COROMANDEL
WEALTH
MANAGEMENT

2010 Year-end Tax Report

December 8, 2010

As we write this report, the tax rules are still not completely finalized. Therefore, making decisions when it comes to year-end tax planning is more confusing for 2010 than in previous years. The good news is that it appears as though Congress is closing in on agreeing to extend the current tax rates for income, dividends and capital gains for another two years.

Coromandel Wealth Management remains constantly committed to tracking these changes and we will be available to provide you with current and updated information that can help with all of your financial planning needs.

This special report reviews a few of the new tax laws that have taken place in 2010 and how they work. In addition, this report addresses a number of the new tax law proposals that appear to be tentatively agreed upon as of the date of the writing of this report. It is important to note that every situation is different and that the strategies outlined may not be appropriate for all and should be discussed in full coordination with your tax preparer. As a comprehensive financial services firm, Coromandel Wealth Management is committed to helping our clients improve their long-term financial success.

Sincerely,
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Year-End Tax Moves for 2010

The goal of proper year-end planning is to produce the lowest tax bill using both the current year, 2010, and next year, 2011. Unfortunately, this year presented an unusual challenge. 2010 is certainly looking like it is going to go down in history—"Let's wait till the last minute to make final decisions on tax law changes." Many new tax laws were passed by congress when George W. Bush first came into office in 2001, and these represented a significant income tax reduction for most taxpayers. Unfortunately, most of these rules were temporary and scheduled to expire, or "sunset," 10 years later.

Over the past 10 years, income tax rates have steadily declined and 2010 is the final year of this tax relief. At the writing of this report, Congress appeared ready to pass new legislation to extend for another two years the lower income tax rates that took effect in 2001 and were scheduled to expire in 2011.

Without an extension of this tax legislation, changes would most likely have affected all taxpayers, but those in the higher brackets would have felt the biggest punch. Minimizing your tax bill requires a true balancing act between the changes in the tax rates, the final decisions by Congress, and the always unpredictable Alternative Minimum Tax (AMT). Whatever lawmakers decide could affect the moves you make now, such as accelerating income or selling stock for a gain or loss.

As mentioned several times in this report, it looks like there is finally a bit of good news – Congress is finally closing in on a deal that would extend current income-tax rates for all Americans as well as a benefits program for the long-term unemployed, leaders of both parties appeared optimistic recently about reaching an agreement on a broad tax package.

The tax package that is being discussed is a compromise that would be an extension of tax cuts for two years for all income levels in exchange for other provisions, including extending unemployment benefits that expired recently.

Although many details of these issues have not yet been finalized, it appears as though these new rules will hopefully be signed into law shortly.

Please note that we are talking about Federal Income tax rules and many states do not follow the Federal Income tax rules. Check with your tax preparer to see what the tax rates and rules are for your particular state.

Accelerate Deductible Expenses

Itemizers can easily shift many deductions:

State and local income taxes

Consider mailing your January 2011 estimated state tax payment in late December, which can allow you to claim the deduction this year.

Interest expense

Think about making your January 2011 mortgage payment on your residence before the end of this year, which enables you to deduct the interest portion in 2010.

Medical expenses

Consider getting and paying for elective procedures in 2010 if you are close to or have exceeded the 7.5% -of-adjusted-gross-income threshold.

Charitable donations

You can accelerate the contributions you planned to make during 2011 into 2010 as long as you charge them or mail checks by December 31, 2010. If possible, donate appreciated stock that you have owned for over a year. You get to deduct the full value and don't pay any tax on the appreciation.

If you sold the stock and donated the proceeds, the profit would be taxed. Don't donate any stock that has lost value. If you do, you can't claim the loss. In this case, sell the stock with the loss first, then donate the proceeds and take both the charitable contribution deduction and the capital loss.

Energy tax credits

Installing certain energy-saving devices qualifies you for the "residential energy credit"—30% of qualified expenses up to a maximum credit amount of $1,500 (reduced by any credit claimed for 2009).

College tuition

The Enhanced American Opportunity Credit for undergraduates expires at the end of 2010. Individuals with incomes up to $80,000 ($160,000 for married couples) who pay at least $4,000 in college tuition in 2010 can claim a tax credit of up to $2,500. If you haven't spent $4,000 yet, consider paying your student's tuition for Spring Semester by December 31st. 2010 is also the final year you can use funds from a 529 college-savings account tax free to purchase a computer, software or internet services for your student. You may want to also consider adding to a 529 plan. Many states allow deductions for certain contributions to such plans.

