



Client advisor

CURRENT INFORMATION, NEWS AND TRENDS

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Business Benefits Around This Year

There are an abundant number of provisions that provide tax relief to small businesses this year. Just so that you don't overlook any of these benefits, or in case your business would like to position itself to take advantage of some before the close of the year, here is a brief rundown on many of the business benefits that are available for 2011. Some of these provisions are currently set to expire after December 31, 2011.

Research Tax Credit – A tax credit of up to 20% of qualified expenditures for businesses that develop, design, or improve products, processes, techniques, formulas, or software or perform similar activities. The credit is calculated on the basis of increases in research activities and expenditures.

Work Opportunity Tax Credit – A tax credit of up to 40% based upon a portion of the first-year wages paid to members of certain targeted groups. The credit is generally capped at \$6,000 per employee (\$12,000 for qualified veterans and \$3,000 for qualified summer youth employees).

Differential Wage Payment Credit – Employers who have an average of less than 50 employees during the year and who pay differential wages to employees for the periods they were called to active duty in the U.S. military can claim a credit equal to 20% of up to \$20,000 of differential pay made to an employee during the tax year.

HIRE Retention Credit – In 2010, employers were granted a payroll tax holiday for hiring long-term unemployed individuals. As an incentive to retain those individuals, a non-refundable credit up to \$1,000 per employee is allowed to employers who kept those employees on payroll for a continuous 52 weeks. The credit is limited to 6.2% of the employee's wages, and will be claimed on the 2011 return.

New Energy Efficient Home Credit – An eligible contractor can claim a credit of \$2,000 or \$1,000 for each qualified

new energy efficient home either constructed by the contractor or acquired by a person from the contractor for use as a residence during the tax year.

100% Bonus Depreciation – Businesses are allowed a 100% bonus depreciation on qualified business property purchased and placed into service during the year. This generally includes machinery, equipment, computers, qualified leasehold improvements, etc. (but see limitations on vehicles).

Expensing Allowance – In lieu of depreciating the cost of new assets, a business is allowed to deduct up to \$500,000 expensed under Code Sec. 179. The \$500,000 maximum amount is generally reduced dollar-for-dollar by the amount of Section 179 property placed in service during the tax year in excess of \$2,000,000.

15-year Write-off for Specialized Realty Assets – Qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property placed in service during the year are eligible for a 15-year depreciation write-off instead of the normal 39 years.

Business Autos – As part of the benefit of the 100% depreciation, the first-year luxury auto limit is increased to \$11,060 for autos and \$11,260 for light trucks and vans. For vehicles with a gross vehicle rating of over 6,000 pounds, the luxury auto limits do apply and are subject to the full benefit of the 100% bonus depreciation.

Domestic Production Deduction – This deduction was created to encourage manufacturing and production within the U.S. and provides a deduction equal to 9% of the lesser of net income from qualified production activities or 50% of the W-2 wages paid to employees allocated to the domestic production activity.

If you have questions or wish more detail on any of the provisions or other business issues, please give this office a call.





Maximize Your Charitable Deductions

As the end of the year approaches, there are still things you can do to increase and properly document your charitable contributions for 2011. Here is a brief rundown:

Non-cash contributions – If you have used clothing or household goods that are in good or better condition that you don't use any longer, contribute them to a charity thrift shop before the end of the year. Don't forget: a receipt from the charity is required to document the gift. If the gift's fair market value (FMV) is more than \$500, you will also need an itemized list of the items contributed, how and when each was acquired, and the cost. If the FMV of what you've donated is greater than \$5,000, or you contributed a vehicle, call this office for additional documentation requirements. A receipt from the charity is not required if the gift's value is less than \$250 and the donation was made at an unattended drop site. However, you will need to document the donation yourself.

Cash Donations – All cash donations must be documented either by a receipt from the charity or by a bank record such as a check, bank statement, or credit

card payment. You can no longer claim contributions of cash dropped into the offering plate or Christmas kettle. So, be wise and drop a check instead. If you regularly tithe at a house of worship, you might consider pre-paying your 2012 tithing and moving the deduction into 2011. In doing so, some taxpayers that marginally itemize may be able to itemize every other year and take the standard deduction in alternate years.

Charity Volunteer Expenses – If you volunteer your time for a charity, you may qualify for some tax breaks. Although no tax deduction is allowed for the value of services performed for a charity, there are deductions permitted for out-of-pocket costs incurred while performing the services. Possible expenses might include:

- Away-from-home travel expenses while performing services for a charity, plus lodging and meals at 100 percent, provided there is no significant element of personal pleasure associated with the trip.
- Use of your personal vehicle while performing services for the charity, generally at 14 cents per mile. Be sure to keep a written record of the name of the charity, the date the vehicle was used for charitable purposes, and the number of miles driven.
- Upkeep and cost of uniforms that aren't suitable for everyday use and if worn while performing the charitable service.

No charitable deduction is allowed unless the contribution is substantiated with a written acknowledgment from the charitable organization. The documentation must specify the need for your services and include an acknowledgement by the charity that the expenses claimed were required; be sure to maintain the receipts for the expenses.

