

Northern Virginia  
Chapter of VSCPA  
Federal Update  
January 9, 2012

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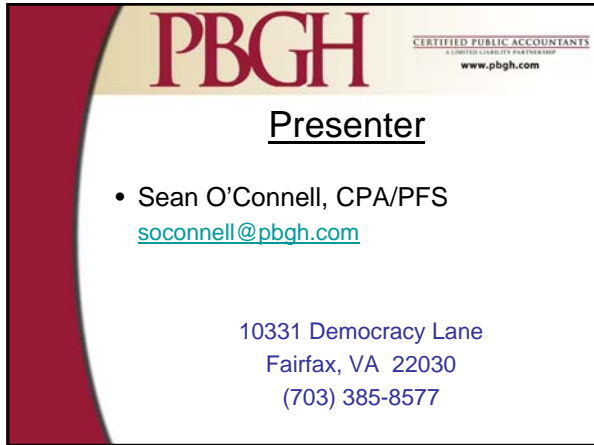
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Presenter

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Expired 9/30/10\*

**Home Buyer Credits**

- Up to **\$8,000** for "first time" home buyers
- Up to **\$6,500** for existing "long-time" home buyers
- If under contract by 4/30/10 → 5/1/11\*
- Must have occupied by 9/30/10 → 7/1/11\*



\* Active duty military out of U.S. more than 90 days

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1/1/11 – 2/29/12

### 2011 Payroll Tax Cut

- 6.2% social security reduced to 4.2% for employee withholding
- Self-employed's OASDI reduced from 12.4% to 10.4% (max savings \$2,136)




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Est. 1998

### Tax Free Roth IRAs

1. **Contribute** if joint income below \$169,000 (below \$116,000 for singles),
2. **Defer** into Roth 401(K) accounts,
3. **Convert** if AGI < \$100,000 (those MFS not allowed to convert), or
4. **In-plan distributions** from non-Roth to designated Roth account in same plan (after September 27, 2010)

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Effective Now

### Conversions to Roth IRAs

- Can convert to tax free accounts regardless of income
- Accounts converted (and in-plan distributions made) in 2010 could be taxed :  
50% in 2011 and  
50% in 2012




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Effective 1/1/11

### Over-the-Counter Medicines

- No longer able to pay for non-prescription medications using distributions from:
  - Flexible spending accounts (FSAs)
  - Health savings accounts (HSAs)
  - Health reimbursement arrangements (HRAs)
  - Archer Medical savings accounts (MSAs)
- These accounts can be used only for prescription medications or insulin
- The additional tax imposed for non-qualifying distributions is increased to 20%




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Plan Years > 9/23/10

### Adult Child Coverage

A child under the age of 27 is treated like a dependent for health coverage related purposes

- Employer provided reimbursement under accident or health insurance plan excluded from income
- Self-employed health insurance deduction




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3/19/10 - 12/31/10

### “Payroll Tax Holiday”

**If:** Business hired any employees who:

1. Started employment between February 3 and December 31, 2010, and
2. Had not been employed (by any employer) more than 40 hours during previous 60 days,

**Then:**  
Business did not pay the 6.2% employer’s social security tax for those employees from March 19, 2010 through December 31, 2010.

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**Form 5884-B**  
 (December 2010)  
 Department of the Treasury  
 Internal Revenue Service  
 Reporting Requirements

**New Hire Retention Credit**

OMB No. 1545-0050  
 Attachments  
 Employment Tax: 65

▶ Attach to your tax return.  
 ▶ Use Part II to list additional retained workers.

A credit of up to \$1,000 is allowed for each retained worker. A retained worker generally is a qualified employee (see instructions) whose first 52 consecutive weeks of employment ended in the current tax year. However, the worker's wages (as defined for income tax withholding purposes) for the second 20 consecutive weeks must equal at least 80% of the worker's wages for the first 20 consecutive weeks.