Tax breaks for small business owners

The Small Business Jobs Act was passed on September 27th. This new legislation provides many new tax breaks that can benefit small business owners, such as the ability to immediately write off up to $500,000 of qualifying assets, an increased maximum deduction for start-up expenditures, and a number of other various benefits. In addition, if your business buys a new passenger auto or light truck during 2010, the maximum first-year depreciation deduction has been increased by $8,000 for vehicles placed into service by December 31, 2010.

Capital Gains and Losses

This might be the last year to enjoy favorable capital gains rates. Individuals in the 10% and 15% brackets pay no Federal tax on long-term capital gains as long as they remain in those low brackets with the amount of capital gains included. In addition, consider selling appreciated assets in 2010 in order to recognize capital gains at the present maximum 15% tax rate if you are in a 25% or higher tax bracket. Long-term capital gains tax rates are scheduled to rise to 20% in 2011 and 23.8% in 2013.

Review your investments outside of your retirement accounts and see if any have *unrealized* losses, which means that you have a "paper loss." You might want to sell these assets and offset the capital losses against other capital gains. There is no limit on using capital losses to offset capital gains. Any net capital losses (after eliminating capital gains) can be used to offset up to $3,000 of ordinary income. Any remaining unused capital losses can be carried forward into future years.

If you own an investment that you believe is worthless, sell it to someone other than a related party for a small amount (e.g., $1) in order to substantiate that it is, in fact, worthless. The IRS often disallows a loss because they argue that the investment usually has at least *some* value.

Roth IRA Conversion

It may be a good idea to convert part or all of your traditional IRA to a Roth IRA in order to receive tax-free investment returns and escape minimum distribution requirements in the future. Why do it now? While conversions are subject to ordinary income tax, converting in 2010 allows you to choose whether to pay the entire tax bill in 2010 or have 50% of the conversion taxed in 2011 and the balance in 2012.

Another reason? It will increase your taxable income! This is good for those with financial difficulties who find themselves with negative taxable income. Since the tax on negative taxable income is zero and the tax on zero taxable income is also zero, it makes sense in this situation to try to increase your taxable income to at least zero. You can do a partial conversion, calculating the exact amount you would need to bring your taxable income up to zero. Plus, future distributions from your Roth IRA will be income tax-free!

Remember, you do not have to convert 100% of your IRA into a Roth; the amount usually depends on both your current income tax bracket and your estimated future tax bracket. If you do convert, you are allowed to change your mind and reverse the conversion (also known as recharacterization), but only one reversal per year. For example, if you find out later that your Roth IRA account value has dropped, you can reverse the conversion at a lower tax cost. In fact, you can recharacterize as late as October 15th, 2011.

Please keep in mind that a conversion to a Roth IRA may place you in a higher tax bracket than you are in now.

Roth IRA distributions taken prior to five years or age 59 ½, whichever occurs first, also may be subject to a 10% excise Federal income tax penalty.

The tax rules regarding Roth IRAs can be very complicated and confusing. Please call us if you would like to review these details in person.

Retirement Accounts

Contribute to your employer-sponsored retirement plan. The 2010 maximum deferral limit for qualified retirement plans is $16,500. If you are at least 50 by year-end, you can contribute an additional $5,500 to 401(k), 403(b), and 457 plans.

Take out your Required Minimum Distribution (RMD) before year-end. Congress suspended the RMD on traditional IRAs for 2009, but that was only for last year. Unfortunately, RMDs have now been reinstated for 2010. If you turned age 70 ½ in 2010, you must take out your first RMD by April 1, 2011. If you hit that special birth date before 2010, you have to take the disbursal by December 31, 2010, or else the scheduled RMD will be taxed at 50%!

It is still not clear whether retirees will be allowed to direct up to $100,000 of their RMD to charity this year. It is one of several expired tax breaks that Congress will hopefully reinstate for 2010.

If you face an estimated tax shortfall for 2010, have the extra tax withheld on the IRA distribution. Withheld taxes are treated as if you paid them evenly to the IRS throughout the year. This can make up for any previous underpayments, which could save you penalties.

