BEYOND THE HORIZON

1st Quarter, 2010 Issue

We would like to express our gratitude to all our clients for your patience and trust in us during the past, tumultuous year. We will continue to work hard in the new year to keep your trust, earn your referrals, and provide you with peace of mind.

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STAFF NEWS

After being with us for nearly nine years, we are saying good-bye to Sharon Balestra, one of our Client Service Representatives. Sharon has decided to leave her position here to care for her elderly father. She has been a great asset to Horizon and has been a joy to work with. We will all surely miss her.

TAX NEWS

Our first quarter issue reports the tax rules and limits for the coming 2010 tax year, as well as recent legislation that may affect your 2009 return.

- **The first-time homebuyer credit has again been extended.** First-time buyers who purchase a home after November 8, 2009 and before May 1, 2010 may be eligible to receive a tax credit equal to 10% of the purchase price of the home or $8,000, whichever is less. The credit is subject to income limitations, which have increased to $125,000 for single filers and $225,000 for joint filers. NEW TO THIS BILL, **existing homeowners may be eligible for a credit of up to $6,500 for the purchase of a replacement home** under the new law. Income limits, as well as other requirements, apply to both credits.

- Those who opted to suspend their mandatory IRA distributions in 2009, as allowed by Congress, will be required to resume those distributions in 2010.

- **The 0% capital gains tax continues into 2010 and is currently the final year** for this rate. <u>Filers who are in the 10% or 15% tax bracket will pay 0% on capital gains.</u> Once income is high enough to push them into the 25% bracket, the balance on the gains is taxed at 15%.

- The tax credit for **energy efficient home improvements was reinstated for 2009 and continues into 2010**. The credit is equal to 30% of the cost of the improvements (excluding labor), up to a maximum total tax credit of $1,500. The credit applies to improvements such as energy efficient doors, windows, heat pumps, air conditioners, and furnaces.

- The **standard deductions** for 2010 **REMAIN the same** (excluding any additional deduction for property taxes or vehicle sales taxes). They are $11,400 for married individuals filing jointly (plus $1,100 for each spouse age 65 or older) and $5,700 for single filers (plus $1,400 if age 65). However, the deduction for Head of Household filers increases to $8,400 (plus $1,400 if age 65).

- Taxpayers who do not itemize (file a Schedule A) and who pay property taxes may continue to claim an **additional standard deduction equal to the lesser of property taxes paid** OR $1,000 for married filers ($500 for single filers). This is allowed for 2009 and has been extended into 2010.

- A **motor vehicle sales tax deduction has been added for the 2009 tax year.** Taxpayers who purchased a vehicle after February 16, 2009 and before January 1, 2010 may qualify for a deduction of the state or local sales or excise taxes on the first $49,500 of the purchase price. You may qualify for the deduction whether or not you itemize (file a Schedule A).

- The **personal exemption** HOLDS at $3,650 per person in 2010. New for 2010, however, there will no longer be a phase-out of the exemption for higher income filers, as previously was the case.

- The maximum **contribution limit for Traditional and Roth IRAs REMAINS** at $5,000 for 2010. The additional "catch-up" contribution for those age 50 or older holds at $1,000 for a total maximum contribution limit of $6,000.

- **The deduction for Traditional IRA contributions is limited** for those who participate in an employer retirement plan. The income phase-out holds at $89,000-$109,000 for marrieds and $55,000-$65,000 for singles and heads of household. Where only one spouse is active in a plan, the phase-out is $166,000-$176,000.

- There are income limits for making **Roth IRA contributions.** The income phase-out remains the same in 2010 at $166,000-$176,000 for marrieds and $105,000-$115,000 for singles.

- **NEW IN 2010, there is no income limitation for those who wish to convert a Traditional IRA into a (tax-free) Roth IRA.** In addition, the IRS allows the taxpayer who does a conversion to elect to either report the income on the conversion in 2010 or the spread the income between the 2011 and 2012 tax years.

- There is **no change** to the contribution limits for company-sponsored retirement plans in 2010. The **401(k) and 403(b) contribution limit holds at** $16,500 (plus a $5,500 "catch-up" for those age 50 or older). The limit for **contributions to a Simple IRA also holds at** $11,500 (plus a $2,500 "catch-up").

- The **Hope education tax credit has been renamed the American Opportunity credit beginning in 2009 and 2010.** This revamped credit offers a maximum tax credit of $2,500 for the first four years of post-secondary education. The credit is phased out for income between $160,000-$180,000 for marrieds and $80,000-$90,000 for singles. The Lifetime learning credit, however, remains the same, with a maximum tax credit of $2,000 for expenses paid during any school year. Income phase-outs are $100,000-$120,000 for marrieds and $50,000-$60,000 for singles.

- The annual limit for **contributions to a Coverdell Education Savings Account** holds at $2,000 per child. Remember, the contribution deadline is April 15th of the following year, like IRA contributions.

