates this business perk, which had expired after 2009. A 100% bonus depreciation deduction is generally available for qualified property placed in service in 2011, and there's a 50% deduction for 2012.

**11. Revived credit for going green.** The credit for home energy-saving devices, scheduled to expire after 2010, is

(Continued on page 4)



## Just Released - New Investment Advisory Disclosure Brochure!

**N**ew disclosure regulations have been put in place for investment advisors, and information can be found in the article on page 2. Our new disclosure brochure highlights the qualifications and business practices of our fee-only investment advisory services. Please contact us for a copy!

Note these 2011 tax-related updates:

- Standard Mileage Rates. Business: 51 cents per mile; Charitable: 14 cents per mile; and Medical/Moving: 19 cents per mile.
- Maximum IRA amounts remain at \$5,000 (\$6,000 if at least age 50). Maximum 401(k) contributions have also stayed at \$16,500 (\$22,000 if age 50). The option to convert to a Roth IRA is still available regardless of income, but the tax-deferral opportunity is gone and all conversion taxes must be paid this tax year.
- The maximum Iowa tax deductible contribution to College Savings Iowa for 2011 is \$2,865 per person (participant) per child beneficiary.

• The energy tax credit was extended for 2011, but its benefit is scaled back to a maximum of \$500 per taxpayer.

• Watch out for Flexible Spending Account (FSA) limits. Beginning in January 2011, FSA money cannot be used to pay for over-the-counter medications, unless you have a prescription.

Please note: we will close at 4:00pm Monday-Thursday and 3:00pm on Fridays now through December.

Steven L. Kane, CPA/PFS, CFP®

# The Dawning Of New Financial Regulations

**T**he regulatory world is changing for financial advisors, and that could have significant implications for current and prospective clients. Many advisors will now have to disclose more about how they operate and they may face new rules or have their businesses reviewed by different regulators. Here are several key changes.

New disclosure requirements. The Securities and Exchange Commission (SEC) has revamped the Form ADV that registered investment advisors (RIAs) must file with the SEC. RIAs now must offer a brochure and supplements written in easy-to-understand "plain English." Among other requirements, RIAs must also disclose:

- The types of services they offer
- Their total assets under management (AUM)
- How they are compensated
- Any potential conflicts of interest
- Risks of investing in securities
- Any material risks that relate to a particular strategy
- Facts about legal or disciplinary problems

Full disclosure will make it easier for clients to evaluate and compare financial advisors and could lead to stronger relationships between clients

and their advisors.

Shift in regulatory supervision. Effective July 21, 2011, regulation of more than 4,000 RIAs will shift from the SEC to state authorities. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), state regulators will have authority over RIAs that have AUM of less than \$100 million. Prior to the new law, the maximum AUM for state supervision was \$25 million.

Their larger responsibility will likely create stiff challenges for states already scrambling to do their jobs at a time when revenues are down and budgets are tight. But under the old rules, many RIAs faced little or no regulatory scrutiny from the SEC, and by dividing the task among 50 states' regulators, the hope is that routine reviews of RIAs and investigations

of possible wrongdoing will become more frequent.

SEC protection. In conjunction with these other changes, the SEC no longer has to comply with requests for information from the public, including those filed under the Freedom of Information Act. It is exempt from disclosing records or information



derived from "surveillance, risk assessments, or other regulatory and oversight activities." Congress and federal agencies can request information, but the public can't. So, while disclosure to investors has increased on other fronts, in this area some kinds of information will be harder to come by.

Amid these changes, we remain committed to maintaining the highest ethical standards and would be pleased to provide you with information about how we do business. ●

## Paying Estate Taxes Over 14 Years

**A**fter a one-year repeal, the federal estate tax was reinstated in 2011 under the 2010 Tax Relief Act. The favorable provisions are generally scheduled to "sunset" after 2012. So estate planning remains a prime concern for many business owners and others wealthy enough to be hit by the tax. One way to reduce the impact on your family is to stretch out any tax payments over a long period. Installments may be extended for as long as 14 years if business interests comprise the bulk of your net worth.

Normally, estate tax must be paid within nine months of the

estate owner's death. However, if the estate qualifies, its executor can make a special election to stretch out annual payments for 10 years following a deferral period of five years. So it would mean the estate's beneficiaries could take as long as 15 years to pay the estate bill in full. Technically, the maximum deferral period is 14 years, because of the way payments must be structured.

This tax deferral is available only if the estate includes a farm or closely held business whose value exceeds 35% of the value of the "adjusted gross estate." That's

defined as the gross estate value minus any expenses, debts, and losses. A "closely held business" may include any of the following:

- An interest in a sole proprietorship
- An interest in a partnership if 20% or more of the total capital interest in the partnership is included in the gross estate, or if the partnership had 45 or fewer partners
- Stock ownership in a corporation if 20% or more of the value of the voting stock is included in the gross estate or if the corporation had 45 or fewer

# 11 Important Financial Ideas For 2011

**W**ith some astute advance planning, you may be able to improve your financial fortunes in 2011. Here are, appropriately enough, 11 timely tips to consider.

