JOHN MORRISSEY ACCOUNTANTS, INC.
WHERE CLIENTS REFER FRIENDS

THE MORRISSEY REPORT

www.johnmorrissey.com
Fall 2009

From the Desk of John F. Morrissey

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Community: *(noun)*….a number of people having common ties and interests living in the same place….

During the month of August, the Morrissey Family Businesses held "Community Awareness Month." We invited numerous not-for-profit agencies to our office to make presentations to our staff about what they are doing for our community and letting us know how we can help. I must say that we all learned a lot more about the community in which we live.

In looking at our organization and the clients that we serve, I am much more aware of what has become the "community" of our relationship.

As a community, we strive to help each other by delivering better services in order to assist each other to become better members of our community. As clients, you ask for services that make our organization a better provider. As clients, I see you constantly wanting to be better citizens in our community and, in many cases, better employers so as to help your staff also become better contributors to our community. At the present time, our organization, company and staff support over 150 non-profit organizations in this community.

Support others in our community. Support other local businesses. Support local agencies that help those less fortunate. Do not be hesitant to ask others in the community to help you because we all like to be asked to help. Rely on each other. In my opinion, this is how we become a better society.

We must not rely on the federal or state government to make things better. We must start in our own community and allow improvements to grow from our community. A friend of mine made the statement a few months ago that "this community is an endless pit of good people."

As part of our community, I ask that you to contribute to our future newsletters. Please help us all become better members of our community by letting us know your opinions. We welcome guest articles.

John F. Morrissey

Focus On The Community

Rockford Symphony Orchestra

By Julie Schaper
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The Rockford Symphony Orchestra and the Rockford Dance Company present Tchaikovsky's *The Nutcracker* on Saturday, November 28 at 2 pm and 7 pm.

Filled with beloved melodies, guest artists, and vibrant set and costumes, this is the premier production in Northern Illinois. Enjoy the magic of *The Nutcracker* with family and friends.

Immediately following the matinee presentation of *The Nutcracker*, the Rockford Dance Company will host a Sugar Plum Fairy Party. The cost is $15 per child (accompanied by one adult for no additional charge). Each Sugar Plum guest (child) will have their picture taken with the Sugar Plum Fairy; have the opportunity for photos with other characters (be sure to bring your camera); complete a creative craft; receive a small gift; and be served cookies and punch.

As a special offer to the readers of The John Morrissey Accountants newsletter, the RSO is pleased to extend a **Buy One, Get One Free** offer on tickets to the Nutcracker. Please call 815-965-0049 to purchase your tickets, and mention you are a reader of The John Morrissey Accountants newsletter. This offer is available through November 20.

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2010 Roth IRA Conversions Open to All IRA Owners Regardless of Income

By Andrea Malcolm
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Roth IRAs have become a popular retirement saving tool since they were introduced in 1998 with the appeal of tax-free distributions. Currently, the Roth IRA requirements are limited to certain taxpayers whose modified adjusted gross income falls within the limits set by the IRS as shown in the chart below:

IF YOUR FEDERAL FILING STATUS IS:	Your 2009 Roth IRA Contribution is reduced if your MAGI is:	You cannot contribute to a Roth IRA for 2009 if your MAGI is:
Single or head of household	More than $105,000 but less than $120,000	$120,000 or more
Married filing jointly or qualifying widow(er)	More than $166,000 but less than $176,000	$176,000 or more
Married filing separately	More than $0 but less than $10,000	$10,000 or more

On January 1, 2010, the rules for Roth IRAs change thanks to the Tax Increase Prevention and Reconciliation Act (TIPRA). Higher income taxpayers with an adjusted gross income of more than $100,000 will become qualified for a Roth IRA conversion regardless of their income along with taxpayers who are married filing separately. In 2010 and for all succeeding tax years, AGI limits and filing status limits go away and all taxpayers will be permitted to convert their retirement assets to a Roth IRA.

When you make a Roth IRA conversion, you pay income tax on the amount you choose to convert in the year you convert. When you take advantage of this provision in 2010, you will pay income taxes on all or a portion of your traditional IRA. The income from the conversion is added to your current taxable income, which means you will pay income tax on the Roth IRA conversion in your current income tax bracket. But if you convert an amount in excess of the top of your current income tax bracket, you will have to pay income taxes at a higher tax rate. TIPRA is giving a second option to pay tax if you were to take the IRA conversion in 2010. The option would be to pay the taxes owed on the conversion over two years. You would report half of the calculated amount in 2011 and the other half in 2012. The problem with that is 2010 is the last year for the current low income tax rates. Current law provides for an increase in tax rates in 2011; therefore, if you choose to report your income over the two-year period in 2011 and 2012, you might be hit with higher tax rates. The important feature of the Roth is that once the original taxes are paid on the conversion and other technical requirements are met, income taxes will never be due on its growth, capital gains, dividends, interest or withdrawals of principle. This will be particularly beneficial to high-income taxpayers.

