

2011 Tax Law Update:

As you can imagine, there are many tax law changes which came into effect during 2011. I have listed some of the one that I believe our clients will be the most interested in. If you should have any specific questions, please feel free to call me at our office.

Individuals:

Personal Exemptions: The personal exemption that taxpayers may claim on their tax return for themselves and each dependent is \$3,700.

Standard Deduction: For those taxpayers who are unable to itemize on their tax return (Schedule A), the IRS standard deduction is \$11,600 (Married), \$5,800 (Single) and \$8,500 (Head of Household).

IRS Warns Taxpayers about Phony Emails: The IRS doesn't contact taxpayers by email to alert them of a pending tax refund. Do not respond to these types of e-mails.

Child Tax Credit: (Same) Those taxpayers with dependent children under the age of 17 as of 12/31/11 will be eligible for a credit of up to \$1,000 per child. This credit is scheduled to expire in 2012.

Educator's Credit: (Same) The credit for teachers' supplies remains the same as last year \$250.

Student Loan Interest: (Same) The deduction for student loan interest for 2011 will remain the same, up to \$2,500 with certain phase out limits for higher income taxpayers.

Education Credit: (Same) Taxpayers and their dependent children may be eligible for up to a \$2,500 credit on their taxes for post secondary education. Qualified expenses include tuition, books & some supplies.

Charitable Giving: (Same) Donations to charitable organizations are deductible. However, the IRS requires that at the time the tax return is filed the taxpayer have a copy of the cancelled check and donor statement for any single donations in excess of \$250.00. The IRS has disallowed donations in which the taxpayer received their receipt after the tax return was already filed.

State Sales Tax Deduction: (Same) For those taxpayers who itemize, they will be able to deduct state sales tax paid. There is a chart provided by the IRS to compute this amount. However, it is possible to add to this amount additional sales tax for car, boat, and planes. *This provision will expire in 2012.*

Lower Capital Gains/Dividends Rates: (Same) The lower rates will remain in effect for 2011 and 2012.

Earned income credit: (Same) Temporary increases in the Earned Income Tax Credit for filers with three or more children and the higher income levels for the phase-out of the credit have been extended through the end of 2012.

Home improvement energy-saving credit: (Same) The 30% tax credit of energy saving home improvements was extended until 2011. Some of these improvements include:

- Central AC systems meeting certain SEER Ratings
- Home insulation meeting 2009 IECC criteria
- Roofs - Certain pigmented Metal roofs and some Asphalt meeting cooling granules
- Windows/Skylights - must meet certain U factors
- Storm Windows/Doors - must meet certain U factors and SHGC/IECC criteria

Retirement Saver's Credit: (Same) For individuals making contributions to their retirement plan with AGI less than \$56,500 (MFJ), \$42,375 (HOH) and \$28,250 (S), you would be eligible for a credit for the amount contributed.

Other matters:

Making Work Pay Credit: (Expired) Last year everyone chuckled when they were informed that they received a credit for holding down a day job. This credit ranged from \$400 - \$800. This year there will be no chuckling, the credit has expired.

Mortgage Insurance Premiums (PMI): (Expired) Last year taxpayers were able to deduct these premiums as well as their home mortgage interest on Schedule A. This provision expired in 2010.

Unemployment Benefits non-taxable: (Expired) In 2010 a portion of unemployment benefits received by taxpayers were non-taxable. In 2011 all benefits paid are fully taxable.

Tax Relief for those homeowners who lose their home due to foreclosure: Starting in 2012, debt forgiven in connection with a foreclosure of their principal residence will once again be considered taxable income. However, this may not apply for cases of insolvency or bankruptcy.

Businesses- Unincorporated:

Health Insurance, not deductible for Self Employment Tax (SE Tax): Self Employed health insurance is still deductible to the extent of your profits. However, the insurance premiums paid no longer are deductible for the calculation of self-employment taxes.

Mileage Rates: The allowable mileage rates for 2011 include 51.5 cents/mile from 1/1-6/30/11, then it increases to 55 cents per mile from 7/1/11 - 12/31/11. This rate will remain in effect for 2012.

Profit Motive/Hobby Losses: The IRS is cracking down on taxpayer businesses which continually have losses year after year. One of the IRS guidelines is that each business must have a profit motive. As a result to prove that an activity is a bona fide business, it should have a profit 3 out the past 5 years.