

# CLIENT Advisor

## New tax laws that could affect your tax return

Spring 2011

Several tax changes will affect the 2010 tax filings of many individuals and businesses. Here is a summary of items to keep in mind as you file your 2010 returns.

### Individuals

#### Residential energy credits

If you weatherized your home during 2010, you may be entitled to two home energy tax credits: the nonbusiness energy property credit and the residential energy efficient property credit.

**Nonbusiness Energy Property Credit** – This credit equals 30 percent of the amount you spend on eligible energy-saving improvements, up to a maximum tax credit of \$1,500 for the combined 2009 and 2010 tax years. The cost of certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass all qualify, along with labor costs for installing these items. In addition, the cost of energy-efficient windows and skylights, energy-efficient doors, qualifying insulation and certain roofs also qualify for the credit, though the cost of installing these items does not count.

**Residential Energy Efficient Property Credit** – This credit equals 30 percent of the amount you spend on qualifying property, such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines and fuel cell property. Generally, labor costs are included when figuring this credit. No cap exists on the amount of credit available except for fuel cell property.

Not all energy-efficient improvements qualify for the tax credits. You should check the manufacturer's tax credit certification statement, which can usually be found on the manufacturer's website or with the product packaging.

Normally, you can rely on this certification. However, the manufacturer's certification is different from the Department of Energy's Energy Star label, and not all Energy Star labeled products qualify for the tax credits.

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### Businesses

#### Expensing election

For qualifying property purchased and placed in service during a tax year beginning in 2010, the expense election amount is \$500,000. This amount is reduced if the total amount of qualifying property is more than \$2 million.

For businesses that use a fiscal year as their tax accounting year, the deduction limit applies to property purchased and placed in service in their tax year beginning after Dec. 31, 2009.

Qualifying assets generally include machinery, equipment and other personal property acquisitions. In addition, the definition of qualified property is temporarily extended to include such real property as qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property.

#### Bonus depreciation

Property that does not qualify for an immediate tax write-off under the expensing election may qualify for an increased first-year depreciation deduction under the bonus depreciation rules. This deduction is equal to 50 percent of the cost of qualifying property purchased and placed in service between Jan. 1 and Sept. 8, 2010. The deduction is raised to 100 percent of the cost for the property purchased and placed in service between Sept. 9 and Dec. 31, 2010.

To qualify for bonus depreciation, the property must be new. Used property does not qualify. In addition, the property must either:

- ◆ Have an applicable MACRS recovery period of 20 years or less
- ◆ Be water utility property
- ◆ Be computer software not covered by the Section 197 amortization rules
- ◆ Or be qualified leasehold improvement property

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I N S I D E



## **Individuals** *continued from front*

### **Standard mileage rates**

The 2010 rate for business use of your vehicle was 50 cents per business mile. For medical care and moving expenses, the rate was 16.5 cents per mile, with 14 cents per mile the rate for driving for legitimate charitable causes.

### **Roth IRA conversions**

Beginning in 2010, there are no income limits on individuals who would like to convert a traditional IRA to a Roth IRA. If you transferred funds from a traditional IRA to a Roth IRA during 2010, you can elect to include the amount as income on your 2010 return. Alternatively, you can elect to report half the income on your 2011 return and half on your 2012 return.

### **Last-minute tax changes**

In mid-December, Congress extended a number of provisions that expired Dec. 31, 2009, and reinstated the following provisions for 2010 and 2011:

- ◆ The \$250 above-the-line deduction for certain expenses of elementary and secondary school teachers
- ◆ The election to claim an itemized deduction for state and local sales taxes in lieu of the itemized deduction for state and local income taxes
- ◆ Above-the-line deduction for qualified tuition and related expenses
- ◆ Charitable contributions (up to \$100,000) directly from IRAs for those 70½ and over

### **Home buyer credits**

If you signed a contract to purchase a home before May 1, 2010, and completed the closing by Sept. 30, 2010, you may qualify for the \$8,000 first-time home buyer credit or the \$6,500 credit for long-term homeowners.

The first-time home buyer credit is equal to the lesser of \$8,000 (\$4,000 for a married individual filing separately) or 10 percent of the purchase price of a principal residence. A long-term homeowner may claim a credit if the buyer (and the buyer's spouse, if married) maintained the same principal residence for any five-consecutive-year period during the eight years ending on the date of purchase of a subsequent residence. The maximum credit is the lesser of \$6,500 (\$3,250 for a married individual filing separately) or 10 percent of the purchase price.

