THE NEW JERSEY FISCAL 2011 BUDGET

By Peter Pfister, CPA and Kimberly Melski, CPA

The New Jersey State Legislature and Governor Christie approved the fiscal year 2011 budget on June 29, 2010.

While the budget avoids any tax increases as was the governor's goal at the state level, there have been significant funding cuts, credit eliminations or decreases and discontinuation of services. A few examples are as follows:

- Significant cuts in school and municipal aid from the state.
- Cuts in higher education funding and adjusting the NJ STARS program to allow **only** tuition to be funded.
- The property tax rebate program has been eliminated and will be replaced with a quarterly tax credit applied directly to the tax bill. This is set to begin in May 2011.
- The earned income credit has been decreased from 25% of the federal credit to 20% of the federal credit.
- Eliminating motor vehicle safety inspections and extending emissions inspections to five years for new vehicles.
- There will be reduced tax credits for biotechnology and emerging technology companies and elimination of credits for film production companies.

Business filing fees were not increased which would have raised $5 million. However, changes to the state's abandoned property laws are included in the approved budget. These changes allow the state to reclaim unused gift card balances and unused travelers checks and money orders within shorter timeframes, two years for gift cards and three years for money orders and travelers checks. These changes are estimated to raise $79.6 million.

One of the most debated items missing from the budget is the continuance of the millionaires tax which was vetoed by the Governor and failed to get the two-thirds Assembly votes necessary to override the veto. The tax was a one year tax increase passed by the Corzine administration for 2009. Income tax rates for those with taxable income over $400,000 were affected. The following table breaks down the rates:

Taxable Income	2009	2010
>$1,000,000	10.75%	8.97%
$500,000-$1,000,000	10.25%	8.97%
$400,000- $500,000	8.00%	6.37%

One interesting budget proposal was to lift the "Blue laws" that restrict shopping on Sundays in Bergen County. The proposal was defeated although it was estimated to raise $65 million in additional sales tax revenue. Instead, according to the State Treasurer Andrew Sidamon-Eristoff these funds would be replaced by better audits and enforcement by a restaffed and rebuilt Division of Taxation.

The 4% corporation business surtax was not renewed. The surtax began effective July 1, 2006 and was originally set to expire at June 30, 2009, however, it was extended an additional year. The surtax will not apply for tax years ending after June 30, 2010.

If you should have questions regarding any budget related items please do not hesitate to contact us.

ESTATE PLANNING DURING ECONOMIC TURMOIL

By Lynn A. Conover, CPA

On May 12, 2010, I presented a seminar on a number of estate planning issues during the economic turmoil we face today. The first issue we discussed was the Roth IRA conversion rules and how they impact you. Beginning in 2010, taxpayers can convert their traditional IRAs to a Roth IRA regardless of their modified adjusted gross income or tax filing status. For 2010 conversions only, half of the taxable conversion will be includable in 2011 income and the other half of the taxable conversion will be includable in 2012. You can, however, elect to tax all of the taxable conversion in 2010. Even though everyone can convert a traditional IRA to a Roth IRA, not everyone can make an annual contribution to a Roth IRA. Contributions to Roth IRAs still are prohibited if a taxpayer's Modified Adjusted Gross Income exceeds specified amounts. We discussed the benefits of Roth IRAs as well as the advantages and disadvantages of converting to Roth IRAs. The attendees of the seminar learned that Roth conversions are not for everyone. Certain taxpayers with specific conditions will benefit most from Roth conversions.

The next topic we discussed was the state of the federal estate tax. As you may know, when the 2001 estate tax reform bill was passed, it called for the estate tax to be repealed for one year only in 2010. Many estate planning advisors believed that Congress would act before 2010 to avoid the repeal. Unfortunately, that never happened and today there is no federal estate tax for decedents passing away in 2010. What does this mean? The attendees of the seminar learned that assets of a decedent's estate in 2010 will generally not receive a stepped up basis. Instead there will be a modified carryover basis, where an executor can choose to increase the basis of inherited property by a total of $1.3 million plus an additional $3 million for property passing to a surviving spouse. The modified carryover basis means that, essentially, the estate tax has been replaced with a capital gains tax on the heirs of an estate. As the 2010 clock ticks away, it is highly unlikely there will be a retroactive reinstatement of the federal estate tax. I recommended that taxpayers should review their current estate planning documents with their advisors to ensure the division of assets to beneficiaries will take place as intended in light of the current year's estate tax changes. Proper wording of estate planning documents by legal representatives is key in these changing times.

