George Johnson & Company

Informer

New Year Tax Planning Newsletter

This Issue

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Dear Clients and Friends,

Happy New Year! We hope that you enjoyed your holiday season!

A new year always provides fresh opportunities for tax planning. With the signing of the *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act* (the "2010 Tax Relief Act") on December 17, 2010, the tax rates and rules that were in effect in 2010 were extended for another two years.

In addition, the 2010 Tax Relief Act also provided the following:

- Extended unemployment benefits for an additional 13 months
- Provided a "patch" to the alternative minimum tax
- Cut employee payroll taxes for 2011
- Allowed businesses 100% bonus depreciation on new equipment purchases
- Restored the estate tax at a top rate of 35%, with an exemption of $5 million

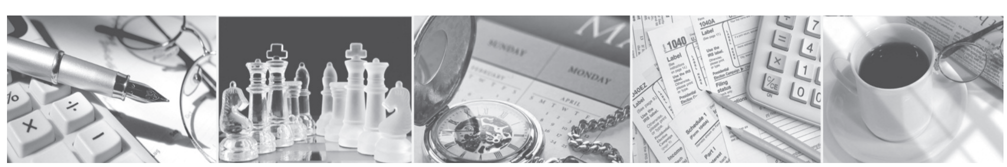
This issue of the *Informer* should guide you in your tax planning for 2011. Becoming familiar with the changes and implementing them early in the New Year should prove beneficial going forward.

In an effort to control costs within our firm, and being more efficient, I am wondering if you would be interested in receiving our *Informer* newsletter via email rather than a paper copy. If so, kindly e-mail Rodelyn Frijas at rfrijas@geojohcom.com. As always, if you have any questions or comments, feel free to contact me or one of our team members.

Sincerely,

George

George G. Johnson
Managing Director



New tax law brings 2011 planning opportunities

If you think you can relax now that the Bush-era tax cuts have been extended, think again. There are still plenty of changes and challenges ahead to make tax planning in 2011 as important as ever.

Seize the moment

December's tax legislation rescued many of the tax breaks we have become accustomed to. But have you taken full advantage of those perks? For example, higher earning taxpayers will again be spared limitations to their itemized deductions, so 2011 might be a year to maximize your charitable, home interest, and property tax deductions.

Have you invested in green technology for your home or business yet? Modified energy tax credits are still available for qualified energy-saving purchases in 2011. The enhanced college education expense credit was also preserved, averting a return to the old Hope credit rules. This means families will continue to qualify for education credits and deductions, subject to income limits.

Maximize your nest egg

Investors should note that the historically low capital gains tax rates have been extended through 2012. With that in mind, it might be time to "harvest" some of those unrealized gains in case tax rates rise again in the future. Also, a tax-savvy way to completely eliminate your capital gains tax might be to donate appreciated stock to charity and receive a deduction equal to the security's current market value. Special rules apply to noncash donations, so check with us before you move forward on this strategy.

Know your IRA options

Thanks to the extension of the "charitable IRA rollover" rule, taxpayers age 70½ and older can again use their IRA to make a donation to their favorite charity. The distribution can be used to offset some or all of your required minimum distribution.

Another exciting option is a Roth IRA conversion. If you procrastinated on converting your regular IRA to a Roth last year, you can still do so in 2011. Although converting your IRA generates taxable income in the year of the transfer, later withdrawals of contributions and income from the Roth are tax-free. Making this transfer while income tax rates remain low could pay off big time. And your conversion opportunities are not limited to just traditional IRAs. You can also convert your 401(k), 403(b), or 457 plan to a Roth.

Cash in on the new business rules

Get an early start to maximize the new tax breaks for your business. The 50% bonus depreciation was increased to 100% – but only for assets purchased from September 9, 2010 through December 31, 2011. While this increase makes it seem there's little difference between bonus depreciation and Section 179 expensing, each election has distinct rules that can impact decision making. One example: Bonus depreciation is available only for new assets; expensing applies to both new and used assets. Another depreciation break is the reinstatement of the 15-year expensing period for qualified leasehold improvements, restaurant property, and retail improvement property.

Qualified businesses with less than 25 full-time employees can receive a tax credit of up to 35% of employer-paid health care costs.

Another fringe benefit to consider is the tax-free reimbursement of employees' mass-transit commuting expenses. Workers can be reimbursed up to $230 per month for qualified highway vehicle transportation and transit pass expenses, and up to $20 per month for bicycle commuting costs.

