

2011 SUMMARY OF TAX CHANGES AND GUIDELINES

- In 2011, the “**kiddie tax**” provision applies to those up to *under age 18* and with the threshold amount of \$950 and 18-year-olds who have unearned income in excess of \$1,900, as well as to full-time students between the ages of 19 and 23.
- The **Child Tax Credit** remains at \$1,000 per dependent child under age 17, phasing out at **modified adjusted gross income (MAGI)** of \$75,000 for singles and \$110,000 for couples.
- The maximum **dependent care credit** is 35% of child care expenses for qualifying taxpayers, up to \$3,000 (one child) or \$6,000 (more than one). Everyone over \$43,000 receives a 20% credit.
- **Student Loan Interest** is deductible up to \$2,500. The deduction begins to phase out at a modified AGI of \$60,000 for singles and \$120,000 for couples.
- **Education IRAs (Coverdells):** Taxpayers can use these non-deductible funds for elementary, secondary and post-secondary school expenses (until the child reaches age 30). The maximum annual contribution is \$2,000 per child (under age 18 or a special needs beneficiary). Phase-out starts at AGI of \$95,000 for singles and \$190,000 for couples. For 2011, expenses incurred for computer technology or equipment, including internet access charges, are also qualified expenses for post-secondary students.
- **Education Credits:** The American Opportunity Tax Credit (formerly the Hope Credit) has been increase to a maximum credit at \$2,500 beginning in 2009. The credit is now allowed for the first four years of post-secondary education and 40% of the credit is refundable. The credit is phased-out at \$80,000 for single and \$160,000 for couples. The **Lifetime Learning Credit** remains at 20% of qualified expenses up to a maximum credit of \$2,000. Only one type of credit per student is allowed.
- The elementary and secondary educators may deduct \$250 for **certain classroom material expenses**.
- Taxpayers will again have the option of **deducting state and local sales tax** as an itemized deduction on their tax returns, **instead of** deducting state and local **income** taxes. In addition to the table amounts, an additional deduction for sales tax paid on motor vehicles, boats and other items specified by the Secretary may be taken. Taxpayers may also deduct the total amount of general sales taxes paid by accumulating receipts showing the taxes paid.
- No deduction is allowed for any **contribution** of cash, check or other monetary gift unless the donor can show a bank record or a written communication from the charity indicating the name of the charity, along with the amount and date of the contribution. Also, no deduction is allowed for used clothing and household items unless the items are in “good” condition.
- The amount of contributions or benefits that can be provided for taxpayers as participants under a qualified plan is limited, based on the type of plan. This year, the amount of contributions and benefits that can be provided under both **defined contribution and defined benefit plans** is \$49,000. The compensation used to determine contributions to qualified plans is \$245,000.
- **Credit for Retirement Savings:** Taxpayers may be eligible for a credit of 10% to 50% for qualified retirement savings contributions if adjusted gross income is no more than \$28,250 for singles, \$42,375 if head of household, and \$56,500 if married filing jointly.
- For taxpayers with AGI above \$150,000, the **2011 safe harbor for estimated tax purposes** is 110% of last year's liability (2010) or 90% of the tax shown on your return for 2011. (The threshold amount of deficiency in withholding and estimated tax payments that actually triggers penalties is still \$1,000.) For others, the safe harbor is 90% of their 2011 tax or 100% of their 2010 tax.
Note: Pennsylvania strictly enforces its underpayment penalty provisions.
- The official **per-mile rate for business use of a car** was 51 cents for January 1 through June 30, 2011 and 55.5 cents for July 1 through December 31, 2011.

- The **health insurance deduction for the self-employed** is 100%. (Employees who pay for their own health coverage still get only an itemized deduction.) There is no deduction allowed if the self-employed had no profit for the year, nor for any month the individual could have participated in a health plan subsidized by an employer (or the spouse's employer). For taxable year 2011, a self-employed person may deduct health insurance premiums and costs in computing net earnings from self-employment.
- **IRAs:** The start of the \$10,000 (for singles) and \$20,000 (for MFJ) phase out for tax-deductible contributions to regular IRAs by "active participants" in employer-sponsored plans is \$56,000 AGI for singles and \$90,000 AGI for couples. Also, taxpayers 50 and over can make "catch-up" contributions to IRAs, 401(k)s and SIMPLEs (see chart below).

Retirement Plan Contribution Limits						
<u>Year</u>	<u>401(k)s</u>	<u>401(k)s for Taxpayers 50 & over</u>	<u>IRAs *</u>	<u>IRAs * for Taxpayers 50 & over</u>	<u>SIMPLEs</u>	<u>SIMPLEs for Taxpayers 50 & over</u>
2011	\$16,500	\$22,000	\$5,000	\$6,000	\$11,500	\$14,000
2012	\$17,000	\$22,500	\$5,000	\$6,000	\$11,500	\$14,000

*Traditional and Roth IRAs

- Eligibility for **home-office** deductions extends to those who regularly and exclusively use the home office for administrative or managerial tasks and have no other fixed location where they conduct such activities.
- The "**Section 179**" expensing provision limit is \$500,000 and the phaseout threshold is \$2,000,000 for 2011. **Note:** For SUVs (rated between 6,000 and 14,000 pounds gross vehicle weight) placed in service in 2011, the expensing amount is limited to \$25,000.
- The limit on the **automobile depreciation deduction** is \$3,060; it is \$3,260 for light trucks and vans. The vehicle must be used more than 50 percent in a business. Bonus depreciation of \$11,260 in 2011.
- The maximum **self-employment tax** is \$11,107 plus 2.9% of self-employment income above \$106,800. One-half of the tax is deductible as an adjustment to income.
- There is not a **phase-out of personal exemptions and itemized deductions** for tax year 2011.
- **Capital gains tax** remains at 15% for transactions made through 2011, decreasing to 0% for lower income taxpayers. Other rates may affect taxpayers, depending on what is sold, when it is sold, the holding period, etc. Taxpayers below or at the 15% rate pay 0% on long term capital gains in 2011.
- The **AMT exemption amount** is currently \$74,450 for married couples and \$48,450 for singles.
- Retired clients with adjusted base income over \$34,000 and couples over \$44,000 are taxed on the lesser of half of their **Social Security benefits** or half of "provisional" income over the base amounts. The maximum amount taxable is 85% of benefits.
- If you receive **Social Security benefits** and you are working, your earnings will reduce your benefit amount only until you reach **your full retirement age** (65 and 10 months for those born in 1942, and 66 for those born from 1943-1955). If you are under full retirement age for the entire year, the deduction is \$1 for every \$2 your income exceeds \$14,160 in 2011. The test applies to each person, not to couples. For beneficiaries attaining full retirement age in 2011, the deduction is \$1 for every \$3 you earn over the limit of \$37,680 in 2011 before the month you reach your full retirement age.
- **Personal Energy Credit:** A credit for the cost of energy efficient improvements made to a principal residence is allowed for 2011 up to an aggregate amount of \$500. No more than \$200 of the credit amount can be attributed to exterior windows and skylights.