The current market provides a low-cost conversion opportunity. Investors who have accounts that decreased in 2008 and 2009 might choose to recognize the income tax liability now. By converting the retirement account to a Roth IRA, the taxpayer is locking in his tax liability at the lower amount. Should the Roth IRA eventually recover its losses and grow back to the original amount, you would avoid paying taxes on the difference.

If the Roth IRA continues to lose value after the conversion, the Roth can be reclassified back to a traditional IRA with no tax penalty. The reclassification resets the account as if the conversion never took place and can be done up to the filing cut-off date, as well as extensions. If you were to convert a traditional IRA to a Roth IRA in January 2010, you would have until October 15, 2011 to decide whether or not to keep the IRA as a Roth.

One of the more persuasive reasons to transfer retirement resources to a Roth IRA is that the beneficiaries of the Roth

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Maximize Your Deductions

By John Weitz
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This is the time of the year for income tax planning and, if you are like most clients, you want to know what you can do to minimize the amount of taxes you will have to pay. If that is the case, I have some good news for you. I believe that the one area that everyone should focus on before the end of the year is **itemized deductions**.

According to the most recent IRS statistics, itemized deductions were claimed on 35.4% of all tax returns filed. In order to realize the benefit of itemizing your deductions, the total amount must be greater than the standard deduction. The 2009 standard deduction amounts are $11,400 for married couples filing a joint return, $5,700 for singles and married individuals filing separately, and $8,350 for heads of household.

The first category for itemized deductions is **Medical and Dental Expenses**, which become deductible only after they are in excess of 7.5% of your total adjusted gross income. In my experience, there are very few taxpayers who can deduct their medical expenses. Taxpayers that are able to deduct medical expenses generally have a relatively low adjusted gross income or very high out-of-pocket medical expenses.

The next category, **Taxes You Paid**, allows you to take the higher of the sales tax or state income tax paid. In 2009, the sales tax on automobile purchases will be included on the first page of your 1040; however, you can still deduct sales tax on other large purchases here. Real estate taxes paid are also deductible. This reminds me of a client I have with a vacation home in Wisconsin. She pays her tax bill when she receives it in December, rather than waiting until it is due in January, to take the deduction for the current year.

Interest You Paid is the next category. If you have the money available, then you can pay your January 2010 mortgage payment in December 2009.

Next, **Gifts to Charity** includes cash donations as well as items donated. You may want to consider getting on a cycle where your largest charitable contributions are made every other year.

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Buying a New Car?

By Joe Clinton, III
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Are you considering buying a new vehicle this year? If so, are you thinking about trading in your old vehicle? If you answered yes to either question, you need to consider a few things before you make that impulse buy on that shiny new car.

Should I trade in my old car?

A common mistake made by business owners is trading in their old car rather than selling them outright to a third party. Before you decide to sell or trade your old vehicle, you need to find out its depreciated value on your business' books and whether its market value is higher or lower than the depreciated value.

If your market value is higher than your depreciated value, you would have a taxable gain from selling your vehicle. By trading in the vehicle, you can put off paying the tax on your gain to a future year. If your vehicle is worth less that its depreciated value, you need to sell it to take a loss on your tax return.

Warning: If you sell your vehicle to a related party (i.e., a relative), you cannot deduct the loss until they sell it to an unrelated party.

Is Your Vehicle a Luxury?

Did you realize that the Toyota Camry you are driving is a luxury automobile? According to the IRS, it is. Generally speaking, if you purchased your vehicle for more that $15,000 and it is not a heavy SUV, van, or truck, it is considered a luxury automobile.

Since it is a personal luxury to own such a vehicle, the IRS limits your deprecation deduction. You are allowed to deduct only the depreciation you would have received if your vehicle cost had been $14,800. For 2009, that limit is $2,960 for the 1st year you own the vehicle.

The good news for 2009 is if you buy a new luxury car you are eligible for up to a one time $8,000 bonus depreciation deduction. The deduction brings your maximum allowable depreciation deduction on a luxury automobile to $10,960 ($8,000 + $2,960) in 2009. The bonus depreciation expires for most people at the end of 2009.

Depreciation in subsequent years is limited to $4,800 in 2010, $2,850 in 2011 and $1,775 in every succeeding year.

Example: If you buy a new $90,000 Audi A8 and keep it for six years, you will be able to deduct a total of $23,935 over those six years. At the end of those six years, its depreciated value would be $66,065. After 6 years, its market value would be far less than its depreciated value, and you would want to sell it outright in order to deduct the loss.

What if I buy an SUV?

You need to determine the SUV's GVWR (Gross Vehicle Weight Rating). If it is greater than 6,000 pounds, it receives special depreciation treatment and is not limited to the luxury auto limitations. You are allowed to deduct up to $25,000 immediately and still depreciation the remainder over five years with no limits.