While it doesn't reduce your tax bill, you might raise your workers' morale by informing them that they no longer have to account for the personal use of their company-provided mobile phone. Such recordkeeping requirements were eliminated last year.

Consider a few proven strategies

From year to year, some old-time tax strategies consistently pay off. For example, maximizing your annual retirement plan contribution usually makes sense. Even though contribution limits remain the same in 2011, you might stretch your retirement planning dollars even more by making payments earlier in the year rather than just at the end of the year. Contributing earlier could possibly result in some stock market appreciation throughout the course of the year.

Another tip: Get an early handle on your tax withholdings and estimated tax payments. Changes in your family or work situation – as well as the new social security tax cut – might result in a lower tax bill in 2011 and a decrease in required tax payments. And if you anticipate moving or changing jobs this year, remember that out-of-pocket expenses incurred while searching for a new job or moving to a new city can score you a possible deduction.

This might also be a good year to tighten up your bookkeeping methods. IRS audits are on the rise, and you will want the peace of mind that comes with a rock-solid recordkeeping system. Businesses have another reason to keep good records: the new Form 1099 reporting rules. Unless Congress changes a 2010 law, beginning in 2012, businesses will have to file Form 1099s reporting all payments made to all vendors for goods or services totaling $600 or more per year – including payments to corporations. Until now, vendors that provide goods rather than services, as well as most corporations, have been exempt from the Form 1099 filing requirement. To avoid last minute headaches, begin collecting vendor tax identification numbers now and make sure your accounting system can handle the new requirement.

Tax relief legislation

The new 2010 Tax Relief Act extends tax breaks for individuals and businesses, provides a payroll tax cut, and temporarily restores the estate tax with a top rate of 35%. Here's an overview of several key provisions in the law.

Individual tax rates: The new law extends individual tax rates in effect for 2010 through the next two years. Therefore, the top tax rate remains at 35%.

Higher education credit: Recent enhancements to the American Opportunity Tax Credit ("AOTC"), which were scheduled to expire after 2010, have been extended through 2012. The maximum AOTC remains at $2,500, but it is phased out for higher-income taxpayers.

Capital gains and dividends: The maximum 15% tax rate on long-term capital gains and qualified dividends (0% for low-income taxpayers) is extended through 2012.

Payroll tax cut: Normally, employees pay a 6.2% social security tax on wages up to an annual base ($106,800 for 2011). The new law reduces this tax for employees to 4.2% for 2011. Self-employed individuals will pay a 10.4% tax (instead of 12.4%) on self-employment income up to $106,800.

Estate tax relief: After the one-year repeal for 2010, the federal estate tax was scheduled to return in 2011 with a 55% top rate and an exclusion amount of $1 million. The 2010 Tax Relief Act retroactively establishes a $5 million exemption and a top estate tax rate of 35% for 2010 through 2012. It also allows portability of exemptions for couples, removes modified carryover basis rules for heirs, and reunifies the estate and gift tax systems.

Itemized deductions and personal exemptions: Reductions in itemized deductions and personal exemptions for higher-income taxpayers were repealed in 2010, but were scheduled to return in 2011. The new law extends the repeals through 2012.

Bonus depreciation: Under a prior tax law, 50% bonus depreciation was reinstated for qualified business property placed in service in 2010 (through 2011 for certain property). The Tax Relief Act authorizes 100% bonus depreciation for qualified property placed in service from September 9, 2010 through December 31, 2011 (through December 31, 2012 for certain property).

Alternative minimum tax: The new law again "patches" the alternative minimum tax ("AMT") by increasing exemption amounts for 2010 and 2011. Without the changes, the AMT exemption amounts would have dropped to pre-2001 levels.

Individual extenders: The new law retroactively extends from January 1, 2010 through December 31, 2011 several provisions that had expired after 2009. The items include the following:

- The option for deducting state and local sales taxes in lieu of deducting state and local income taxes
- The above-the-line deduction for up to $4,000 for higher education expenses
- The above-the-line deduction of up to $250 for classroom supplies purchased by teachers
- Allowing taxpayers age 70½ or older to make tax-free contributions of up to $100,000 from an IRA to a charity

Tax reminders

*** Filing deadlines.** The filing deadline for 2010 tax returns for individuals and partnerships is April 18, 2011. The IRS extended the deadline because Washington, D.C. observes the Emancipation Day holiday on April 15. The deadline for calendar-year corporations to file 2010 returns is March 15, 2011.

