



**BRIDGEWAY**  
FINANCIAL  
CORPORATION

## **CPA Solutions™** **Accounting Newsletter**

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Dear Matt ;

Welcome to the newest issue of CPA Solutions™, our flagship Accounting and Tax newsletter, designed to guide you confidently through the sometimes choppy and murky waters of tax and accounting issues. We understand you may not have a background in accounting, so we boil down every article to just the important parts affecting you and your business, so you can stay informed and not overwhelmed. Each issue we bring you short and insightful articles about issues that affect you, your bottom line and your business and we highlight important new tax laws or accounting issues that will make a difference to you and your business.

We hope you enjoy CPA Solutions™ as much as we enjoy putting together each issue, and we welcome your call or email if you have any questions concerning a particular matter.

Sincerely,  
Joe H. Craft CPA/PFS, CFP



Joe Craft is a Certified Public Accountant (CPA) and our Chief Supervisory Accountant and handles the preparation of financial statements, corporate and personal tax returns, audit defense and representation. His expertise also extends into estate and gift tax planning, comprehensive and segmented personal financial planning. He is a member of the American Institute of Certified Public Accountants and has received certification as a Certified Financial Planner (CFP) and Personal Financial Specialist (PFS). Joe is the author of "Annual Record Keeping Kit for Small & Home Based Businesses" and co-author "It's How Much You Keep That Counts!" 4th edition. Joe lives with his wife in New Hampshire.

### **The Tax Cuts of 2010 - Good News for Businesses**

Do you own a business? Are you wondering how your company is affected by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 - aka the Obama Tax Cuts?

If so, read on. We explain how your business can benefit from the new tax cuts. We also tell you about your



#### **In This Issue**

The Tax Cuts of 2010 -  
Good News for  
Businesses

2010 Tax Relief Act -  
Personal Income Tax

Ensuring Financial  
Success for Your  
Business

responsibility to enact the payroll tax cut for your employees.



Personal Exemptions,  
Standard Deductions  
and Tax Brackets for  
2011

## Paying Less Tax Under the New Legislation

### The Bonus Depreciation Doubled in Size

Under the Obama Tax Cuts, the bonus depreciation amount jumped from 50% to 100%. This means businesses can write off 100% of eligible purchases (e.g., equipment and off-the-shelf computer software) bought and put in service between September 9, 2010 and December 31, 2011.

**Note:** In 2012, business owners can still take a bonus depreciation, but it will be back at the 50% level.

### Section 179 Deductions Also Got a Boost

Section 179 deductions allow businesses to deduct the full purchase price of property from their gross income.

Section 179 deductions differ from standard depreciations because they allow you to write off your expenses in the same year you bought property, rather than spreading it out over time.

Section 179 was bolstered under the Small Business Jobs Act of 2010 (signed September 27, 2010), with the allowable deduction set at \$500,000 for 2010 and 2011. Now, under the Obama Tax Cuts, the maximum deduction will fall only to \$125,000 in 2012, rather than to \$25,000, as it would have without the recent tax cut package.

This should inject confidence in the business owner that she can continue to invest in her business for the next few years - which is beneficial not just for her, but for the U.S. economy as a whole.

**Caution:** Estates and trusts cannot take a section 179 deduction.

## Section 179 Vs. Bonus Depreciations - Which Is Better?

Section 179 deductions are available on all new and used equipment, whereas the bonus depreciation (set now at 100%, with no limit) is for new equipment only.

Think of the bonus depreciation as an extra deduction you can take - but you must take it in the first year only.

To figure out which type of deduction is right for your business for tax year 2010, give us a call.

## Complying with the New Payroll Tax Cut

The Obama Tax Cuts instituted a one-year reduction in the Social Security tax for employees, from 6.2% to 4.2%. This means the single taxpayer making \$50,000 will save \$1,000 on taxes in 2011.

**Note:** This reduction in Social Security tax will not impact the

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employee's future Social Security benefits.

But it's up to business owners to adjust their employees' withholdings. They must do so as soon as possible in January 2011, but no later than January 31, 2011. Notice 136 lists the new amounts you should withhold from employees' paychecks.

**Caution:** If you withhold too much Social Security tax during January, you will need to make an offsetting adjustment in your employees' pay as soon as possible and no later than March 31, 2011. Ask us for more details.

**Self-Employed Folks See a Reduction, Too.** Those who own businesses with no other employees should also be aware of their new Social Security withholding amount, which fell from 12.4% to 10.4%. This combined with the 2.9% Medicare rate brings the total of the 2011 self-employment tax rate to 13.3%.

