



# THE ELLS OUTLOOK

September-October 2010

## 2010 Jobs Act Surfaces A little Late - But It's Here!

A collective sigh of relief could be heard throughout the business community when The Small Business Jobs Act of 2010 ("Jobs Act") was finally enacted the end of September. It includes a wide-ranging assortment of tax breaks and incentives for small business, paid for with various revenue raisers. Here's a brief overview of the salient tax changes in the new law.

**Enhanced small business expensing (Section 179 expensing).** Under the new law, for tax years beginning in 2010 and 2011, the \$250,000 limit is increased to \$500,000 and the investment ceiling raised to \$2,000,000. The new law also makes certain real property eligible for expensing including up to \$250,000 of qualified real property (qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property).

**General business credits of eligible small businesses for 2010 allowed to be carried back five years.** Eligible small businesses can carry back unused general business credits for five years. Eligible small businesses consist of sole proprietorships, partnerships and non-publicly traded corporations with \$50 million or less in average annual gross receipts for the prior three years. In addition, eligible small businesses may use all types of general business credits to offset their AMT in tax years beginning in 2010.

**Extension of 50% bonus first-year depreciation.** Extends the first-year 50% write-off to apply to qualifying property placed in service in 2010 (2011 for certain property).

**Boosted deduction for start-up expenditures.** Allows taxpayers to deduct up to \$10,000 (up from \$5,000) in trade or business start-up expenditures for 2010. The amount that a business can deduct is reduced by the amount by which startup expenditures exceed \$60,000 (up from \$50,000). It is important to note that this increased deduction is temporary, and only applies to tax years beginning in 2010.

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## ELLS Attends EZ Conference



All of the ELLS Shareholders, along with Staff Accountant Irene Freeman and Tax Manager Carol Painter, attended the City of Santa Ana Enterprize Zone (EZ) Conference on September 30th at the Heritage Museum. **Ed Lieber** gave a timely presentation describing EZ tax credits and incentives. The purpose of the conference was to raise awareness about the benefits of doing business in Santa Ana.

On an historical note, on June 8, 2008, the City of Santa Ana received a 15-year Enterprise Zone designation. The Santa Ana EZ encompasses more than 16 square miles of industrial and commercial land. Businesses already in the EZ can qualify for benefits, as well as new businesses relocating or expanding into Santa Ana's EZ. If your business has a Santa Ana address and you are not currently receiving EZ benefits, call an ELLS advisor to determine your eligibility for these lucrative credits.

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## **Greg Lewis Addresses Vital Federal Estate Tax Issues in 2010**



The one-year repeal of the estate tax has been a part of the law since the Bush tax cuts were passed in 2001. When Congress did not act to at least extend the 2009 estate taxes through 2010, both the estate tax and the generation-skipping transfer tax (on assets given to grandchildren) disappeared at the end of 2009. There is still a gift tax if you give away more than \$1 million during your lifetime, but the tax rate has been reduced from 45% to 35% in 2010. In addition, during 2010, the “step up” provision, which gives all inherited assets a “step-up” in basis to their value at the time of the owner’s death, is no longer unlimited. This could be very expensive for large estates as well as tens of thousands of smaller estates. Heirs will need to find out the original purchase price of assets when they sell them, which could be a nightmare if dealing with such items as stocks acquired decades ago that have undergone splits and reinvested dividends or now-valuable “collectibles” which may have been bought many years before they became collectibles, for example. The law still does allow a sizable step-up in basis: each estate can exempt \$1.3 million of gains from this carryover basis rule, as it’s called. Another \$3 million exemption applies to assets inherited from a spouse. However, if assets have greatly appreciated, heirs could still be hit with a sizeable capital gains tax bill.

Additionally, “formula clauses” in wills and trusts that express inheritances in terms of fractions or percentages, may lead to problems. Watch out for such phrases as “that portion,” “that fraction” or “that amount” (without saying what it is) as these are all possible traps that could alter who inherits what in 2010.

Both the estate tax and the generation-skipping tax are scheduled to return in 2011: the amount that is exempt from each of these taxes will be \$1 million and the tax on the balance will be 55% and the gift tax increases to 55%.

Regardless of your net worth, trusts continue to be an important estate planning tool, but not necessarily just for tax saving. For many people the focus is on other crucial purposes that trusts can serve: to hold money for minors, forestall spendthrift family members or protect assets from former spouses or creditors, for example.

Your ELLS advisor is the person to call to help you through the estate tax conundrum, particularly if you have concerns about your position for the rest of 2010 or want information about setting up an estate plan.

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## **Jobs Act continued . . .**

**Deductibility of health insurance for the purpose of calculating self-employment tax.** Allows business owners to deduct the cost of health insurance incurred in 2010 for themselves and their family members in calculating their 2010 self-employment tax. For now, the change is limited to the 2010 tax year.

**Cell phones removed from listed property category.** Cell phones (including PDAs and Blackberry devices) can be deducted or depreciated like other business property.

**Information reporting required for rental property expense payments.** For payments made after Dec. 31, 2010, persons receiving rental income from real property are required to file information returns with the IRS and service providers reporting payments of \$600 or more during the year for rental property expenses.