Extension requests can be filed, giving individuals and corporations an additional six months to file (but not to pay taxes owed). Partnerships can request an additional five months to file.

*** Contribution recordkeeping.** The IRS is a stickler when it comes to required recordkeeping for charitable contributions. Here's what you need in order to deduct your donations. Cash contributions under $250 require a bank record such as a cancelled check, credit card record, or receipt from the charity. For larger donations, a receipt from the charity must be obtained before filing your return.

*** Restored deductions.** The tax law passed in December restored for 2010 and 2011 deductions that had expired at the end of 2009. Don't overlook those that apply to you: the option to deduct state and local sales taxes in lieu of state and local income taxes, the teacher's deduction for buying classroom supplies, and the deduction for college tuition and fees.

*** Children's filing requirements.** Your children may have to file a 2010 income tax return. Generally, a return is required if the child had wages of more than $5,700, self-employment earnings over $400, or investment income (such as dividends, interest, and capital gains) over $950. If your child had both earned and investment income, other thresholds apply. Also, if your child is due a refund, a return must be filed to get it.

*** Medical account rule changes.** If you've been buying over-the-counter medications with funds from tax-favored medical savings accounts, be aware that doing so is no longer allowed in 2011. Also be aware that the penalty has doubled to 20% for nonqualified withdrawals taken from health savings accounts or Archer medical savings accounts.

What's new for 2011

Every year, changes to the tax code and IRS inflation adjustments give taxpayers new numbers to use in their tax planning. Here are the numbers you'll need for 2011.

Provision	2011	2010
Standard mileage rate for business driving	51¢ a mile	50¢ a mile
Mileage rate for medical and moving expense deductions	19¢ a mile	16.5¢ a mile
Mileage rate for charitable driving	14¢ a mile	14¢ a mile
Adoption credit	$13,360	$13,170
Maximum wages subject to social security tax	$106,800	$106,800
Social security earnings limit		
• Under full retirement age	$14,160	$14,160
• Year full retirement age reached	$37,680	$37,680
• Full retirement age	No limit	No limit
Top estate tax rate	35%	35%
Amount exempt from estate tax	$5 million	$5 million
Annual gift tax exclusion (per donee)	$13,000	$13,000
Maximum retirement plan contributions		
• IRA for those under age 50	$5,000	$5,000
• IRA for those 50 and over	$6,000	$6,000
• SIMPLE plan for those under age 50	$11,500	$11,500
• SIMPLE plan for those 50 and over	$14,000	$14,000
• 401(k) plan for those under age 50	$16,500	$16,500
• 401(k) plan for those 50 and over	$22,000	$22,000
"Kiddie tax" threshold	$1,900	$1,900
"Nanny tax" threshold	$1,700	$1,700
Personal exemption	$3,700	$3,650

Additional updates

#1: IRS announces 2011 standard mileage rates

Beginning on January 1, 2011, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

* 51 cents per mile for business miles driven
* 19 cents per mile driven for medical or moving purposes
* 14 cents per mile driven in service of charitable organizations

#2: New tax law will delay processing of 2010 returns

The IRS has announced that it will take until mid to late February before its computers will be able to process certain income tax returns.

Individual income tax returns that (1) include Schedule A for itemized deductions, (2) claim a deduction for higher education expenses, (3) claim a deduction for educator expenses, or (4) claim a deduction for state and local sales taxes will not be processed until the computers have been reprogrammed, which is estimated to be completed sometime in February. This delay applies to both paper and electronic filers.

The IRS will announce a specific date when it will start processing tax returns affected by the recent tax law changes. All other tax returns will be processed on the normal schedule as in past years.

#3: IRS eliminates paper coupons for tax deposits

The IRS has issued new regulations that state, effective January 1, 2011, all federal tax deposits must be made using the Electronic Federal Tax Payment System ("EFTPS"). The paper coupon system will no longer be available.

However, taxpayers who owe minimal amounts may still send their payment along with their tax return. For example, a taxpayer who files Form 941 and owes less than $2,500 can submit payment with the return or choose to use EFTPS. The minimal amount that permits payment with a return varies with the type of tax.

Your Referrals Are Appreciated

We appreciate your business, and we would appreciate your referrals. If you know someone in need of our services, please mention our name to them. We are a growing firm, and we would like more good clients like you.

Please contact our office by phone: 313.965.2655

NOTE: This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.