The credits phase out over modified adjusted gross income levels of \$125,000 to \$145,000 for individuals and \$225,000 to \$245,000 for those filing a joint return. The credits can't be claimed for a home costing more than \$800,000. Dependents can't claim the credits, and a purchaser must be at least 18 years old. ■

## **Businesses** *continued from front*

### **Domestic production activities deduction**

For 2010, this deduction is set at 9 percent of qualifying business net income. The deduction is available to businesses engaged in construction, engineering or architectural services, film production, or the lease, rental or sale of tangible personal property manufactured, produced, grown or extracted by the business. The rate is 6 percent for oil and gas companies.

### **Work opportunity credit**

Businesses that hired workers who are members of certain target groups, such as disabled veterans, food stamp recipients and ex-felons, can claim a credit equal to 40 percent of the first year wages up to \$6,000 paid to each such employee. For 2010, the eligible target group is expanded to include unemployed veterans and disconnected youth.

### **Energy tax incentives**

The tax credit for facilities producing electricity from wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, solar, small irrigation power, qualified hydropower and marine and hydrokinetic renewable energy is available during 2010.

In addition, businesses that place in service facilities that produce electricity from wind and some other renewable resources can choose either:

- ◆ The energy investment tax credit, which generally provides a 30 percent tax credit for investments in energy projects
- ◆ The production tax credit, which can provide a credit of up to 2.2 cents per kilowatt-hour for electricity produced from renewable sources

A business may not claim both credits for the same facility. Businesses also can apply for a grant instead of claiming either the energy investment tax credit or the renewable energy production tax credit for property placed in service in 2010.

### **Small business healthcare credit**

The credit is available to small employers that pay at least half the cost of single coverage for their employees in 2010. The maximum credit is 35 percent of premiums paid by eligible small business employers. The maximum credit goes to smaller employers – those with 10 or fewer full-time equivalent employees – paying annual average wages of \$25,000 or less.

The credit is completely phased out for employers that have 25 full-time employees (FTEs) or more or that pay average wages of \$50,000 per year or more. Because the eligibility rules are based in part on the number of FTEs, not the number of employees, businesses that use part-time help may qualify even if they employ more than 25 individuals.

### **Tax benefits for hiring unemployed workers**

Two new tax benefits are available to qualified employers who hire certain previously unemployed workers.

The first, available in 2010, is a payroll tax exemption. This benefit provides employers with an exemption from the employer's 6.2 percent share of Social Security tax on wages paid to qualifying employees, effective for wages paid from March 19, 2010, through Dec. 31, 2010.

In addition, for each qualified employee retained for at least 52 consecutive weeks, businesses will also be eligible for an income tax credit, referred to as the new hire retention credit, of 6.2 percent of wages paid to the qualified employee over the 52-week period, up to a maximum credit of \$1,000. Employers will first begin to qualify for this credit in 2011.

Each new employee must certify that he or she has not been employed for more than 40 hours during the 60-day period ending with the date employment begins. The qualified employee cannot be your relative and cannot have replaced another employee, unless the former employee separated from employment voluntarily or for cause. ■

# It's a jungle out there: Tips for improving your website

Would a hungry animal hang around on your website, or would it move on to somewhere more promising?

Recent studies have found that Web-browsing behavior compares to that of a foraging animal. When we browse the Web, we tend to :

- ◆ Prefer the easy catch over the one that takes hard work
- ◆ Stay in one place only as long as we sense we are getting “warmer” in our hunt
- ◆ Use highly developed instincts for maximizing the use of our time

In concrete terms, we scan websites, picking out words and phrases. We don't read large chunks of text word for word. If the information looks promising and isn't too difficult to get at, we will keep looking. If not, we are quick to move on to some of the other hundreds of thousands of available websites.

Our Web usage differs from that of print and television in that it is active and nonlinear. Television viewers and print readers follow the media's lead. They sit back and let the media construct their experience.

Web users, on the other hand, construct their own experience. They are ruthless in skipping what doesn't appeal to them, often jumping around frenetically.

You can use these insights to optimize the results from

your company website. Here are some suggestions.

## Showcase sample content on the homepage

Users are looking for a nutritious meal *and* an easy catch. They want good content that is easy to get at, and they will leave if either element is missing. Give them a sample of what you are serving right there on page one.

