

FRANKLIN & FRANKLIN, PA

www.FranklinCPAs.net ~ TEL: 704-845-1195 ~ FAX: 704-845-1194

3320 Siskey Parkway, Suite 102 ~ Matthews, NC 28105

TAX LAW SUMMARY & HIGHLIGHTS FOR 2011

NEW FOR 2011:

Estate limit: Beginning in 2011 the taxable estate limit has increased to \$5 million, whereby all estates under this limit are not subject to the Estate tax (taxable gifts made during one's lifetime is a reduction to the \$5M limit). ***Please advise F&F or an Estate planning attorney if this applies to you as there are various implications and planning opportunities.***

Reduced Employment tax: The Employee share of payroll taxes were reduced by 2% during 2011, which will not reduce the Social Security benefits due to you.

Electronic Filing requirement: Beginning January 1, 2011 the IRS has mandated that we, as paid preparers, electronically file all individual and trust tax returns. This was implemented last tax season and went very well resulting in quicker processing by the IRS, minimized errors and still allows until April 15th for any payments due. **However, please advise if you want to elect out and file by paper copy as you may do so by providing a written statement.**

UPDATED/RENEWED PROVISIONS:

For qualifying buyers of new residences purchased from 4/9/08-12/31/08: The credit is to be paid back at the rate of \$500 per year starting with your 2010 tax return.

Child Tax Credit: \$1,000 per qualifying dependent child under age 17 continues through 2012.

Gain from the sale or exchange of the main home: The entirety of gains from the sale or exchange of the main home is no longer excludable from income if allocable to periods of nonqualified use.

Kiddie Tax Change: Unearned income, in excess of \$1,900, for children under 19 or full-time students under age 24 at the end of the year will be taxed at their parents tax rates if: the child is under 18; or is under 19 and has earned income of less than half of their support; or is 19-23, a full time student and has earned income of less than half of their support.

Charitable Contribution Receipts: Receipts from a 501(c)3 non-profit organization are required for contributions over \$250. ***ALL cash contributions*** require a receipt, cancelled check or other reliable evidence and all non-cash contributions must be in good used or better condition and must be accompanied by a receipt. Additionally, non-cash items not in good used condition claimed over \$500 will require a qualified appraisal.

IRA (Individual Savings Account):

Traditional and Roth IRAs: The annual deductible contribution limit for 2010 is \$5,000, with an additional \$1,000 catch-up for taxpayers 50 or older (making it \$6,000) for either Traditional or Roth IRAs.

401(k): \$16,500 maximum 2011 contribution with additional \$5,500 allowed if 50+ years old.

Savers Credit: 10% to 50% credit for first \$2,000 of contributions to retirement savings plans: Applies to Married Filing Joint taxpayers with adjusted gross income of \$55,500 or less (\$27,750 or less for single taxpayers).

PMI (Private Mortgage Insurance): Qualifying individuals may deduct home mortgage insurance premiums for 2011.

Adoption Credit: Credit of \$13,360 of expenditures for each child adopted for 2011 (\$13,360 regardless of expenditures for children adopted with special needs), the credit is now refundable since 2010 and NC offers 50% of the federal credit.

Individual Tax Rates: 10%, 15%, 25%, 28%, 33% & 35% (Same as 2010 and anticipated to be unchanged for 2012)

NC Tax Rates: 6%, 7% & 7.75%

Standard Deduction: \$11,600 Married Filing Joint/\$8,500 head of household/\$5,800 Single Filers

Exemption Deduction: \$3,700 per exemption

Annual Gift Tax Exclusion: Taxpayer may have gifted \$13,000 (\$26,000 per couple) during 2011 to each donee without filing a gift tax return. A gift of appreciated property is a good way to avoid capital gains tax. ***Advise with any questions.***

COBRA Health Insurance Continuation Premium Subsidy: An employer-provided subsidy for employees who involuntarily lose their jobs is available for qualifying individuals.

HIRE Act: When hiring a qualified unemployed worker this act allows an employer to be excluded from paying Social Security tax on the related wages. Please advise to discuss if you may qualify.

Health Care Tax Credit: When providing employees health care benefits the employer may qualify for a credit equaling up to 25 of the health care benefits paid. Please advise to discuss if you may qualify.

ROTH Conversions: You may convert any IRA to a ROTH, regardless of income levels, however the converted amount results as taxable income.