During the seminar, I also discussed why gifting makes sense in 2010. First of all, values of gifted assets are lower and potentially reduce or eliminate the gift tax on their transfer. Future appreciation on those assets is also removed from the taxable estate. Gifts made in excess of the $1 million lifetime exemption are taxed at 35% which is lower than the subsequent years to come. In 2010, assets can be transferred to grandchildren free of generation skipping tax since that too has been repealed for 2010 only.

Last but not least we discussed estate planning through economic turmoil. The audience learned that the dramatic changes that have occurred in our economy can affect their estate planning done in previous years. Asset and housing values have declined dramatically. Many jobs have been lost. In consideration of low asset values, now is the best time to gift assets when the values are low. Taxpayers should utilize the simple annual gift of $13,000. Wills should be reviewed in light of current economic changes as the dramatic stock market and real estate declines may have wreaked havoc with previous estate plans. Previous plans which assumed a surviving spouse would have adequate resources may no longer apply. Balances of assets between spouses that were once equal may not be so today. Specific bequests among heirs that were once considered equitable should be reviewed as they may no longer be so in light of declined values. Conversely to what I previously indicated, previously instituted gifting programs may have to be reduced or curtailed in light of the declining values. Perhaps retirement assets have declined to a point that would cause gifts to be deferred. The audience was asked to consider if a gift program should be continued to meet personal objectives or should it be curtailed in the absence of a tax benefit? Heirs who are used to receiving annual gifts from parents may have been affected by recent economic downturns. These parental gifts become essential. In this case the economic position of the parent is secondary.

As you can see, the audience received a plethora of information regarding recent estate planning developments on the evening of May 12, 2010. For further information on these topics please call our office today to make an appointment to discuss your specific estate planning concerns.

FEATURED EMPLOYEE

Based on his math scores on the SAT exam, Anthony Turano knew that he might someday make a good accountant. But it was during a college internship that Anthony chose accounting as his career. He knew that it would be a bright one.

Anthony joined Curchin as his first job out of college. It was exactly the experience he was looking for, a firm with a close-knit family-like atmosphere, yet it was large enough to provide variety in his work and opportunity for growth.

Currently, Anthony is pursuing his CPA license. In his spare time, he enjoys playing indoor roller hockey and golf.

"At The Curchin Group," Anthony says, "I get to experience a little of everything - audit, tax and even valuation." He works best this way. He says that the job stays fresh and there is always a unique challenge.

Join The Curchin Group at the Fifth Annual Curchin Open

The Curchin Group's Fifth Annual Curchin Open, a nine-hole miniature golf tournament for charity will take place indoors at Curchin's Red Bank office on November 3, 2010 from 4:00 to 7:00 p.m. Player fees are $20.00 per person, which includes one round of golf, food and beverages. Teams of 4 can sign up for the $100 per team Foursome Challenge (includes four Fantasy Golf scratch-off cards). Winner of the challenge competition wins a lunch for 10 from Readies Caterers!

Two local nonprofit organizations will benefit from all proceeds of the Fifth Annual Curchin Open: 180 Turning Lives Around, a nonprofit organization dedicated to ending domestic violence; and the Monmouth County Historical Association. For further information about sponsoring the Fifth Annual Curchin Open, please contact Peter Pfister at ppfister@curchin.com or at 732.747.0500, or visit the Curchin Web site at www.curchin.com.

New Small Business Solution Outsourced Accounting & Bookkeeping

Now, more than ever, small business owners need to focus on their core business operations and make solid decisions based on accurate financial information and advice. Curchin's Outsourced Accounting & Bookkeeping Solution proactively manages the financial, accounting and/or bookkeeping function for companies that either do not want or do not have the in-house resources. If you are spending valuable hours each month trying to reconcile your books and/or run financial statements, let us assume that role and free up your time to move your business forward. We can customize an Accounting & Bookkeeping package that's cost effective and just right for your business. Some of the Outsourced Accounting & Bookkeeping services that we provide include:

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Preparation of financial statements
Payroll / sales tax
Fixed asset / depreciation
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Management reports
Disaster recovery
Controllership

Bookkeeping

Computerized general ledger set up
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Save Time! Save Money! Get Informed!

Contact Peter Pfister for an exploratory consultation at ppfister@curchin.com or at 732.747.0500.

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Celebrating over 50 years in Monmouth County, New Jersey, The Curchin Group helps small to mid-sized businesses and individuals reach their financial goals through providing a broad range of Assurance; Tax; Financial Planning; and Business Advisory Services. The firm is dedicated to giving solid financial advice, sustaining long-term relationships with its clients and employees and giving back to the surrounding community. For more information about Curchin, please contact Bob Fouratt at 732.747.0500 or bfouratt@curchin.com

From left to right: Lynn Conover; Dave Ferullo; Peter Pfister; Bob Fouratt; Carolyn Kvalo.

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