**Part II New Hire Retention Credit for Retained Workers**

Use a separate column for each retained worker. If you need more columns, use Part II and include the totals on line 10.

	(a) Retained Worker No. 1	(b) Retained Worker No. 2	(c) Retained Worker No. 3
1 Enter the retained worker's social security number . . . . .	1		
2 Enter the first date of employment from the retained worker's Form W-11 or similar statement . . . . .	2	/ / 2010	/ / 2010
3 Enter the retained worker's wages for the first 20 consecutive weeks of employment . . . . .	3		
4 Multiply line 3 by 80% (.80) . . . . .	4		
5 Enter the retained worker's wages for the second 20 consecutive weeks of employment. If line 4 is larger than this amount, the qualified employee is not a retained worker and should not be listed on this form . . . . .	5		
6 Add lines 3 and 5 . . . . .	6		
7 Multiply line 6 by 6.2% (.062) . . . . .	7		
8 Maximum credit allowable . . . . .	8	1,000.00	1,000.00

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Optional for 2011

## W-2 Reporting

- W-2s to report cost of providing group health insurance to each employee

**W-2 Wage and Tax Statement**  
 2009

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Never mind

## 1099 Reporting Scorecard

Payments for:	Status
Rental Expenses	Repealed
Business Expenses to Corporations	Repealed
Merchant Payment Card (Form 1099-K)	Payments after 12/31/11

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1/1/10 – 12/31/11

### Bonus Depreciation

New property purchased

Date placed in service	Deduct of cost
1/1/10 – 9/8/10	50%
9/9/10 – 12/31/11	100%
1/1/12 -	-0-

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### Section 179 / Bonus Comparison

	179	Bonus
Property	All personal	If original use
Limited to	\$500,000	No limit
Phase-out begins	\$2 million	N/A
Limited to Taxable Income?	Yes	NO
Rental activities	No	YES
Sport Utility Vehicles	\$25,000	LOOPHOLE
Virginia limitation	\$25,000	-0-

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11/21/11 – 12/31/12

### Work Opportunity Tax Credit



If unemployed:	Tax Credit
4 weeks to 6 months	\$ 2,400
More than 6 months	5,600
If service disabled	9,600

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Effective 2011

## Individual Foreign Reporting Requirements

- Individuals with offshore accounts and other foreign financial assets with values of \$50,000 or more must be reported.
- Penalty of \$10,000 and 40% of the amount understated.

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**Form 8938** Statement of Specified Foreign Financial Assets OMB No. 1545-0045  
November 2011  
Department of the Treasury Internal Revenue Service

See separate instructions Attach to your tax return Attachment Sequence No. 175

If you have attached additional sheets, check here

Name(s) shown on return \_\_\_\_\_ Identifying number \_\_\_\_\_

Number, street, and room or suite no. (if a P.O. box, see instructions) \_\_\_\_\_

City or town, province or state, and country (including postal code) \_\_\_\_\_

For tax year beginning 20\_\_ and ending 20\_\_

**Note.** All information must be in English. Show all amounts in U.S. dollars. Show currency conversion rates in Part I, line 6(2), or Part II, line 6(2).

Type of filer:  
 Specified individual  Married filing a joint return  Other individual  
 Specified domestic entity  Partnership  Corporation  Trust  Estate

Check this box if this is an original, amended, or supplemental Form 8938 for attachment to a previously filed return

**Part II Foreign Deposit and Custodial Accounts** (see instructions)

If you have more than one account to report, attach a continuation sheet with the same information for each additional account (see instructions).

