

Accountability

Important Issues for Individuals and Small Businesses



Summer 2011

President's Message

Summer has finally arrived and I hope you are all taking some time to enjoy this beautiful weather! I plan to because it's beginning to look like this might be another tax season filled with change.

In this issue of Accountability, we have outlined a few changes as they stand currently. Some of these changes take effect on July 1, 2011 – so read carefully.

With the debt ceiling issue at stake right now there is sure to be even more changes on the horizon. We'll keep you up-to-date, but feel free to contact us with any questions that you may have.

Enjoy your summer!

Julie A Huth

This newsletter will include updates and general information that is important to individual taxpayers and small businesses on both the federal and state levels. President Obama's "Tax Relief Act" extended most of the tax cuts from the Bush and O'Bara Administrations, but it is important to know what was extended and what is no longer available.

Discontinued federal tax cuts for individuals in 2011:

- **Energy Credit:** the energy credit is still available, but in it's pre 2009 form. This means that there are credits for solar, fuel cell and wind energy but not for all other energy-saving home improvements.
- **Additional standard deduction for state and local real property tax:** this allowed taxpayers who did not itemize their real estate property taxes to add them onto their standard deduction
- **Motor Vehicle Sales tax:** this was allowed in addition to state income tax when itemizing deductions
- **First-time Homebuyers Credit**
- **\$250 Social Security Payment to Seniors**

Continued federal tax benefits for individuals in 2011:

- **Extension of current tax rates**
- **Maximum rate of long-term capital gains and qualifying dividends is 15%**
- **Alternative Minimum Tax (AMT) patch**
- **American Opportunity Tax Credit for qualified taxpayers paying college tuition**
- **Higher Education Tuition Deduction**
- **Teacher's Classroom Expense Deduction**
- **Deduction of state and local sales tax instead of state and local income tax depending on which is the highest**
- **Self employed individuals can deduct the cost of self-employed health insurance in calculating net earnings for self-employment tax (Schedule SE for social security & Medicare)**
- **Child Tax Credit is \$1000 per qualified child**

New for 2011 in Wisconsin: The estate tax for deaths occurring in 2011 and 2012 is zero – the estate tax does not currently exist in Wisconsin. Federal estate tax is

imposed on estates valued over \$5,000,000. However, an estate could have an **income tax** return to file even if an estate return is not required.

Here's an important change in **Wisconsin**--starting in 2011, **health savings accounts (HSAs)** will be treated the same as federal. This means a deduction from adjusted gross income (AGI) will be allowed for contributions to HSAs. Until now, the deduction from the federal return was added back for Wisconsin income purposes. In addition, the amount contributed to HSAs by an employer is not taxable to the employee; interest earned in the account is tax free; and amounts distributed are not taxed if used for medical expenses. Rollovers to HSAs from Archer medical savings or qualified distributions from a flexible spending account are not included in taxable income. If the money from the account is not used for qualified medical expenses, there is a 20% tax on the distribution for federal purposes and the WI penalty is 33% of the federal tax penalty.

Broker Basis Reporting Required

Starting in 2011, for stock acquired on or after January 1, 2011, stockbrokers must report the "adjusted basis and type of gain for most stock". This does not include mutual funds or dividends reinvestment plans, but those must be reported starting January 1, 2012. Other securities and options are required to report starting January 1, 2013.

Small Business Updates

1099-Information Reporting

In April, Congress **repealed** the *expanded* business information reporting requirements. This means that the rules return to their original requirements - businesses and landlords must issue 1099's to service providers to whom they paid \$600 or more. Payments to corporations are exempt with the exception of attorneys and medical or health services.

Worker Classification

Businesses issue 1099's to subcontractors who perform services for them. The IRS launched a national research study of employment taxes because they are aware that many businesses look to classify workers as independent contractors to avoid payroll taxes and benefits. There is a push to have Congress revise the rules governing worker classification to give the IRS more tools to reclassify subcontractors as employees. Businesses should make sure that subcontractors meet the requirements or the IRS may reclassify workers

and demand payroll taxes. Please call us if you have any questions about the requirements.

FUTA Tax is Decreasing

Federal Unemployment Tax (FUTA) is decreasing to .6% beginning July 1, 2011. The decrease is because the FUTA surtax was not renewed.

The FUTA rate has actually been 6.2% with a credit of 5.4% for timely state contributions made, bringing the net FUTA rate down to .8% before the .2% decrease.

Wages up to \$7000 are subject to FUTA. If an employee earned \$7000 before July 1, then the .8% rate applied. For new employees or those who still have wages under \$7000 after July 1 - the .6% rate applies. Form 940, filed annually, will report and reconcile the different rates applied.

W-2 Value of Health Insurance Reporting

In **2012**, employers with over 249 employees must report the value of health insurance on their employees W-2's. This is informational and not part of taxable income. For 2011 W-2's, qualified employers can choose to provide this information but it is not mandatory. This information will become part of the W-3 filed with the Social Security Administration. Currently, "interim guidance" is available on how to report this information for 2011.

Updated rates for 2011 Tax Preparation

Mileage Rates per mile:

Business	.....	51.0 cents	Jan 1-June 30
	.....	55.5 cents	July 1-Dec 31
Medical	.....	19.0 cents	Jan 1-June 30
	....	23.5 cents	July 1-Dec 31
Charity	.....	14.0 cents	Jan 1-Dec 31
Moving	.....	19.0 cents	Jan 1-June 30
	.....	23.5 cents	July 1-Dec 31

IRA	.....	\$5,000	+\$1000 over 50
Simple	.....	\$11,500	+\$2500 over 50
401K	.....	\$16,500	+\$5000 over 50

HSA Maximum Contribution **Individual \$3050**
Maximum Contribution **Family \$6150**

Social Security: Income subject to Social Security will be \$106,800

Medicare: Unlimited income (same as previous year)

Please contact us with any of your questions, we would be happy to help you in any way that we can.