Gifting Strategies

The annual gift tax exclusion remains at $13,000 for 2010. This is the maximum amount that one individual can give to another individual this year without having to report it to the IRS and file a gift tax return. This is a very important estate tax savings strategy for many people since the annual limit is for each recipient and not the giver—you can give up to $13,000 to as many different recipients as you like.

Please remember that gifts to medical or educational providers are not included in the $13,000 limit. In fact, there is no limit on qualified gifts made directly to the school or medical facility as long as the check is made payable to the institution.

In addition to this, married couples can give 2 times the annual amount, or $26,000 for 2010. It may be a wise move to make a gift before the end of the year depending on your circumstances. You may also make an additional gift on January 1, 2011; you do not have to wait 12 months between each gift. The gift only needs to be made in two different calendar years.

It can be smart to file a gift tax return for certain gifts, even when you are not legally required to. For example, if the value of the gift is less than the $13,000 annual exclusion, many people would not even bother to file a gift tax return. However, the IRS has only three years to challenge a gift's valuation if it is reported on a gift tax return. But if no return is filed, the IRS has forever to challenge the estimated value – they might argue the gift was worth more than $13,000 – perhaps even much more! This could apply to giving shares in your private business to a child, or gifts of real

estate or jewelry. An IRS challenge is especially likely to occur during an audit of the estate tax return of the gift maker – it may occur many years after a gift was made.

Determine which asset is best to gift. The recipient of a gift retains the same basis as the giver, but the recipient of an inherited asset usually receives a step-up in basis on the investment. Therefore, it is usually best to gift high-basis assets or cash, especially if the taxpayer is in poor health. In most cases it is best not to gift low-basis assets because gifted assets will not receive a step-up in basis when the taxpayer passes.

In addition to this, it is best not to gift assets with unrealized losses. In most cases it is best to sell the asset with the loss first, take the deduction, and then gift the proceeds.

Before making sizable gifts to children or other family members, keep in mind that these gifts may backfire in some cases. Gifts can make a student ineligible for college financial aid, for example, or the earnings from the gift could make a senior's Social Security benefits subject to new or increased tax.

Summary

We encourage you to meet with your tax preparer to prepare an income tax projection for 2010 and possibly for the years beyond as well. Please do not hesitate to contact us if you would like more details or would like to schedule a tax planning strategy session. We look forward to hearing from you soon!

About Coromandel Wealth Management

Coromandel Wealth Management is a Lexington, MA financial advisory and investment firm that offers a full range of financial planning and investment advisory services. We provide individuals and families with objective advice, customized financial plans, and investment portfolios that enable them to meet their lifetime goals.

Advisory services offered by Trust Advisory Group, Ltd., a Registered Investment Advisor.
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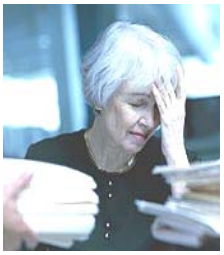


Are You a Candidate for a Tax Headache?

Does your investment professional look at your tax return? Having the wrong financial advisor can potentially end up causing you a huge headache. If you are not sure whether you have the right financial advisor, please take this quick test.

Here are 3 Quick Questions to Ask Yourself…

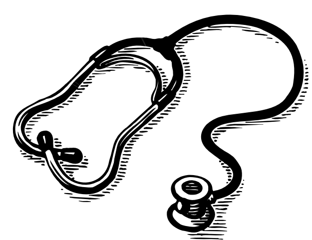
1. Does your investment professional review your tax forms annually? **YES** **NO**
2. Does your tax investment professional offer you a report on the steps investors can take to reduce their taxes? **YES** **NO**
3. Does your investment professional discuss investment and tax strategies with you? **YES** **NO**

If you answered NO any of these questions, then you may not be maximizing your tax strategies and you could be a candidate for a *TAX HEADACHE*!

For headache relief, call us at: (781) 728-9001.

Complimentary Financial Check-up

If you are not currently a client of Coromandel Wealth Management, we would like to offer you a **complimentary financial check-up**. We pride ourselves on providing prompt, personal and highly professional services. The firm is committed to meeting its clients' financial needs now and in the future.



Coromandel Wealth Management would like to offer you a **complimentary, one-hour, private consultation at absolutely no cost or obligation to you.** To schedule your financial check-up, please call George Gagliardi at: (781) 728-9001.