- As of 2009, the individual exemption for Federal estate tax purposes was $3.5 million. In other words, an individual could pass up to $3.5 million at death without incurring a Federal estate (death) tax. As was written under previous legislation, the Federal estate tax disappears on January 1, 2010 for one year only to reappear in 2011. However, we anticipate Congress will pass legislation to reinstate the estate tax and exemption retroactive to January 1, 2010.

- The Social Security wage base for this payroll tax HOLDS at $106,800 in 2010.

- Those collecting Social Security who are between the ages of 62 and 66 can earn wages in 2010 of up to $14,160 without losing benefits, the same limit for 2009. Those over 66 can earn an unlimited amount without losing benefits. Individuals who turn 66 in 2010 won't lose benefits if their earnings are $37,680 or less before reaching age 66.

- There will be no cost-of-living increase for Social Security recipients in 2010.

- The standard mileage rate for 2010 DECREASES to 50 cents per mile for business miles driven and 16.5 cents for medical and moving purposes. The allowance for charitable miles driven remains steady at 14 cents.

Sources: National Association of Tax Professionals Essential 1040 workshop; Internal Revenue Service website at www.irs.gov; Social Security Administration website at www.socialsecurity.gov/cola.

2009 WRAP-UP AND 2010 OUTLOOK

The year 2009 is now behind us, but we suspect it won't soon be forgotten. It was only a short nine months ago that the stock markets hit their low points in this bear market. But since then, stocks have recovered considerably from that point. The Nasdaq ended the year 2009 with a gain of 43.9%, followed by the S&P 500 with a gain of 23.5% and the Dow Jones Industrial Average at 18.8%. According to research by Hays Advisory, the technology sector led the pack last year gaining 59.9%. Midcap companies overall outpaced all style sizes for 2009. However, the U.S. and Europe were at the low end of the world's stock market return. The Latin American region was the top sector, finishing up 98.0% for 2009. Commodities also saw substantial increases with copper, unleaded gas and crude oil leading the way.

As for 2010, the forecast calls for modest growth. The Government will be the primary player in fueling the U.S. economy but it is expected to back off. Interest rates, overall, are expected to hold steady. However, mortgage rates are expected to rise. The Federal Reserve has been purchasing mortgage debt which has been keeping rates low. However, when it starts to back off on buying mortgage-backed securities, mortgage rates may increase as much as a full percentage point. Therefore, if you were considering refinancing or buying your next home, you may want to do so by the end of the first quarter.

As for the equity markets, we continue to see opportunities overseas. Today about 60% of the world's stock market capitalization is outside the United States. What's more, the trend toward worldwide economic integration has led to the rise of multinational corporations that generate much of their revenue outside their home market.

It is expected that much of the world's growth will continue to come from the emerging markets. According to American Funds, developing countries now account for 35% of the world's exports, more than double their share in the early 1990s, and their share of the world's market cap has more than doubled this decade. The rapid development has resulted in a higher standard of living for some of its residents, placing more demand for goods and services from the rest of the world. However, because investing outside the U.S. entails additional risks, our recommendation is to diversify throughout the world. Also, do so through the mutual funds versus buying the individual company stocks.

Disclaimer: The opinions expressed herein do not necessarily reflect those of Trustmont Financial Group/ Trustmont Advisory Group.

Sources: Hays Advisory Year-End Wrap Up; American Funds "the flyer", December 2009; American Funds "The Long View", October 2009; The Kiplinger Letter, 1/1/10.

INVESTMENT CORNER

As you may be aware, earnings inside a Roth IRA are completely tax-free, assuming withdrawals are made at least five years after the initial contribution and after the age of 59-1/2. This is unlike a traditional IRA where earnings are tax-deferred or taxed when withdrawn. There are additional benefits to a Roth. They are NOT subject to mandatory withdrawals at age 70-1/2, and account balances pass to heirs after death on a tax-free basis.

In the past, the IRS allowed investors to convert old traditional IRAs into the tax-free Roth IRA as long as their adjusted gross income was less than $100,000. As of 2010, all investors, regardless of income, are allowed a conversion. Keep in mind, however, that converting a traditional IRA to a Roth IRA does not avoid taxation. The account being converted (or a portion of it) is reported as taxable income. Under this new law, however, the taxpayer can choose to report the taxable conversion in 2010 or in equal installments over a two-year period (2011 and 2012).

If converting the account doesn't avoid income taxation, then why bother converting? Conversions don't make sense for all investors. However, the longer you have to stay invested, the more beneficial a Roth becomes. If a conversion doesn't make sense for you, opening a Roth with new contributions might.

If you have questions regarding contributing to a Roth or converting old accounts to a Roth, please consult your tax advisor or call our office.

Highlighting this topic in no way implies that it is suitable for everyone. FOR MORE INFORMATION ON THIS OR OTHER TAX TIPS OR ACCOUNT TYPES, PLEASE CALL OUR OFFICE.

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