

2011 TAX HIGHLIGHTS

Taxable & Exempt Income

- For 2011, an employee may exclude up to \$230 a month of qualified parking (\$240 for 2012), and up to \$230 (\$125 for 2012) for employer-provided transit and vanpooling benefits.
- For 2011, the maximum exclusion for employer-provided adoption assistance is \$13,360 per child (for both non-special needs and special needs adoptions); for 2012, it's \$12,650. The phaseout ranges based on adjusted gross income (AGI) increase.
- Qualified dividend income will continue through 2012 to be taxed to shareholders at the favorable rates that apply to net capital gain.
- The per-diem dollar threshold in computing the limits for the exclusion of benefits from long-term care insurance is \$300 for 2011; \$310 for 2012.

Deductions—Expenses of a Business

- Inflation-indexed definition of a high deductible health plan and limit on contributions for 2011 and 2012 for Archer MSA purposes are provided.
- The standard mileage rate for business travel is 51¢ for the first half of 2011 and 55.5¢ for the second half.
- IRS's position that reimbursement of employee expenses for reasonable employment-related cell phone usage generally is nontaxable is reflected.
- The allowance of the Code Sec. 199 domestic production activities deduction for activities in Puerto Rico is extended through 2011.
- Taxpayers using their car to travel to a new location may claim a 19¢ per mile moving expense deduction for the first half of 2011 and 23.5¢ for the second half.

Interest Expense, Taxes, Losses, Bad Debt

- The deduction for mortgage insurance premiums for acquisition indebtedness on a qualified residence is extended to tax years beginning before 2012.
- The election to deduct state and local general sales and use taxes, instead of state and local income taxes, is extended to tax years beginning before 2012.
- Hours spent running short-term rental property and “on call” time didn't count for purposes of meeting the real estate professionals 750-hour test under Passive Activity Loss rules.

- IRS allows certain real estate professionals to make a late election to treat all rental real estate interests as a single activity for PAL rules.

Depreciation, Amortization, Property Expensing and Depletion

- 15-year MACRS depreciation for qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property is extended through 2011.
- 50% first-year bonus depreciation is extended to apply to property placed in service before 2013 (before 2014 for certain long-production-period property and aircraft).
- 100% first-year bonus depreciation is provided for property placed in service after Sept. 8, 2010 and before 2012 (before 2013 for certain long-production-period property and aircraft).
- Taxpayers may elect 50% instead of 100% bonus first-year depreciation for qualified property placed in service in the first tax year that includes Sept. 9, 2010.
- The Code Sec. 179 expensing limit is \$500,000 and the investment-based phase-out level for expensing is \$2,000,000 for tax years beginning in 2010 and 2011.
- The Code Sec. 179 expensing limit is \$139,000 and the investment-based phase-out level for expensing is \$560,000 for tax years beginning in 2012.
- Right to revoke or alter a Code Sec. 179 expensing election without IRS consent is extended to cover tax years beginning in 2013.
- Eligibility of off-the-shelf computer software for Code Sec. 179 expensing is extended to cover tax years beginning in 2013.
- Up to \$250,000 of certain qualified real property is eligible for Code Sec. 179 expensing for tax years beginning in 2010 and 2011.
- Autos, trucks and vans placed in service in 2011 are subject to revised auto depreciation and expensing dollar caps.
- Enhanced auto, van and truck first-year depreciation cap for bonus-depreciation-eligible vehicles is extended through 2012.
- Autos, trucks and vans leased in 2011 are subject to revised income inclusion amounts.

Charitable Contributions, Medical Expenses, Alimony, Other Nonbusiness Deductions

- Contributions to state programs that entitle the taxpayer to state tax credits are deductible as charitable contributions.

- Enhanced deduction for certain donations of wholesome food inventory, books, and computer technology or equipment is retroactively extended through 2011.
- 50% contribution base limitation for qualified conservation contributions (100% for corporate farmers and ranchers) is retroactively extended through 2011.
- Maximum premiums paid for a qualified long-term care insurance contract, deductible as medical expense, increase.
- Mileage rate for use of a car for qualified medical transportation is 19¢ a mile for the first half of 2011, and 23.5¢ a mile for the second half of 2011.

Education: Tax Credits, Exclusions, Deductions

- The American opportunity tax credit is extended through 2012. For 2011 and 2012, the income phaseout ranges remain the same.
- For 2011 and 2012, the Lifetime Learning credit phases out over higher levels of modified AGI.
- The above-the-line deduction for qualified tuition and related expenses is retroactively reinstated and extended through 2011.
- For tax years beginning before 2013, taxpayers can contribute up to \$2,000 per year to Coverdell Education Savings Accounts (CESAs).
- Employees can exclude educational assistance up to an annual maximum of \$5,250 under an employer's educational assistance program through 2012.
- For 2011 and 2012, the exclusion for education-related saving bond interest phases out at higher levels.
- The above-the-line deduction for higher education expenses is retroactively extended through 2011.
- Individuals can deduct up to \$2,500 annually for interest paid on qualified higher education loans through 2012.
- An up-to-\$250 above-the-line deduction is available for expenses of elementary and secondary school teachers through 2011.

Tax Credits

- A five-year carryback is allowed for Eligible Small Business credits.
- Employers can claim (on new Form 5884-B) an up-to-\$1,000 increase to the general business credit for certain retained workers hired after Feb. 3, 2010, and before 2011.
- The work opportunity credit is extended for individuals from the most targeted groups who begin work for an employer through 2011.