## Display search features

Users will leave your site even though you have good content if it is too confusing to access. Make your navigational and search tools easy to find and use.

## Use an 'F' pattern

Eye-tracking studies found that Web users tend to scan Web pages in an F-shaped pattern: They read first in two horizontal stripes across the top of the page and then in a vertical stripe down the left-hand side of the page.

This has several implications: Your first two paragraphs should carry the most important information. Start headings, subheadings, paragraphs, and bullet points with information-carrying words, not auxiliary words. For example, the heading

See [Tips for improving your website](#) on back



## Be sure to have your website edited

Appraise/apprise. Complement/compliment. Affect/effect.

English has many homonyms and near-homonyms that can trip us up in writing. You don't want the wrong ones showing up on your website. They glare “amateurish.”

Website content is often written by a subject-matter expert who is not a professional writer – for example, the VP of sales and marketing.

It might get reviewed by a colleague or two and run through spell check, but too often it is never seen by a trained editor or proofreader.

The problem is blind spots: Unless you are trained to spot them, there are probably some language errors and style issues that systematically slip past.

Here are some examples of common grammatical errors, none of which will get picked up by spell check:

- ◆ For all intensive purposes, we are going in a whole new direction.
- ◆ This will effect your bottom line.
- ◆ We have been waiting with baited breath for this new product to hit the market.
- ◆ This will peek their interest.
- ◆ Once you try our product, you will literally kick yourself for not buying it sooner.
- ◆ We heard your feedback, and we have made a 360-degree turn.
- ◆ The criticism is now a mute point.
- ◆ We could of made it more expensive, but we wanted to hold the price down.

Might any of the above have slipped past you if you didn't know in advance that they contained errors?

And we didn't even touch on errors of punctuation, capitalization, writing style, and so on.

When we are sick, we go to a doctor because we want the help of someone trained in medicine. When we are in a legal jam, we go to a licensed attorney because we are not experts at the law. But most of us think we can write, so we overlook the value of professional help in that process.

The point is that you can increase the professionalism of your website with a quick, inexpensive review of your content by someone who is trained in editing and proofreading professional copy. ■

## Five ways to trim text

Web copy should be about half the length of the same material on paper.

Reading from a computer screen is harder on the eyes and slower than reading from paper. People will not keep reading wordy content.

Here are a few tips for trimming text:

1. Think about the essence of your message. Delete nonessential information.
2. Get rid of words that don't change the meaning. Adjectives and adverbs are prime candidates.
3. Use active verbs and simple phrasing. For example, instead of “we are of the opinion that,” say “we believe.” Instead of “we would like to request,” say “please.”
4. Choose short words originating from Old English over their Latin-derived counterparts whenever possible. For example:

*Instead of:*                      *Choose:*

- ◆ compensate                  pay
- ◆ subsequently                after
- ◆ terminate                    end
- ◆ transparent                  clear

5. Put repeating categories of information into tables, as above. ■

## Tips for improving your website *continued from inside*

“Do you wish you could make better decisions?” is not as good as “Make better decisions.”

### Be sure descriptions accurately reflect content

Users want a clear trail to the information they are looking for. Slogans and catch phrases do not make good navigation aids. Plain language does. It also works best for search engine optimization, so choose words you think users will use in a search.

### Avoid marketing hyperbole

Users hate “marketese,” the promotional style of writing that makes vacuous claims like “state-of-the-art,” “cutting edge” or “best of breed.”

Not only do people recognize such language as vague and self-serving, but it places a cognitive burden on them. They have to expend time and effort to sort out the hype and get to the facts.

### Exude credibility

Not all sources of information on the Web are trustworthy. You can improve your credibility by providing a transparent, professional product. For example, use high-quality graphics,

good writing and outbound hypertext links. Links to other sites show that you know your subject area and are not afraid to let your readers see other sites.

### Use a lot of white space

People will not wade through a dense field of text on a website. You must break it up with plenty of white space. Create short paragraphs with space between them. Put text into columns rather than having it run the width of a computer screen. Use headings and bullet points liberally. Have some appropriate graphics.

“White space” is more than a figure of speech. Dark backgrounds reduce contrast for your text. Use a white or light-colored background that is easy on the eye.

If you incorporate these guidelines into your website design, you will stand out from most of your competition and will likely begin getting better results. ■



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