Vehicle Donations – Generally, the deduction for used cars, boats, planes, etc. is limited to \$500. More than \$500 can be claimed based upon the charity's use of the vehicle or the actual amount the charity received from the sale of the vehicle. You will need Form 1098-C from the organization to claim the deduction and attach it to your return. Call for further details related to claiming more than \$500.

Timing of Acknowledgments – Whenever you are required to have an acknowledgment from a charity for donations you've made, you must have that letter or statement in your hands by the earlier of the date you file the return for the year of the donation or the extended due date of that return.

If you have additional questions or would like to determine how a specific donation will impact your tax return, please give this office a call.

Last-Chance Opportunity to Deduct General Sales and Use Taxes?

For 2011, taxpayers have the option of deducting the amount of state and local income tax that they paid during the year or, if they so elect, of deducting their state and local general sales and use taxes as an itemized deduction on their federal income tax return. This choice is currently scheduled to expire at the end of 2011.

If a taxpayer elects to deduct the sales and use tax, then the taxpayer may opt to deduct the actual sales and use taxes paid or use the amount indicated in the tables published by the IRS, alongside certain big ticket items, such as vehicles, motor homes, boats, aircraft, and mobile and prefabricated homes. The IRS tables take the state of residence, taxpayer's income, sales and use tax rates, and family size into account.

Although the sales tax option primarily benefits taxpayers in states with no state income tax, it can also benefit taxpayers who make big-ticket purchases. Their sales tax deduction may exceed their state income tax deduction when they itemize their deductions.

Thus, if you are considering a big-ticket purchase, making the purchase prior to the end of the year may enable you to benefit from a potentially increased tax deduction. If you do plan on deducting sales tax in 2011 and you are paying state income tax estimates, you should avoid paying the fourth-quarter estimate installment until after the first of the year. Paying it in 2011 provides no additional benefit for 2011 on your federal return when electing to deduct sales and use tax.

Congress has extended this tax provision before, but at this time, there is no way of telling if it will do so again. Please give this office a call if you have concerns about how the sales tax election and purchasing big-ticket items before the end of the year might benefit you.

Misclassifying Workers Can Be Costly!

Hiring independent contractors instead of employees can save a lot of money in employment taxes and employee benefits. And it can be a mine field of tax problems if workers are misclassified as independent contractors when they should have been treated as employees.

The three primary characteristics the IRS uses to determine the relationship between businesses and workers are behavioral control, financial control, and the type of relationship.

1. Behavioral Control – Covers facts that show whether the business has a right to direct or control how the work is done through instructions, training or other means.

2. Financial Control – Covers facts that show whether the business has a right to direct or control the financial and business aspects of the worker's job.

3. Type of Relationship – Relates to how the workers and the business owner perceive their relationship.

If you have the right to control or direct not only what is to be done, but also how it is to be done, then your workers are most likely employees. If you can direct or control only the result of the work done, and not the means and methods of accomplishing the result, then your workers are probably independent contractors.

This issue has been heating up recently as the government looks for ways to reduce the deficit. A recent study by the IRS estimates there are 3.4 million workers misclassified as independent contractors, causing a loss of \$2.7 billion in tax revenue.

The IRS initiated an expanded focus on this issue in 2010 and continues to ratchet up enforcement with increased audits, and now the IRS and the Department of Labor have begun to share information and collaborate on this issue.

The IRS just recently announced a Voluntary Classification Settlement Program (VCSP) that allows employers to come into compliance by making a minimal payment covering past payroll. Employers wishing to participate in this program must apply for the program at least 60 days before they want to start treating the workers as employees. To be eligible, the employer must have filed the required 1099 forms for the workers in the previous three years and not be under audit concerning the employees.

If you have questions related to worker classification, please give this office a call.

Year-end Capital Gains Strategies

2011 has produced some significant gyrations in the financial markets that have had an impact on everyone's portfolios. But for tax purposes, gains and losses are not measured by the increased or decreased value of your portfolio, but by gains and losses recognized from the sale of capital assets during the year. So you still have until the end of the year to structure your gains and losses to suit your particular tax situation.

Conventional wisdom has always been to minimize gains by selling "losers" to offset gains from "winners," and, where possible, generate the maximum allowable \$3,000 (\$1,500 for married taxpayers filing separately) capital loss for the year.

As a reminder, the maximum long-term (assets held for more than a year) capital gains are still at the all-time low maximum rate of 15%, and unless changed by Congress, will remain at that rate through 2012. Taxpayers who are in the 15% or lower marginal tax rate actually enjoy a 0% tax rate on long-term capital gains and should do whatever is possible to take advantage of that tax benefit. The capital gains rates are currently scheduled to revert to 20% (10% to the extent a taxpayer is in the 15% or lower tax bracket) in 2013.

Assets that are not held long-term, referred to as short-term capital gains, do not receive the benefits of the special rates afforded long-term capital gains. Taxpayers achieve a better overall tax benefit if they can arrange their transactions so as to offset short-term capital gains with long-term capital losses.