Nanny Tax: Schedule H is required for qualified “household employees” if paid more than \$1700 during 2011 (\$1800+ in 2012). Please advise if this may apply to you.

Capital Gain & Qualified Dividend Rates: The maximum tax rate on qualified dividends and net capital gains (the excess of net long-term capital gain over net short-term capital loss) *remains at 15% for 2011(0% tax for those in the 15% tax bracket)* but is anticipated to expire after 2012. *Please advise if you have appreciated stock or properties.*

Education Credits & Benefits:

American Opportunity Credit – Available *first four years* of post-secondary, up to \$2,500 (\$1,000 refundable)

Lifetime Learning Credit – 20% of first \$10,000 paid for any qualified tuition & fees: \$2,000 max

Student loan interest: You may be eligible to deduct up to \$2,500 of student loan interest paid.

(In 2010 the definition of qualified higher education expenses is expanded to include required course materials)

Deductible Mileage Rates: (changed mid-way through 2011)

Business mileage rate for 2011: 1/1-6/30 = \$0.51 7/1-12/31 = \$0.55½

Medical & Moving mileage rate for 2011: 1/1-6/30 = \$0.19 7/1-12/31 = \$0.23½

Charitable mileage rate for 2011: \$0.14 for the full year

Contribution of Vehicles: Have been significantly limited: Deduction limited to the amount that the charity receives for the sale of the vehicle and a form 1098C is required to be filed.

New Refundable AMT Credit for Individuals: Effective for 2007 and before 2013 the refundable AMT credit is the greater of; a.i)the lesser of \$5,000 or a.ii)the total long-term unused AMT credit, or b) 20% of the long-term unused credit

Wage base for Social Security: Wage base for social security is \$106,800 for 2011 and changes to \$110,100 for 2012. Social Security: Depending on the recipients income, up to 85% of benefits may be taxed.

Energy-Efficient Improvements and Various Alternative Fuel Vehicle tax incentives: Reduced credit available for qualifying equipment purchased in 2011.

Small Business Equipment Deduction and Bonus Depreciation: Small businesses can deduct first \$500,000 spent for depreciable property placed in service during 2011 (Including Pick-up trucks and Vans over 6,000 lbs but limited to \$25,000 for SUV’s). In addition, for qualified property, 100% bonus depreciation available the first year put into service.

Increase in Deductible Limit for Long-Term Care Premiums: For 2011, the maximum amount of qualified long-term care premiums you can include as medical expenses has increased. You can include qualified long-term care premiums, up to the amounts shown below, as medical expenses on Schedule A (Form 1040):

Age 40 or under - \$340; Age 41 to 50 - \$640; Age 51 to 60 - \$1,270; Age 61 to 70 - \$3,390; Age 71 or over - \$4,240.

Dues for Social & Entertainment clubs are not deductible, but dues for various trade organizations, etc. are.

Contributions directly from IRA: Taxpayers over 70½ may contribute to charitable organizations directly from IRA.

1099C New tax break on Discharge of Qualified Home Mortgages: Inquire if you believe this may apply.

Veterans Benefits: For qualified veterans and their spouse a monthly benefit is available. Please inquire if you think that this may apply to you.

Foreign Bank Account Disclosure: All foreign bank accounts must be disclosed. (A \$10,000 penalty per account applies to not meeting disclosure requirements) Please advise if this may apply to you.

NC Changes:

Special Education Tax Credit: Provision added to allow up to \$3,000 credit per semester for eligible dependent care paid to a qualified non-public provider (or public that requires tuition)for care provided for eligible children with disabilities.

NC 529 Plan Deduction: Contributions to a NC529 college savings plan qualifies for a NC deduction of \$5,000married/\$2,500single.

NC Severance Wages Deduction: NC offers deduction for Severance wages received up to \$35,000.

NC Honorable Discharge Property tax credit: Beginning in 2009 all taxpayers who have received an honorable discharge from the military may qualify for a property tax credit for the first \$45,000.

NC Refundable Earned Income Credit: NC will offer a refundable credit equal to 5% of the Federal EIC.

For other updates and helpful information visit our website at www.franklinpas.net

Click on the “Helpful Links” tab. There you will find links to:

- The IRS homepage
- North Carolina Department of Revenue homepage
- Charlotte Mecklenburg’s Site: To find Tax Bills
- Secretary of State
- Social Security on-line
- Helpful Financial Calculators