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Welcome! The tax relief act is now in effect. That's good news as you begin to work on your 2010 taxes and plan for 2011. Below are some highlights that will make a difference in your bottom line.

The new year gives you many opportunities to improve your finances. Here's to a great 2011! We're here to help you stay *On Course*.

-Jennifer Lane, CFP

What the Tax Relief Act Means for You

Check below to see how the tax relief act might help you.

Tax Brackets

- The 2010 tax brackets are extended through 2012.
- The 10 percent, 25 percent, 28 percent, 33 percent, and 35 percent brackets will remain through the end of 2012.
- Treat this as a tax break! If you're not maxing your 401(k) or putting money in savings, add the 4 percent that you're saving in taxes to your emergency fund or your 401(k).

Personal Exemptions and Itemized Deductions

- The rules that phase out Personal Exemptions and Itemized Deductions because of income are gone through 2012.

Extending capital gains and dividend rates

- Capital gains and dividend rates will stay at 10 percent or 15 percent, depending on your income, through 2012.
- If you're in the 10 percent bracket, you will pay zero percent capital gains, and dividends will continue to be taxed at the lower dividend tax rate – a savings for investors with money outside their 401(k)s.
- This is the perfect reason to keep dividend-paying stocks in your taxable investment accounts rather than your IRA.

Payroll Taxes

- With a temporary reduction in employee-paid payroll taxes, your take-home pay will increase by 2 percent.
- If you are not already maxing out your 401(k), this is the perfect opportunity to increase your 401(k) contributions by 2 percent.
- If you are maxing out your 401(k), then increase the amount that you're putting into savings by 2 percent.

Student Loans

- The student loan interest above-the-line deduction will continue through 2012.
- This deduction is for interest expenses up to \$2,500.
- There is a phase out for taxpayers with incomes between \$55,000 and \$70,000 or \$110,000 and \$140,000 for joint filers.
- The temporary expansion eliminates the 60-month limit on the deduction.

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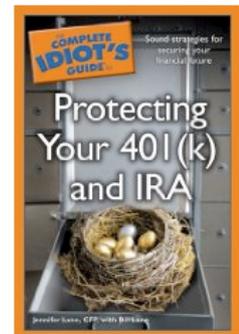
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Jennifer's Hint

To save taxes, reorganize your accounts to be as tax-efficient as you can and then make withdrawals from the accounts that are already generating taxable income.

Get more tips in Jennifer's book



(click here for link)

Helpful Websites

IRS website

Tax Benefits for Education

VERTEX42 - debt reduction calculators

Tuition Expenses

- The bill also extends for two years the above-the-line deduction for qualified tuition and related expenses.
- If you have a student in school, you can continue to deduct up to \$2,500 for qualified tuition and related expenses (see [Publication 970](#) for details).



Alternative Minimum Tax

- The relief patch is now renewed for two years.
- The proposal increases the exemption amounts for 2010 to \$47,550 per individual and \$72,450 for married filing jointly.
- Then in 2011, it increases slightly to \$48,450 per individual and \$74,450 for those married filing jointly.

Estate Tax

- The temporary estate relief in the bill means that for federal tax returns, the exemption per person is \$5 million.
- The top tax rate for estate, gift, and generation-skipping transfer taxes for the next two years will be 35 percent.
- Click [here](#) to check on your state's taxes.

Unemployment Benefits

- Benefits will be continuing for one year.
- So, even if you think you've phased out of your unemployment, you should check back with the Department of Employment Insurance to see whether or not you're eligible for more benefits.

Adoption Tax Credit

- An extension of the increased adoption tax credit through 2012 means that the EGTRRA increased the credit for qualifying adoption expenses from \$5,000 to \$10,000.
- Also, employer assistance of up to \$10,000 can be excluded from income.

Q&A

Q: I want to work this year to clear my credit card debt. How do I decide which card to start with?

-- Ellen from Natick

A: Ellen, great way to begin 2011! Here are my suggestions:

- Use Google to search "debt stacker" or "debt snowball" to learn about this recommended way to pay off credit card and loan debt.
- With debt snowballing, you will pay off your smallest balance first while paying the minimum balance on all your other cards. [Vertex42](#) offers free calculators that you can download.
- Once you have paid off your first card, you'll take the amount you paid and add it to the minimum amount you have been paying on the next lowest balance.
- The cumulative effect on your payment snowballs as you reduce your debt!

What's New

- *Jennifer's Compass*. Jennifer recently spoke with NECN on digital legacy – what happens to all your websites, photos, and online information after you're gone. Click [here](#) to watch the video on her blog.
- Jennifer is now appearing on NECN every other Monday morning at 9:30 am in addition to her Tuesday 5:00 pm and 6:30 pm appearances.
- Jennifer was named a 2011 [FIVE STAR Wealth Manager](#). She scored highest in overall client satisfaction, making her part of a very select top seven percent of wealth managers in the greater Boston area.

Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our **fee-only, client-centered approach** provides education and guidance for achieving financial goals and dreams.

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