



Tax Alerts

Establishing Profit Motive

If you are thinking about turning your hobby into a business you should be aware that the IRS has rules that generally limit the deductibility of expenses and losses from a hobby or activity not engaged in for profit. If the IRS determines that an activity is not profit-driven, deductions from the activity are limited to the amount of income the activity generates. Losses from such activities cannot be used to offset other income, such as salary or investments.

You must be prepared to show that an activity that generates deductions is a business from which you intended to profit. It is not necessary that the activity

actually earn a profit, so long as a profit was one of the motives for participating in the activity.

The IRS has said that it will assume that an activity is carried on for profit if it makes a profit during at least three of the last five tax years, including the current year, or at least two of the last seven years for activities that consist primarily of breeding, showing, training or racing horses. Otherwise, the IRS applies non-exclusive tests and factors to the surrounding facts to judge whether activities are more like a business with a profit motive or are for personal satisfaction.

To make sure you are properly claiming all of the deductions available to you, and to strengthen your position in the event of an IRS audit, it is important to consider all the facts and circumstances surrounding activities the IRS is likely to challenge. Please contact our office so that we may to review your options for documenting such activities as a business to maximize your tax savings and reduce your risk on audit. ♦



2010 Vehicle Depreciation Limits

The IRS has issued the depreciation deduction limitations and lease inclusion amounts for auto mobiles, trucks and vans first purchased and used in 2010. Additionally, the IRS released the annual income inclusion amounts for vehicles first leased in 2010. The basic 2010 depreciation limits for passenger automobiles, trucks and vans are higher than the respective depreciation limits for 2009.

Passenger automobiles. The maximum depreciation limits for passenger automobiles first placed in service during the 2010 calendar year are:

- -- \$3,060 for the first tax year;
- -- \$4,900 for the second tax year;
- -- \$2,950 for the third tax year; and
- -- \$1,775 for each tax year thereafter.

Trucks and vans. The maximum depreciation limits for trucks and vans first placed in service during the 2010 calendar year are:

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- -- \$3,160 for the first tax year;
- -- \$5,100 for the second tax year;
- -- \$3,050 for the third tax year; and
- -- \$1,875 for each tax year thereafter.

Leases. Lease payments for vehicles used for business or investment purposes are deductible in proportion to the vehicle's business use. However, lessees must include a certain amount in income during the year the vehicle is leased to partially offset the amounts by which the lease payments exceed the luxury auto limits. The IRS has released tables that identify the income inclusion amounts for passenger automobiles, trucks and vans with lease terms beginning in 2010. These amounts can be found on the IRS's website, www.irs.gov, and in Revenue Procedure 2010-18. ♦

Benefits of 529 Plans

As a taxpayer with dependent children, you may be interested to know how 529 plans help families save for college. A 529 plan is an educational savings option that is operated by a state or educational institution, with tax advantages that make it easier to save for college and other post-secondary training for a designated beneficiary, such as a child or grandchild. These plans are also referred to as qualified tuition programs, tuition plans, or 529 programs.

Contributions to a plan are not deductible. However, the advantage of a 529 plan is that earnings are not subject to federal tax and generally not subject to state tax when used for the qualified education expenses of the beneficiary. Anyone can set up a 529 plan and name anyone as a beneficiary -- a relative, a friend, even oneself. There are no income restrictions on either you, as the contributor, or the beneficiary. There is also no limit as to the number of plans you can establish.

Contributions cannot exceed the amount necessary to provide for the qualified education expenses of the beneficiary. If you contribute to a 529 plan, however, be aware that there may be gift tax consequences if your contributions, plus any other gifts, exceed \$13,000 to a particular beneficiary during the year. There are no tax consequences if you change the beneficiary to another member of the family.

Qualified education expense includes tuition, fees, books, and room and board for students who attend school at least half-time. For 2009 and 2010, qualified education expense also includes the cost of any computer technology, related equipment and/or related services such as internet access.

A 529 plan may be a state plan or a private plan. A state plan is a program established and maintained by a state (or its agency), under which a contributor may either purchase tuition credits or certificates that entitle the beneficiary to a waiver of qualified higher education expense; or contribute to an investment account in which the contributions and earnings

are used to pay qualified education expense. A private plan can only offer prepaid educational contracts; it cannot offer investment accounts.

Although the beneficiary is generally not limited to attending schools in the state that sponsors their 529 plan, be sure to check with the plan before setting up an account. Your state's 529 plan may offer incentives to win your business, but the market is competitive and you may find another plan you like more. Be sure to compare the various features of different plans.

529 plans are not for everyone, and they are not the only option available for paying for college. This is an investment decision, which means that both the benefits and drawbacks must be considered, along with alternative ways of accomplishing the same thing. Please call our office for a consultation regarding 529 plans and educational savings options. ♦

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Quickbooks Corner

Set a closing date

Now that 2009 is over and you have finished the final year end reconciliations, it is a good idea to set a closing date to protect prior year data from inadvertently being changed. Setting the date with a password will prevent anyone without permission from changing, voiding or deleting entries dated prior to the closing date. You can set up the closing date with no password, which will cause Quickbooks to display a warning when a prior year entry is changed, but will allow the change.

- Choose Edit from the menu bar
- Choose Preferences
- Select Accounting
- Select the Company Preferences tab
- Click the Set Date / Password button ♦