

## CHANGES IN TAX LAWS AND SPECIAL TAX ISSUES THAT MAY AFFECT YOU

**Recent changes in federal tax laws will impact many federal tax returns prepared in 2011... in one way or another.**

### FILING REQUIREMENTS

For most taxpayers, if your 2011 gross income (does not include social security payments) is under the following levels, you do not have to file a federal tax return (unless you have self-employment income):

	<u>Under 65</u>	<u>Over 65</u>
Single:	\$ 9,500	\$ 10,950
Married, Filing Joint, and Both Are:	19,000	21,300

### CREDIT FOR EDUCATIONAL EXPENSES

The American Opportunity Credit now is a maximum of \$2,500 a year for qualified higher education expenses, and the credit can be used for expenses incurred in up to four years of study. Further, for the American Opportunity Credit, “course materials”, including books, are now included with tuition and fees as “qualified” expenses. The Lifetime Learning Credit may also be utilized.

For 2011, taxpayers may deduct up to \$2,865 on their Iowa income tax return per beneficiary for funds contributed to the Iowa Educational Savings Plan Trust. Many other states also allow state tax return deductions for 529 college savings plans.

### CHARITABLE CONTRIBUTION RULES

Deductions for charitable contributions of \$250 or more (each) are not allowed unless you have a written statement acknowledging the contribution from the charitable organization. **Additionally, all contributions, regardless of amount, must be substantiated by a bank record (cancelled check) or a written communication from the charitable organization.**

### OPTIONAL STATE SALES TAX AS ITEMIZED DEDUCTION

The ability to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction continues for 2011. You cannot deduct both. While this deduction will mainly benefit taxpayers with a state sales tax but no income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) . . . it may give a larger deduction to any taxpayer who paid more in sales taxes than income taxes. Examples could include a taxpayer who paid sales tax on a boat, home (including mobile or prefabricated), or home building materials.

## **LOWER FEDERAL CAPITAL GAINS TAX RATES**

Capital gain tax rates (for property held more than 12 months) remain at a maximum of 15%. **NOTE:** For sale transactions between January 1, 2009, and December 31, 2012, if a taxpayer is in the 10% or 15% (including the capital gain) tax rate bracket, the federal capital gains tax rate will be zero.

## **DIVIDEND INCOME STILL TAXED AT CAPITAL GAIN RATES**

The top federal tax for "qualified stock dividends" received by an individual at any time during 2011 is reduced to 15% -- and the rate is reduced to 5% for those persons whose incomes fall in 10% or 15% rate brackets. The Forms 1099 taxpayers will receive will indicate the total amount of "qualified" dividends received.

## **§ 179 DEDUCTION – FAST DEPRECIATION WRITE-OFF**

The maximum dollar amount that may be deducted under §179 has been increased to \$500,000 for qualifying property placed in service in 2011. As before, the deduction is limited to the aggregate taxable income of the taxpayer actively engaged in a trade or business. Please note, however, under current law the maximum §179 deduction that can be taken in 2012 will be \$139,000 and \$25,000 in 2013 unless the law is changed.

## **RESIDENTIAL ENERGY CREDITS**

A principal residence energy credit of up to \$500 applies to new 2011 expenditures on the taxpayer's principal residence (not vacation homes). The credit rate is 10% of the cost of new qualified energy efficiency improvements, such as: exterior windows, exterior doors, metal roofs coated with heat-reduction pigments, asphalt roofs with cooling granules, and insulation materials or systems (including vapor retarder or seal) designed to reduce heat loss or gain. If a taxpayer had an energy credit prior to 2011, it is possible no additional credit will be available.

The credit also is available for qualified residential energy property, such as electric heat pumps, electric heat pump water heaters, and central air conditioners; natural gas, propane, and/or oil water heaters or furnaces, biomass fuel stoves, and hot water boilers; and advanced main air circulating fans.

You must have the manufacturer's certification or the Energy Star label to confirm that the expenditure qualifies for the credit.

The "High Tech" