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2011 Tax Newsletter

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Congress has enacted a number of information reporting requirements to enhance tax filing accuracy. Beginning in 2011, individuals who receive rental income from rental property are required to file information returns with the IRS for annual payments $600 or more for rental property expenses. A copy of the From 1099 must be sent to the provider of services. Investment brokers are required to report the cost basis of securities acquired and sold after 2010.

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Dear Clients and Friends,

Happy New Year! We wish you have a very successful and prosperous 2011.

Uncertainty is the only word that described last year's position of tax laws. 2010 Tax Relief Act passed on December 17th extended the expiring tax cuts signed by President Bush. Since these changes were made so late in the year, IRS is not ready and so many taxpayers will not be able to file their returns till mid to late February. President Obama wants to simplify the tax code and reduce the corporate tax rates. Individuals and small businesses have been given so many tax breaks with new legislations passed in September and December last year. Planning is difficult when the rules are in a constant state of flux, but there are actions you can take to manage your tax bill. So as your trusted advisors we will try our best to avail you of every tax saving opportunity that you are entitled to.

There were several laws passed last year to name few which has larger tax impact are Tax Relief Act, Hiring Incentives to Restore Employment (HIRE) Act, Patient Protection and Affordable Care Act and Small Business Jobs Act. The following is the list of some of the new tax provisions that will affect individuals and small businesses.

- For 2010 and 2011, new law increased the **Code Sec. 179** expensing dollar limits to $500,000 and phase out investment limits to $2 million which expanded the availability of this provision to many more businesses. Businesses have enhanced planning opportunities for Code Sec. 179 expensing with regards to certain improvements. Taxpayers may also elect to treat up to $250,000 of qualified real property as §179 property.

- **Bonus depreciation** is enhanced and extended through December 31, 2012. 100% first-year depreciation is available for qualified assets. Bonus depreciation provision is by far the most expensive single tax break in the bill, weighing in at $5.4 billion over 10 years, but carrying an initial cost of $29.5 billion in its first two years because of accelerated depreciation that would otherwise be deducted in later years.

- For 2011 employee portion of payroll tax has been reduced by 2%.

- Phaseouts on exemptions and itemized deductions are eliminated through 2012.

- Lower tax rates for long term capital gains and qualified dividends have been extended through 2012.

- New law temporarily increased the **Code Sec. 1202** percentage exclusion for qualified small business stock sold by an individual from 50% to 75 or 100% for stock acquired after February 17, 2009 and before January 1, 2012, and held for more than five years.

- Usually, **general business credits** can't offset AMT but new law removes this restriction for an "eligible small business" and permits carry back of general business credits for five years.

- Normally **self -employed** individual can take a deduction for **health insurance** costs paid for the individual and his or her immediate family for income tax purposes. However, in determining the self-employment income subject to self-employment taxes, the self-employed individual cannot deduct any health insurance costs. Under the new law, the deduction for income tax purposes for the cost of health insurance is allowed in calculating net earnings from self-employment for purposes of self-employment taxes.

- New **health care credit** is available up to 35% of eligible premiums a small business pays towards employees' health insurance. The full credit is available to a small business having ten or fewer workers who earn average annual wages of $ 25,000 or less.

- From the beginning of 2010, anyone can now convert a traditional IRA to a Roth since the income limits on the **Roth conversions** disappear. You will have to pay taxes on the previously untaxed amounts you convert. For the amount converted in 2010, taxpayers can make an election to recognize half the income in 2011 and the remainder in 2012.

- Two new benefits were offered for hiring unemployed workers. First, for 2010 a **payroll tax exemption** from employer share of social security tax on wages paid to new hires through December 31. Second, for 2011 **new hire retention credit** up to $1,000 for the qualifying employees who were paid wages for a 52 consecutive week period.

- **Standard mileage rate** for business miles driven in 2010 is 50 cents and 2011 is 51 cents. To claim the business miles you must maintain mileage log with date, destination, purpose and total miles.

Effective tax planning requires a long term strategy, periodic reviews and frequent adjustments. We can help you keep your taxes as low as the law allows, call now for a review of your tax situation.

NOTE: This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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