1	Type of account	2	Account number or other designation
	<input type="checkbox"/> Deposit <input type="checkbox"/> Custodial		

3 Check all that apply:  Account opened during tax year  Account closed during tax year  
 Account jointly owned with spouse  No tax item reported in Part III with respect to this asset

4 Maximum value of account during tax year \$ \_\_\_\_\_

5 Did you use a foreign currency exchange rate to convert the value of the account into U.S. dollars?  Yes  No

6 If you answered "Yes" to line 5, complete all that apply:  
 Foreign currency in which account is maintained  Foreign currency exchange rate used to convert to U.S. dollars  Source of exchange rate used if not from U.S. Treasury Financial Management Service

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b Type of issuer or counterparty:  
 Individual  Partnership  Corporation  Trust  Estate

c Check if issuer or counterparty is a  U.S. person  Foreign person

d Mailing address of issuer or counterparty: Number, street, and room or suite no. \_\_\_\_\_

e City or town, province or state, and country (including postal code) \_\_\_\_\_

**Part III Summary of Tax Items Attributable to Specified Foreign Financial Assets** (see instructions)

Asset Category	Tax Item	Amount reported on form or schedule	Where reported	
			Form and line	Schedule and line
I. Foreign Deposit and Custodial Accounts	a Interest	\$ _____		
	b Dividends	\$ _____		
	c Royalties	\$ _____		
	d Other income	\$ _____		
	e Gains (losses)	\$ _____		
	f Deductions	\$ _____		
	g Credits	\$ _____		
	h Other	\$ _____		
	i Total	\$ _____		
II. Other Foreign Assets	a Interest	\$ _____		
	b Dividends	\$ _____		
	c Royalties	\$ _____		
	d Other income	\$ _____		
	e Gains (losses)	\$ _____		
	f Deductions	\$ _____		
	g Credits	\$ _____		
	h Other	\$ _____		
	i Total	\$ _____		

**Part IV Excepted Specified Foreign Financial Assets** (see instructions)

If you reported specified foreign financial assets on the following forms, check the appropriate box(es). Indicate number of forms filed. Do not need to include these assets on Form 8938 for the tax year.

2620 Number of forms \_\_\_\_\_  2620-A Number of forms \_\_\_\_\_  5471 Number of forms \_\_\_\_\_  
 8621 Number of forms \_\_\_\_\_  8865 Number of forms \_\_\_\_\_

Form 8938 (11-2011)

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## Planning for post-2011




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Expired 12/31/11

## Sunset Tax Incentives

- State and local sales tax deduction
- Teacher's classroom expense deduction
- Higher education tuition deduction
- Residential energy credits
- Ability to offset AMT with Child Tax, Dependent Care, and Lifetime Learning Credits
- Charitable contributions from IRAs

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2010 thru 2011

## IRA → Charity



- Those age 70 ½ or older could make contributions to charitable organizations directly from IRAs
- Each taxpayer could contribute up to \$100,000
- Contributions made during January of 2011 could apply to 2010 taxes

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### Exclusion on Small Business Stock

**IF:** Original issue domestic C-corp, corporate assets < \$50 MM at time of issue, and held at least five years

**THEN:** Portion of gain on sale excluded, not to exceed greater of:

- Ten times basis, or \$10 million

Date Stock Acquired	Exclusion %
Before 2/18/09	50%
2/18/09 – 9/27/10	75%
9/28/10 – 12/31/11	100%
After 12/31/11	50%

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Expire 12/31/12

### Sunset Tax Incentives

- Child tax credit
- Enhanced adoption credits
- Higher phase-out of Earned Income Tax Credit
- “Pease” limitation on itemized deductions
- Personal exemption phase out
- Bush-era reduced income tax rates (35%)
- Reduced cap gains/dividends rates (15%)

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Effective 2013

### “Medicare Tax” on Earned Income (AGI or MAGI not relevant)

Wages or SE Income	Employee’s Medicare Tax	Employer’s Medicare Tax
First \$200,000	1.45%	1.45%
In excess of \$200,000 (\$250,000 if joint, \$125,000 if MFS)	2.35%	1.45%

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### "Medicare Tax" on Unearned Income (if High MAGI)

**3.8% additional tax on:**

- Interest
- Dividends
- Annuities
- Royalties
- Rents, if not from active trade or business
- Gains from passive trades or business
- Non-business capital gains, less expenses