In addition for 2009, you can deduct bonus depreciation if it was purchased new before the end of the year. The bonus depreciation is 50% of the purchase price.

Example: If you purchased a new $60,000 SUV in 2009, you could deduct $25,000 off the top. Take bonus depreciation on 50% of the remainder for $17,500 ($60,000-$25,000=$35,000 X 50%=$17,500). You still get to depreciate what is left, which results in an additional $3,500. You will get to deduct $46,000 of the $60,000 SUV in 2009. But remember that you only have $14,000 left to depreciate in future years. If you sell the SUV in a year or two, you will probably have a large gain. In order to avoid the tax, you could trade it in on the next vehicle.

Conclusion

If you a contemplating a new vehicle purchase for your business, please consult with your John Morrissey professional. These are just a few of the many things to consider when acquiring a vehicle.

Taking Advantage of Employee Benefits

By Kathy Pozzi
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For any number of reasons, employee benefit plans are not always taken advantage of by employees. Now more than ever, it is important to look at your employee benefits. Many employees don't always think about the tax benefits that come with employee benefits. Often time employees will use the excuse that they cannot afford to take advantage of certain company benefits. The truth of matter is with the many tax benefits available, everyone can afford it. Below are a couple examples of tax savings by using employee benefits:

Flex Plan — It is a benefit for medical and dental expenses and child care. Any money placed into this plan is done so on a pre-tax basis. For example, if you are in the 25% tax bracket and put $2000 in a flex plan, it will save you $500 in federal tax, $60 in state tax and $382.50 in social security tax. Because the flex plan contribution reduces your adjusted gross income, you may qualify for more tax credits and get a higher deduction in employee business expenses and medical expenses.

401(k) plans — The 2009 contribution limit is $16,500. If you reach age 50 by December 31, 2009 you can contribute an additional $5,500 for a total contribution of $22,000. This saves you federal and state tax plus, many times, your employer will match up to 3% or more. So, if you make $40,000 a year and your employer matches 3%, you will be earning an extra $1200 tax free.

HAS (Health Savings Account) — To be eligible, you have to be enrolled in a high deductible insurance plan. The maximum contribution for single coverage is $3,000, and the maximum contribution for family is $5,950. There is also a $1000 catch-up per individual over age 55. These accounts reduce your federal, state, and social security taxes. They also reduce your adjusted gross income, which is similar to the flex plans. There is also a special rule which will allow a one time tax free transfer from an

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"Don't knock the weather; nine-tenths of the people couldn't start a conversation if it didn't change once in a while."
— Kin Hubbard —

THE MORRISSEY REPORT
is published quarterly by
John Morrissey Accountants, Inc.
5919 Spring Creek Road
Rockford, Illinois 61114
815.282.4600
www.johnmorrissey.com
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To share ideas or suggestions, please contact John Morrissey.

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Maximize Your Deductions…

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The same applies for **Job Expenses and Certain Miscellaneous Deductions**. Remember, you claim deductions in the year that payment is made. By paying more items in 2009, you might be lowering your total itemized expenses for 2010; however (and this is a big however), alternating between the itemized and standard deduction every year can lower the amount of taxes you pay over a two year time period. The most recent IRS statistics compiled show the average itemized deductions were $23,605 for taxpayers in the $50,000-$100,000 adjusted gross income range, and $36,214 for taxpayers in the $100,000-$200,000 adjusted gross income range.

So if you been unable to itemize in the past or are just barely over the standard amount, this is a good time to call your tax preparer and discuss your income tax plan for 2009.

Special note by John F. Morrissey:

"In this issue we are recognizing one of the 'crown jewels' of our community, The Rockford Symphony Orchestra. Many members of the orchestra come from outside our geographic community to share their talents with the patrons of the RSO. By attending one or more great performances, we can show our gratitude to the many members of the orchestra, and the many hours of time invested by each member of the community who performs behind the scenes to see to it that the Rockford Symphony Orchestra exists."

Taking Advantage of Employee Benefits…

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IRA to an HSA account. The amount of this transfer cannot exceed the annual maximum contribution amount. This could be of great benefit to someone who would like to use their IRA money to pay for medical expenses tax free.

If you would like one of our tax professional to calculate the tax savings for your specific situation please call our office today at 815-282-4600.

2010 Roth IRA Conversions…

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IRA can extend the account tax-free over their own lifetime. The Roth IRA permits the undistributed amount to continue to be invested and increase tax-free as opposed to simply tax deferred over the beneficiaries' lifetime.

Even though the TIPRA doesn't take shape until 2010, you can still do some tax planning in the meantime if you are thinking about the conversion. You can simply start making the maximum annual contribution to traditional IRAs, SEP and SIMPLE IRAs and converting them to Roth IRA in 2010. Any taxpayer can make nondeductible contributions to a traditional IRA until age 70½ at any income level.