**Increased information return penalties.** For information returns required to be filed after December 31, 2010, the penalties in the tax code for failure to timely file information returns to the IRS will be increased from \$15 to \$30. The minimum penalty for each failure due to intentional disregard will be increased from \$100 to \$250. The penalties for failure to file information returns to payees will be similarly increased.

These provisions are pretty straight-forward and offer few surprises. Your ELLS advisor can go into greater detail on these and other provisions in the Jobs Act of 2010. Give us a call for more information.



**Ron Stumpf and Maria Arriola** gave a tax seminar and shared some tips on what to

look for in financial statements to the Wells Fargo Bank team in Irvine. Attending the presentation were, from left to right, Rodney Kingston, Art Carter, Kimberly Kam, and Gary Smith.



Captain James, of the majestic Queen Mary docked in Long Beach, joins **Greg Lewis** and **Sherry Radmore** during the Cal Society of CPA’s summer Board of Directors luncheon on September 23rd.

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## FDIC Insurance Expanded

The Federal Deposit Insurance Corporation (FDIC) Board of Directors recently approved the issuance of a proposed rule to implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act to provide depositors at all FDIC-insured institutions unlimited deposit insurance coverage on noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012. Under the proposal, the FDIC will create a new, temporary deposit insurance category for noninterest-bearing transaction accounts. These accounts are primarily checking accounts used by businesses for payrolls, accounts payable and other purposes. As a point of interest, the FDIC receives no federal tax dollars - insured financial institutions fund its operations.

## California Upgrades CPA Qualifications

If becoming a CPA is your career goal, then you may want to know of California's new requirement that candidates have a master's degree in accounting before testing to be a certified public accountant. The law goes into effect in 2014. If you'd like to discuss the positive aspects of a career in accounting, any of our ELLS advisors would be happy to talk with you!

Thank You For Referring Us  
To Your Friends &  
Business Associates!

## Fantasy Baseball Returns



In August, **Ed Lieber** headed up the 13th Annual Sertoma Baseball & Softball Camp for deaf and hard-of-hearing youth. The week-long camp includes a "practice day" on the field of Angels Stadium and attending an Angels game. Ed is pictured above with Larry Lopez, Sertoma Volunteer, and Eric Kay, PR Manager for the Los Angeles Angels of Anaheim.

## Ring Those Wedding Bells!



**Greg Lewis** and **Sherry Radmore** brought best wishes from the entire ELLS team in August when they attended the after-wedding celebration of client Ron Lerch to his lovely bride, Beth. Ron and Beth were married in Hawaii in July.

## —Around The Calculator—

Lots of anniversaries to celebrate! Shareholder **Sherry Radmore** ushered in a milestone 25 years on September 16th. **Kerry Osbourne**, Staff Accountant, rang up 3 years on the 17th and **Jeff Boxx**, CPA in ELLS Tax Department, has been with us 4 years as of the 25th. September ended with **Ali Main**, Senior Auditor, celebrating 2 years on the 29th. October started with **Lee Weir**, Audit Manager, celebrating 10 years on October 4th. **Nancy Chung**, Senior Accountant, sees 4 years on October 10th. Marketing Director **Lindsay Fleumer** celebrates her 1st year on October 13th. The month ends with **Joanne Tang**, CPA in our Audit Department, celebrating 3 years on October 17th. Our extended congratulations also to **Joanne Tang** on earning her CPA license! It's been a good two months!

Lindsay



Joni

The ladies of ELLS celebrated the upcoming weddings of **Joni Carvale**, Admin Supervisor, and **Lindsay Fleumer**, Marketing Director, with a combined bridal shower at the Geisha House in Santa Ana. Joni and Lindsay had a great time and are happy to share this exciting time with everyone at ELLS.

In compliance with Treasury Department Circular 230, unless stated to the contrary, any Federal tax advice contained in this newsletter, including attachments and enclosures, was not intended or written to be used and cannot be used for the purpose of avoiding penalties.

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## We're Really Teed Off!

What better way to spend a beautiful California day than out on the links in support of a worthwhile cause? It's a tough job, but we're glad to help out!



ELLS teed off at the **Santa Ana Chamber** Golf Tournament on Sept 23rd. **Ron Stumpf** and **Ed Lieber** played with clients Jack Gyben of Progressive Produce and Don Markland from Markland Industries.



ELLS sponsored a hole at the annual **Fight for Lexi Scleroderma** Golf Tournament at Dove Canyon on August 23rd. In photo are Melinda Pettit, Lexi Pettitt, **Maria Arriola**, and Chris Pettit. The tournament is named after Lexi.



ELLS supported the programs of the **Orange County Hispanic Chamber** at their annual Golf Tournament on September 13th. Pictured above, ELLS clients and guests Dr Vini and Linda Pierog of Emergency Medicine Specialists of California and Jim Gause from Farmers and Merchants Bank, are flanked by ELLS hosts **Maria Arriola** and **Ron Stumpf**. "It was a great day and we all had a lot of fun," quipped Maria on their return to the club house.