## Confused? We're Here to Help

The Obama Tax Cuts are designed to bolster the economy by putting more money back in the pockets of business owners, thus allowing them up to hire more workers.

But to take advantage of the new rules for deductions and depreciations, you have to understand the new law.

That's where we come in. To find out more about how to improve your business with certain investments now and in 2012, give us a call.

## 2010 Tax Relief Act - Personal Income Tax

On December 17, 2010, *The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* was signed into law by the President. The personal income tax provisions in this law provide for an extension of the Bush-era tax cuts which were scheduled to expire at the end of 2010. The 2010 Tax Relief Act temporarily extends most of the tax cuts for 2011 and 2012 only.



### Income Tax Rates

Individual income tax brackets will remain unchanged for 2011 and 2012, keeping the current structure ranging from 10-35%. The capital gains tax rates will also remain as is for the next two years.

Payroll taxes are reduced by 2 percentage points. Social Security tax rate for the employee-portion will be reduced temporarily to 4.2% for 2011 only. The employer-portion will remain at 6.2%. The Social Security wage base remains at \$106,800 for 2011. Medicare tax rates remain unchanged. The self-employment tax rate is temporarily reduced 2 percentage points to 13.3% for 2011 only.

### Extension of Tax Credits

The Act extended many personal tax credits through 2012. These credits were either scheduled to expire or reverted back to previous levels in 2011.

- Child Tax Credit
- Earned Income Credit
- Dependent and Child Care Credit
- Adoption Tax Credit
- American Opportunities Credit

## Estate Tax

The Estate Tax Credit was enhanced under the Act. The 2011 Estate Tax exempts the first \$5.0 million of the estate and then imposes a 35% tax rate on the remainder. This is a significant change from the 2009 level of \$3.5 million exemption and 45% tax rate. Further, without this provision, the estate exemption level would have reverted back to \$1.0 million.

## Other Deductions

- For higher-end taxpayers, there is a two year extension to the elimination of the itemized deduction limitation and the personal exemption phaseout. Both of the temporary repeals have been extended until the end of 2012.
- Retention of marriage relief penalty for certain tax brackets.
- Deductions for educator expenses, student loan interest, qualified tuition and state sales tax have all been extended for one or two years.

As can be seen, the 2010 Tax Relief Act provides many tax saving opportunities for individuals. Please contact us for further information regarding your personal tax situation.

## Ensuring Financial Success for Your Business

Can you point your company in the direction of financial success, step on the gas, and then sit back and wait to arrive at your destination?

Not quite. You can't let your business run on autopilot and expect good results. Any business owner knows you need to make numerous adjustments along the way - decisions about pricing, hiring, investments, and so on.



So, how do you handle the array of questions facing you? One way is through cost accounting.

## Cost Accounting Helps You Make Informed Decisions

Cost accounting reports and determines the various costs associated with running your business. With cost accounting, you track the cost of all your business functions - raw materials, labor, inventory, and overhead, among others.

**Note:** Cost accounting differs from financial accounting because it's only used internally, for decision making.

Because financial accounting is employed to produce financial statements for external stakeholders, such as stockholders and the media, it must comply with generally accepted accounting principles (GAAP). Cost accounting does not.

Cost accounting allows you to understand the following:

1. **Cost behavior.** For example, will the costs increase or stay the same if production of your product goes up?
2. **Appropriate prices for your goods or services.** Once you understand cost behavior, you can tweak your pricing based on the current market.
3. **Budgeting.** You can't create an effective budget if you don't know the real costs of the line items.

## Is It Hard?

To monitor your company's costs with this method, you need to pay attention to the two types of costs in any business: fixed and variable.

**Fixed costs** don't fluctuate with changes in production or sales. They include:

- rent
- insurance
- dues and subscriptions
- equipment leases
- payments on loans
- management salaries
- advertising

**Variable costs** DO change with variations in production and sales. Variable costs include:

- raw materials
- hourly wages and commissions
- utilities
- inventory
- office supplies
- packaging, mailing, and shipping costs

**Tip:** Cost accounting is easier for smaller, less complicated businesses. The more complex your business model, the harder it becomes to assign proper values to all the facets of your company's functioning.

## We Can Help

If you'd like to better understand the ins and outs of your business and create sound guidance for internal decision making, you might consider cost accounting.

And we can help. Allow us to evaluate your business from top to bottom and determine the real cost of each component. With that as a foundation, we can help you draft budgets, adjust pricing, keep an appropriate level of inventory, and much more. Give us a call today.

If you received Form 1099-C, but aren't sure what to do with it, give our office a call. We'll help you figure out whether your cancelled debt is taxable—or not.

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