- The research credit is extended to apply to amounts paid or incurred before 2012.
- For purposes of the credit for electricity from renewable resources, the placed-in-service period for refined coal facilities not producing steel industry fuel is extended through 2011.
- The employer-provided child care credit is extended through 2012.
- Eligible small employers can claim a general business credit equal to a percentage of nonelective contributions used to buy health insurance for their employees.
- The energy efficient appliance credit is extended and modified for certain appliances manufactured in 2011.
- The energy efficient home credit for eligible contractors is extended through 2011.
- The 45% earned income credit (EIC) percentage for families with three or more qualifying children, and higher beginning point of the EIC phaseout range for joint filers, are extended through 2012
- For 2011, the maximum amount of disqualified income that can be received for EIC purposes increases.
- Increased (80%) health coverage tax credit for costs of trade-displaced workers is extended to coverage months beginning before Feb. 13, 2011.
- The expanded dependent care credit is extended through 2012.
- The maximum credit for the adoption of a child (including a special-needs child) increases for 2011, as does the AGI-based phaseout thresholds. The credit is extended through 2012, but the previous increase in the credit amount and refundability of the credit are not.
- The \$1,000 per-child amount and expanded refundability of child tax credit are extended through 2012.
- The AGI amounts used in computing the "saver's" credit for elective deferrals and IRA contributions are increased for 2010 and 2011.
- Nonrefundable personal credits can offset AMT through 2011.

Gains and Losses, Section 1231, Depreciation Recapture

- The 0/15% capital gain rate is extended through 2012.
- For estates of decedents dying in 2010 that elect zero estate tax and modified carryover basis, capital loss carryovers can be used to increase the estate's basis in the decedent's capital assets.
- Taxpayers who inherit creative property (such as a copyright, literary, musical, etc. composition) from a decedent dying in 2010, whose estate elects

zero estate tax and modified carryover basis, can treat such property as a capital asset.

- 100% exclusion of gain from qualified small business stock is extended through 2011.
- Tax-free gain from sale or exchange of qualifying DC Zone assets is extended to include assets acquired before 2012.
- For property inherited by a taxpayer from a decedent dying in 2010, whose estate elects zero estate tax and modified carryover basis, the decedent's holding period is tacked on to the estate's or other recipient's holding period.

Withholding Tax on Wages and Other Income Payments

- 25% minimum withholding rate on supplemental wages under flat rate method is extended through 2012.
- Income thresholds for exemption from withholding for employees who are dependents are not changed for 2011 and 2012.
- Form W-2 includes information on value of health insurance provided to employee, but such reporting is optional for 2011
- For 2011, there's a 2-percentage-point reduction in the employee OASDI tax rate to 4.2 %.
- Paper coupon system for federal tax deposits is no longer maintained as of Dec. 31, 2010; most businesses are required to make deposits and pay taxes through the Electronic Federal Tax Payment System.
- Threshold amount for cash payments to domestic service employees (e.g., nannies) to be subject to FICA remains at \$1,700 for 2011 (\$1,800 for 2012).

Individual's Tax Computation, Kiddie Tax, Self-Employment Tax, Estimated Tax

- For 2011 only, the above-the-line deduction for 50% of self-employment tax is, instead, 59.6% of the OASDI tax paid plus 50% of the Medicare tax paid.
- The standard deduction amounts for 2011 and 2012 are listed.
- For 2011, the personal exemption amount is \$3,650 (\$3,800 for 2012).
- The tax rates on individuals' income remain at 10%, 15%, 25%, 28%, 33% and 35% for 2011 and 2012.
- Under the kiddie tax, the parents' highest tax rate applies to a child's unearned income over \$1,900 for 2011 and 2012.
- The 7.65% deduction allowed in determining net earnings from self-employment isn't affected by the OASDI rate reduction for 2011.

- For 2011, the dollar thresholds for the optional methods of computing net earnings from self-employment are \$4,480 and \$6,720; for 2012, they are \$4,520 and \$6,780.

Alternative Minimum Tax

- The individual AMT exemption amounts for tax years beginning in 2011 increase to \$48,450 for unmarried individuals, \$74,450 for married individuals filing jointly, and \$37,225 for married individuals filing separately.

Corporations, Accumulated Earnings Tax, Personal Holding Companies, Consolidated Returns, Estimated Tax, S Corporations

- The 15% accumulated earnings tax rate is extended to 2011 and 2012.
- The 15% personal holding company tax rate is extended to 2011 and 2012.

Pension and Profit-Sharing Plans, 401(k) Plans, Roth 401(k) Plans, IRAs, Roth IRAs, SEPs, SIMPLE Plans

- For 2011, the limit on 401(k) plan elective deferrals is \$16,500 (\$17,000 for 2012).
- For 2011, compensation for “highly compensated employee” status is \$110,000 (\$115,000 for 2012).
- For 2011, the limit on annual additions to a defined compensation plan is \$49,000 (\$50,000 for 2012).
- For 2011, the maximum annual benefit from a defined benefit plan is \$195,000 (\$200,000 for 2012).

Estate, Gift and Generation-Skipping Transfer Taxes

- The estate tax is retroactively reinstated for 2010 with an applicable exclusion of \$5 million, and a maximum tax rate of 35%.
- The executor of an individual dying in 2010 may elect not to have the estate subject to the estate tax, but if the election is made, the modified carryover basis rules will apply.
- The applicable exclusion amount of \$5 million is adjusted for inflation after 2011.
- The surviving spouse of a decedent who died after 2010 may be able to use the unused part of the deceased spouse's exclusion amount.
- The estate tax returns for decedents who died in 2010, but before Dec. 17, 2010, do not have to be filed until Sept. 19, 2011.

- The gift tax exemption remains at \$1 million for 2010. For gifts made after 2010, the gift and estate tax are reunified and an overall \$5 million exemption applies.
- The annual per-donee gift tax exclusion is \$13,000 for 2010, 2011, and 2012. (RIA Federal Tax Handbook ¶ 5039)