## 1. Revise your estate plan.

Under the 2010 Tax Relief Act, the federal estate tax has returned after a one-year repeal. For 2011 and 2012, an estate can benefit from a \$5 million exemption and a top tax rate of 35%, among other changes. Meet with your estate planner to consider ways to maximize the benefits.

## 2. Pay attention to other taxes, too.

Although favorable tax rates on income, dividends, and capital gains have also been preserved for 2011 and 2012, there's no reason to pay more tax than you have to. Look for strategies that might postpone income to years when you expect to be in a lower tax bracket or help in other ways. One possibility is to invest in stocks that pay no dividends but have the potential for long-term growth.

3. Consider (even now) converting your IRA to a Roth. Though you missed the one-time chance to put off and spread out taxes due on a conversion, a Roth IRA might still be a boon to your long-term prospects, delivering tax-free income during retirement.

**4. Max out your 401(k) contributions.** It's not new advice, but it continues to make sense to put as much as

you can into your retirement plan at work. You'll shelter income from being taxed at the new, higher rates and put tax-deferred compounding to work. The maximum deferral for 2011 is \$16,500, plus you can add a \$5,500 "catch-up" contribution if you're age 50 or older.

## 5. Leverage low interest rates.

Loan rates are plumbing historic depths, making inexpensive borrowing a viable financial strategy. You could refinance a car loan or mortgage or borrow to pay college costs. Just don't make the mistake of carrying more debt than you can afford.

**6. Take advantage of low asset values.** Your investment account balances may be a shadow of their former selves, and home values, too, have suffered. But you could benefit from those reduced assets if you're trying to shift value out of your taxable estate. With planning vehicles such as a grantor retained annuity trust, or GRAT, for example, you could now transfer more of your estate without taxes, and low interest rates only increase your advantage.

## 7. Protect against inflation.

Although no one can be sure about future economic conditions, it's wise to take steps to guard against the threat of inflation. Inflation can steadily erode your savings and reduce your purchasing power. First and foremost, ensure that your portfolio is properly diversified and

includes inflation-defensive components. Some possible additions are precious metals like gold, certain commodities and Treasury Inflation Protected Securities (TIPs). Caveat: Maintain an investment approach that suits your personal tolerance for risk.

## 8. Be ready for a rough ride.

Though stock market volatility recently retreated to more normal levels, it could pick up again later this year, and a well-diversified portfolio can help you ride out market ups and downs by including a broad range of assets, some of which may gain value while others fall. (Diversification, of course, can't guarantee against losses in a declining market.)

**9. Don't let a weakening dollar sap your investments.** Big federal budget deficits and slow economic growth could make the U.S. dollar less popular, and if its value declines, so will your purchasing power (particularly when you're buying imported goods). But when the dollar falls, other currencies rise, and you could invest in multinational corporations (that generate some of their income outside the "dollar zone") or in foreign stocks that pay dividends in euros or yen, for example. You might even commit a small portion of your portfolio to gold as a hedge.

**10. Insure your future.** Having adequate insurance—with policies for health, life, cars, your home, and long-term care—can protect you and your loved ones from unforeseen events, and early in the year is a great time to review your coverage and make needed adjustments.

## 11. Make sure credit cards are your financial allies, not enemies.

Plastic is almost a necessity these days, and there's nothing wrong with using a credit card for online purchases or to keep tabs on your expenses. But unless you pay off balances every month, you could spend a small fortune on interest charges—even now, when most rates are low. And if you have old credit card debt, why not come up with a plan for retiring it as soon as possible? We could help with this or with any other smart financial moves you're considering this year. ●

shareholders.

Note that the estate tax deferral applies only to the closely held business interests. For example, if those business interests represent 50% of the gross estate, half of the estate tax may be spread out over that 14-year period. The other half must be paid within nine months of the estate owner's death.

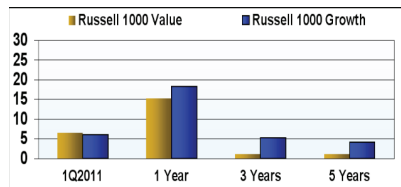
If your heirs qualify to extend estate tax payments and decide to take advantage, they'll owe interest annually on the unpaid portion of the tax. However, the estate is required to pay only 2% interest on the amount attributable to the first \$1 million (adjusted for

inflation) of the taxable value of the business interest. For 2011, the adjusted figure is \$1,360,000. The normal IRS interest rate for tax underpayments applies to amounts above that threshold.