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Effective 2013

### Who is "High Income"?

Filing Status	Modified AGI
Filing Jointly	\$250,000
MFS	125,000
Single	200,000

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### "Medicare Tax" Example



MFJ taxpayers with:  
 \$500k in wages  
 \$100k net investment income:

Extra .9% on \$250k = \$ 2,250  
 3.8% tax on \$100k + 3,800  
 Total new "Medicare tax" \$ 6,050

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Effective 2013

### Foreign Financial Institution Reporting Requirements

- 30% withholding tax on certain investment income paid to a foreign financial institution
- Unless foreign institutions report annually on balances, receipts and withdrawals/payments
- Foreign entities required to provide withholding agents with information on any U.S. individual who is a substantial (10%) owner

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Effective 2013

### Itemized Medical Deductions

- 10% AGI threshold
- If 65 or older, still 7.5% for 2013 – 2016



Effective 2017

- 10% threshold for everyone

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Effective 2014-2015

### Small Business Health Care Tax Credit

Credit amount	Full Time Employees	Average Annual Compensation
Full Credit (50%)	10 or Less	\$25,000 or less
Phase Out	6.667% per employee	4% for each \$1,000
No Credit	25 or more	\$50,000 or more

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Effective 2014

### Large Employer Mandate – “Play or Pay”:

- Businesses with 50 or more full-time (30 hours/week or more) employees
- Penalty of \$2,000 per year per full time employee if full-time employees and their dependents are not offered minimum essential coverage

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### Requirement to Carry Health Insurance

**All except for:**

- Prisoners
- Undocumented aliens
- Health care sharing ministry members
- Those with religious objections
- Those who can't afford it
  - If “bronze level” health coverage is more than 8% of household income
- Those below tax filing threshold
- Certain Native Americans
- Those experiencing short lapses in coverage
- Hardship with respect to ability to obtain coverage for the month as determined by HHS




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### Individual Mandate – “Play or Pay”:

	2014	2015	2016
Penalty – Flat Dollar Amount (up to a maximum of 3 per family)	\$95	\$325	\$695
Percentage of Income Amount (Household income less filing threshold)	1%	2%	2.5%

- Penalty is the greater of the flat dollar amount or the percentage of income amount
- Limited to the amount of premium for bronze level coverage.

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### Federal Estate Taxes

2001 Act - No estate tax for 2010 decedents

Modified carryover basis rules for property acquired from a decedent who died in 2010

- An executor may increase (“step-up”) the basis in property by \$1.3 million.
- This may be increased for certain unused built-in losses and loss carryforwards.
- An additional basis increase of \$3 million is available for property passed on to a surviving spouse.

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1/1/10 – 12/31/12

### Estate Taxes

- The federal estate tax was reinstated for decedents dying after December 31, 2009
- Maximum estate tax rate is 35%, with an exclusion amount of \$5 million.
- The reinstatement of the estate tax is also temporary, as it is scheduled to sunset on December 31, 2012.

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### Estate Taxes

The 2010 Act provided an optional election for those who died 1/1/10 – 12/16/10:

- Estates must apply the estate tax based on the new 35% top rate and \$5 million exemption (default); or
- Elect to apply no estate tax and the modified carryover basis rules, as provided by the 2001 Act.
- The election is irrevocable unless consent to revoke is granted by the IRS.

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Effective 1/1/11

## Exclusion Portability

The 2010 Act provided for "portability" between spouses of the maximum estate tax exclusion.

- A surviving spouse can elect to take advantage of the unused portion of the estate tax exclusion of the predeceased spouse.
- Portability election must be made on a timely filed estate tax return.

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## Gift & Generation Skipping Transfer Taxes

For gifts after 2010, gift tax is reunified with the estate tax.

- Top tax rate for gifts after 2010 is 35%
- Maximum exclusion amount is \$5 million for 2011; \$5,120,000 for 2012

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**Questions?**

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