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It takes a scorecard to keep track of the changes and timing of many tax provisions. Here is an overview of some of the most important items affecting your taxes.

Individuals

What's New

Returns are due on April 17th this year due since Monday the 16th is a D.C. holiday. Standard deduction for Married Filing Joint is \$11,600, Single \$5,800 (additional amounts if over 65 or blind). Personal exemption for 2011 is \$3,700. If your income is less than the standard deduction plus exemption allowances, you do not need to file a federal return (of course if you had withholdings, you'd want to file).

Reporting Capital Gains and Losses

Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, now includes a box to show cost basis of stock or mutual fund shares sold or exchanged during the year. Also, the gain or loss will be designated as long-term or short-term. This is only required for stock or mutual funds both purchased and sold in 2011. To accommodate the new reporting, new form 8949 will have to be completed, with totals transferred to the re-designed schedule D.

The IRS is, of course, also getting a copy of form 1099-B, and for securities purchased in 2011 and sold, they will now know the cost basis and whether the transaction was short-term or long-term.

Do not be concerned about investments in an IRA or other tax qualified accounts. Gains and losses in these accounts have no current impact on your taxes.

Rates

The so-called "Bush tax cuts" from 2001, originally scheduled to expire in 2010, were extended for two years through 2012 by the Tax Relief Act of 2010. Assuming no further extension, rates and brackets will go up on 1/1/2013 for all levels of income. This applies to rates on ordinary income (current rates range from 10-35%, next year scheduled to revert to 15-39.6%) as well as capital gains (current rates of 0% and 15% will increase next year). Qualifying dividends, currently taxed like capital gains, are scheduled to revert to ordinary income taxation in 2012.

Note that trade date determines which tax year transactions are reported in – not settlement date. The favorable capital gains rates only apply to long-term capital gains, i.e. capital assets held for longer than one year. When selling to recognize a capital loss, don't run afoul of the wash-sale rules. A wash-sale occurs if you repurchase substantially identical assets within the 61-day period beginning 30 days prior to your loss sale and ending 30 days after the sale. Such re-purchase will wipe out any loss you had (loss added to basis of new stock).

The Tax Relief Act also:

- extended the marriage penalty relief (mostly via the tax-bracket changes)
- extended the \$1,000 child tax credit (was scheduled to revert to \$500)
- expanded the earned income credit for lower income taxpayers
- liberalized the child and dependent care credit rules (max credit \$1,050 (35% x \$3000) for one qualifying individual, and \$2,100 (35% x \$6,000) for two or more) although the percentage is reduced in steps to 20% at higher levels of income
- and extended the American Opportunity Credit.

For 2011, the Social Security wage tax on employees was reduced by 2% (self-employed also get this benefit on their schedule SE). (This reduction replaced the former "making work pay" credit of \$600.) After a long

battle, Congress extended this 2% "tax holiday" through February 29, 2012. Stay tuned. They'll be fighting about this one again soon. (And even though contributions to Social Security were reduced, there was no commensurate reduction in benefits, so this giveback will lead to a larger deficit.)

IRAs

If you converted to a Roth IRA in 2010 and elected to not report the income that year, half of the income must be reported in 2011, and half in 2012.

AMT

The AMT exemption, which keeps millions of taxpayers from being snared by this stealth tax, was extended through 2012. The exemption amounts by filing status: MF Joint...\$74,450, Singles...\$48,450.

The 2010 Tax Relief Act also extended the 0 and 15% capital gain rates for the AMT through 2012, as well as some non-refundable personal credits, but only through 2011.

Kiddie Tax

Beware of the kiddie tax. Children are taxed at parents' tax rate on unearned income over a threshold amount (for 2011, \$1,900). Either the parent must include the child's income on their return, or the child attaches form 8615 to their return.

Education

- American Opportunity Credit (formerly "Hope Credit") and Lifetime Learning Credit still available.
- Tuition deduction extended through 2011: \$4,000 maximum (phase-out range MF Joint \$130k-\$160k, Single \$65k-\$80k).
- The \$2,000 contribution limit and other enhancements to Coverdell ESAs (Education Savings Accounts) were extended through 2012.
- Student Loan interest up to \$2,500 still deductible (this deduction phases out at various Adjusted Gross Income levels: MF Joint \$120k-\$150k, Single/HOH \$60k-\$75k.) But after 2012, this deduction reverts to an older law under which only the first 60 months of repayment generate a tax deduction.
- Teachers special above the line deduction of \$250 for out-of-pocket classroom related expenses.

Energy Saving Improvements

The rules are stricter and the benefits smaller, but you may still qualify for up to a \$500 credit.

Foreign Financial Assets

For taxpayers with foreign financial assets, new Form 8938 may need to be included with their return. This is in addition to the Foreign Bank Account Report (FBAR) due to the Treasury Dept. on June 30.

Looking ahead to 2012

The Social Security wage base for 2012 is \$110,100 (in 2011 it was \$106,800). The 6.2% rate is lowered to 4.2% through February 29, 2012. Medicare tax is assessed on all wages at 1.45%.

Get ready for 2013

- High earners will pay additional Medicare tax of .9% on wages or self-employment income (currently employer and employee pay 2.9%; this brings the total Medicare tax on earned income to 3.8%
- High-income individuals will pay a 3.8% Medicare surtax on unearned income
- Expiration of 2001 "Bush Tax Cuts"
- Threshold for medical expense deductions will increase from 7.5% to 10%
- Personal exemption phase-outs and itemized deduction reductions for high income taxpayers are re-instated

Health Care Tax Provisions

Although most of the provisions will take effect in later years, the health care reform legislation passed in 2010 contained some provisions that were effective in 2011:

New info on employees' forms W-2 (in box 12; optional for 2011, no tax effect for employee)

Non-prescription drugs no longer reimbursable from Health Savings Accounts (HSAs), FSAs or health reimbursement arrangements.

Additional tax on non-qualified distributions from a HSA or Archer MSA increased to 20% (was 10% for HSAs and 15% for MSAs).

Other Potential tax savings

- IRA contributions
- Installment sales
- Real estate losses (subject to passive activity rules)
- Some states (including PA) allow current year deduction for contributions to 529 plans
- Adoption costs (no expenditures required for special-needs children)
- Contributions of appreciated property (deduct FMV and avoid taxes on the gain that would have been recognized if you sold it and donated the proceeds).
- Contributions to Health Savings Accounts
- Fuel cell or electric vehicles

Business

- Standard mileage rate for 2011: 51 cents until June 30, 55½ cents thereafter
- 50% bonus depreciation allowance through 2012 (but section 179 may be more beneficial, which allows 100% depreciation of assets up to \$500k, reduced if total investments exceed \$2M).
- Self-employment tax rate dropped from 15.3% to 13.3% for 2011, but a provision for 2010 that allowed self-employed to deduct health insurance premiums from SE income for purposes of SE tax was not extended for 2011.
- Payment settlement entities (mostly those that process credit/debit card transactions) are required beginning in 2011 to report income to merchants or sellers. These payments will be reported on form 1099-K. So income from payments made via credit/debit cards are being separately reported to the IRS. If your business makes payments using credit cards as well as company checks, you'll need to deduct the credit/debit card payments (since the processor is reporting these) from the total payments before preparing your forms 1099.
- New questions on schedule C (where sole proprietors report their business earnings) ask about whether the business is required to file form 1099 and whether the forms were filed. In general, payments of \$600 or more made for services or rents to non-corporate taxpayers trigger a 1099-MISC reporting requirement.