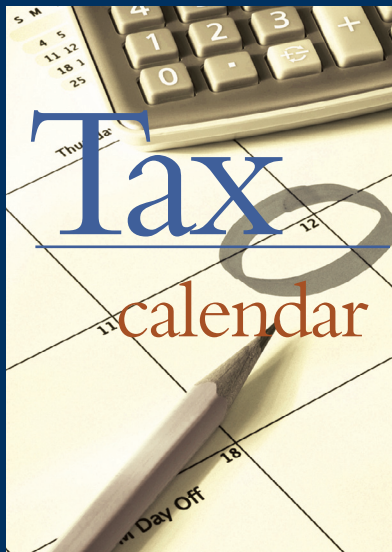
If you exercised incentive (qualified) stock options with your employer this year and you are still holding the stock, selling the stock before year's end to avoid phantom income created by the alternative minimum tax may be appropriate.

If you are planning substantial gifts to charity or to relatives and have capital assets that have appreciated in value, gifting the appreciated assets rather than cash may be beneficial.

Finally, as an advance warning, the reporting of the sale of capital assets will become significantly more complicated this year. With the advent of brokerage firms being required to track and report basis for stock sales, the transactions for the year will have to be segregated into four possible groups: those for which the broker reported basis and those for which the broker did not know basis, and each of those categories split by short- and long-term transactions. The IRS has developed the new Form 8949 for this purpose. Each category of transactions must be reported on a separate Form 8949, and then the totals transferred to a redesigned Schedule D. The IRS requires this separation of transactions to facilitate its computer matching of transactions.

The actions mentioned above may have additional factors that must be considered and require careful planning. You are encouraged to consult with this office before acting on any of the suggested strategies.





Nov. 2011 – Apr. 2012

November-December 2011:

- It's time for 2011 year-end and 2012 tax planning. Call for an appointment if you have substantial increases in income or fewer deductions.

December 31, 2011:

- This is the last day to pay deductible expenses for the 2011 return. This doesn't apply to IRA, SEP or Keogh contributions, all of which can be made after December 31, 2011.
- This is the last day to set up a Keogh Retirement Account if you plan to make a 2011 contribution.
- This is the last day to take advantage of the IRA to charity direct rollover for taxpayers who are age 70.5 and over.

January 17*, 2012:

- The fourth quarter 2011 federal individual estimated tax payment is due unless the 2011 return is filed by January 31, 2012 and the entire balance due is paid with the return.

January 31, 2012:

- This is the deadline for businesses to provide 1099s and W-2s to those people they paid during 2011. If you are a business owner and

you paid \$600 or more for the services of individuals (other than employees) during the year, you will need to provide 1099s to those workers by January 31, 2012. "Services" can mean everything from labor and professional fees to rents on property. In addition, in order to avoid a penalty, copies of 1099s need to be sent to the IRS by February 29, 2012. This firm can prepare these documents for you.

February 29, 2012:

- This is the deadline for filing (sending) 1099s and W-2s.

April 17*, 2012:

- This is the deadline for individuals to file a 2011 federal income tax return or request an extension of time to file.
- The first installment of the 2012 federal individual estimated tax payment is due. Caution: Some states may have different filing dates for state estimated payments.
- The first installment of the 2012 defined benefit pension plan contributions is due.

**Note that the normal due date would be the 15th, but because it falls on a weekend and with the 16th being a Federal holiday, the due date is the 17th. Caution: some states have different due dates.*



Since You
Asked...



You Asked: I use a payroll service for my business, and they have suggested we change the address of record to the payroll company so that any notices go directly to them. Is that an appropriate thing to do?

Answer: That could become a problem. If there are any issues with an account, the IRS will send correspondence to the address of record, and you would be unaware of the problem. Even though you forward the tax payments to the third party to make the tax deposits, you as the employer are the responsible party, and can be held personally liable for any unpaid taxes plus interest and penalties. So, it stands to reason that you'd want to be notified directly by the IRS if there were any problems, and to do that, the contact address would need to be yours rather than the payroll company's.

You Asked: I am considering converting my traditional IRA to a Roth IRA this year. However, I cannot afford to pay the entire tax on the conversion by the April due date. There was an option to spread the conversion

income over two years in 2010. Is that option also available for 2011?

Answer: No. That provision was limited to conversions made in 2010. However, you are not required to make the entire conversion in one year. You can actually make the conversion by means of a series of partial conversions spread out over several years and in amounts that you can afford.

You Asked: I heard there was some new guidance related to the use of company cell phones by employees. Can you elaborate?

Answer: Yes, last year Congress removed cell phones from the definition of listed property, and the IRS recently released guidance related to recordkeeping and tax implications to employees. If the cell phone is provided to the employee for a legitimate business purpose, any small personal use generally will be considered a tax-free, working condition fringe benefit for the employee. The employer need no longer maintain laborious records documenting the business use of the telephone.