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2011 BUSINESS AND PAYROLL UPDATE

READ CAREFULLY! IF YOU HAVE ANY QUESTIONS, PLEASE CALL.

SOCIAL SECURITY RATES

On December 23, 2011 President Obama signed the Temporary Payroll Tax Cut Continuation Act of 2011. The new law continues the employee share of FICA tax at the rate of 4.2% for the first two months of 2012 (10.4% for self-employed individuals) up to the threshold of \$18,350. The FICA tax will revert back to its normal rate of 6.2% for employees and 12.4% for self-employed individuals on earnings up to \$110,100 effective March 1, 2012. In addition, the Medicare hospital insurance portion of the FICA Tax remains at 1.45% for employees and 2.9% for self-employed individuals on all earnings (there is no limit). Thus, the total FICA rate will be 5.65% for employees and 13.30% for self-employed individuals up to \$18,350 in the first two months of 2012 and 7.65% for employees and 15.30% for self-employed individuals up to \$110,100 with an additional 1.45% tax (2.9% for self-employed individuals) on earnings over \$110,100 effective March 1, 2012. There is discussion that the Payroll Tax Cut may be extended beyond February 28, 2012. Please watch for updates on this.

ENERGY CREDITS

Energy-saving improvements to commercial real estate can be expensed in 2011, capped at \$1.80 per square foot of space for buildings achieving 50% energy savings. This credit is extended through December 31, 2013.

QUALIFIED PRODUCTION ACTIVITIES INCOME DEDUCTION (Section 199)

In 2010, under Code Section 199, taxpayers may deduct up to 9% of their domestic manufacturing income based on the lesser of qualified production activities (manufacturing) income and taxable income. The deduction is also limited to 50% of the W-2 wages allocated to domestic production receipts paid during the year. Examples of industries that qualify include manufacturing, production, extraction, construction, architects and engineering. Only the sales and expenses related to the activities listed above qualify for the deduction.

"S" CORPORATION HEALTH INSURANCE FOR SHAREHOLDERS

If you happen to have elected "S" Corporation status, the amounts paid by the Corporation for health insurance premiums on behalf of a more than 2% shareholder must be added to federal gross wages on the W-2 for that individual.

SELF-EMPLOYED SPOUSAL HEALTH INSURANCE

Self-employed individuals - whether in partnerships, limited liability companies, "S" Corporations, or sole proprietorships - who hire their spouses as employees, can deduct their medical benefits as legitimate business expenses.

CREDIT FOR SMALL EMPLOYER HEALTH INSURANCE PREMIUMS

The small employer tax credit is for businesses with less than 25 full-time workers and that pay average annual wages of \$50,000 or less. The credit is up to 35% of the businesses non-elective contribution toward the employee's health insurance premiums for tax years 2010 through 2013.

FEDERAL TAX DEPOSITS

The IRS has issued proposed regulations that beginning January 1, 2011 you must deposit all depository taxes (such as employment tax, excise tax, and corporate income tax) electronically using the electronic federal tax payment system (EFTPS). For more information about EFTPS or to enroll in EFTPS, visit the EFTPS website at www.eftps.gov or call 1-800-555-4477.

PENNSYLVANIA MINIMUM WAGE AND NEW HIRE REPORTING

The minimum wage in Pennsylvania was increased to \$7.15 on July 1, 2008. Remember that it is still mandatory to report to Pennsylvania all new employees within 20 days of hiring. An information packet with blank forms was mailed to all employers in December, 1997. For further information, you may call the Pennsylvania Bureau of Research and Statistics (1-888-724-4737).

REPORTING PAYMENTS MADE TO ATTORNEYS

There is no threshold amount below which reporting [under section 6045(f)] is not required. Payments made to any company (including corporations) engaged in providing legal services are reportable on Form 1099-MISC.

MILEAGE RATES

The official per-mile rate for business use of a car was 51 cents for January through June 30, 2011 and 55.5 cents for July 1 through December 31, 2011.

SECTION 179 EXPENSE AND VEHICLE DEPRECIATION

The Section 179 expensing provision is \$500,000 in 2011, with phase out threshold at \$2 million. 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 2011 depreciation deduction limit on passenger automobiles is \$3,060 and \$3,260 for light trucks and vans. The 2011 depreciation deduction limit for "qualified property" passenger automobiles is \$11,260 for light trucks and vans. The vehicle must be used more than 50% for business.

BONUS DEPRECIATION

The bonus depreciation provision has made a comeback. The 2010 Tax Relief Act boosts 50 percent bonus depreciation to 100 percent for qualified investments made after September 8, 2010 and before January 1, 2012. The 2010 Tax Relief Act also makes 50 percent bonus depreciation available for qualified property placed in service after December 31, 2011 and before January 1, 2013.

RETIREMENT PLAN CONTRIBUTIONS

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						
Year	401(k)s	401(k)s for Taxpayers 50 & over	IRAs *	IRAs * for Taxpayers 50 & over	SIMPLEs	SIMPLEs for Taxpayers 50 & over
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

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.

LOCAL INCOME TAX WITHHOLDING

All employers with locations within Pennsylvania are required to withhold earned income taxes from their employees based upon the higher of two tax rates the employee can be subject to, i.e. the employee's resident tax rate or the employer jurisdiction's non-resident tax rate. The employer will be required to identify the rate for each employee and withhold and remit at the higher of the two rates. Act 32 requires that all taxing bodies within each county choose one tax collector to administer the earned income tax for that county as of the 1st quarter of 2012, all employers/self reporting individuals are required to file the taxes due within the county's chosen administrator.

Employers must obtain from all existing and new employees a filled out certification form at their place of residence and the correct rate due. The form will also need to be updated if the employee moves. This form is available on our website.

Employers who employ 25 or more employees are required to file returns electronically. Please check with your county government to determine who your tax administrator will be.

LOCAL SERVICES TAX

If your business is located in a jurisdiction in which the *Emergency and Municipal Services Tax*, now called the *Local Services Tax*, exceeds \$10.00 annually, you should have received information regarding the method of withholding and payment of this tax. If you have any questions about this, please contact Berkheimer Associates at (814) 455-2710 or (866) 533-5219.

Sincerely,



DeMarco Wachter & Co.

Any federal tax advice contained herein is not intended or written to be used, and cannot be used by you or any other person, for the purpose of avoiding any penalties that may be imposed by the Internal Revenue Code. This disclosure is made in accordance with the rules of Treasury Department Circular 230 governing standards of practice before the Internal Revenue Service. Any written statement contained herein relating to any Federal tax transaction(s) or matter(s) may not be used by any person without the express prior written permission in each instance of a partner of this firm to support the promotion or marketing of or to recommend any Federal tax transaction(s) or matter(s) addressed herein.