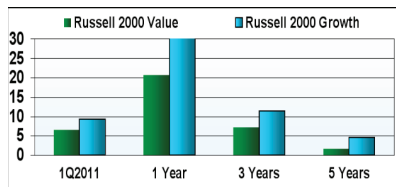
There may be additional methods that could actually limit the estate tax on family business or farm assets. For example, heirs who agree to keep those assets in the family may be able to reduce the taxable amount of the estate. But this is a complex area of tax law. We can work with you and your attorney to make sure any tax breaks and extension of tax payments are handled properly. ●



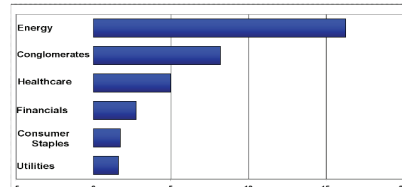
# Market Data Bank: 1st Quarter 2011



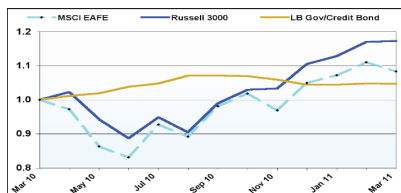
**LARGE VALUE VS. LARGE GROWTH**  
New concerns about expansion prospects overseas curbed the returns of the biggest and most export-oriented U.S. stocks in 1Q11. Large value gained 6.46% while large growth added 6.03%.



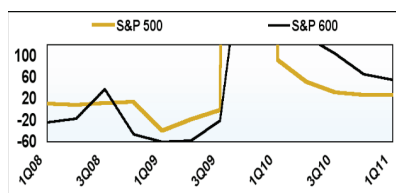
**SMALL VALUE VS. SMALL GROWTH**  
With their stronger domestic focus, smaller companies fared better as U.S. investors shunned foreign markets in search of growth closer to home. Small growth gained 9.24%; small value, 6.60%.



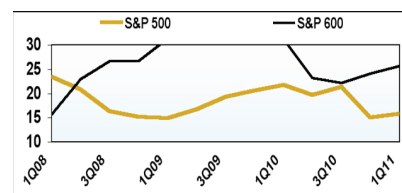
**THREE BEST AND WORST SECTORS**  
Soaring oil prices helped energy stocks lead the pack for another quarter with a 16.3% gain. But even normally defensive sectors like utilities and consumer staples ended 1Q11 up 1% to 2%.



**FOREIGN, US STOCKS & US BONDS**  
U.S. stocks continued to outperform their foreign counterparts on an annualized basis. Bond market performance flattened out as the "flight to safety" move to Treasury debt showed signs of reversing.



**LARGE VS. SMALL STOCK EARNINGS**  
While the lingering impact of the 2008-9 recession continued to distort long-term comparisons, both large and small U.S. companies expanded their profits by a substantial margin in 1Q11.



**PRICE-TO-EARNINGS RATIO**  
Investors' appetite for smaller companies' growth potential made these stocks more expensive on an earnings basis in 1Q11. Large stocks' P/E ratios also expanded, but at a slower rate.

Small-cap stocks represented by Russell 2000 index, large-cap stocks represented by Russell 1000 index. Foreign stocks represented by the Morgan Stanley Capital International's Europe, Australia, Far East Index, and US bonds by the Lehman Bros. Government/Corporate Bond Index. P/E ratios exclude negative earnings. Small-cap stocks tend to be more volatile than large-caps. Bonds offer a fixed rate of return while stocks will fluctuate. Indices are unmanaged and do not represent any specific investment. Foreign investing involves special risks, including political unrest, economic instability, and currency fluctuation. Past performance does not indicate future results.

Source: Russell/Mellon

## Top Tax Breaks

(Continued from page 1)

extended through 2011, but the credit is limited to 10% of the cost of improvements (it had been 30%) and a maximum of \$500.

**12. Offspring benefit.** The child tax credit of \$1,000 per child was going to lapse after 2010; now it will be in force through 2012.

**13. Help with adoption costs.** The new law extends the credit for adoption expenses—now a maximum of \$12,170, down from \$13,170 in 2010—through 2012.

**14. Money for hiring.** The Work Opportunity Tax Credit, available to businesses for employing workers from "target" groups, now won't expire as planned on August 31, 2011, but will stay

in force through 2012.

**15. Reward for taking the bus.** The maximum monthly \$230 tax-free benefit for transit passes, scheduled to decrease to \$120 after 2010, is extended through 2011.

**16. A renewed deduction for corporate largesse.**

Enhanced deductions for companies' contributions of food inventory, books and computer equipment, which expired after 2009, are retroactively extended through 2011.

**17. Option to deduct sales tax.** The chance to write off sales tax, rather than state and local income taxes, ended after 2009 but now is back for 2010 and 2011.

**18. Deduction for IRA transfers to**



**charity.** The ability to direct an annual maximum of required IRA distributions to charitable organizations, which had expired after 2009, is retroactively extended through 2011.

**19. Generous estate tax rules.**

Following the temporary repeal of the tax for 2010, it's reinstated but

with a \$5 million exemption and a top tax rate of only 35% and the reunification of estate and gift taxes through 2012. And heirs will again benefit from a step-up in basis on inherited assets.

**20. A break on generation-skipping tax (GST).** The new law coordinates the GST with the estate tax rules through 2012, with the same maximum exemption of \$5 million. ●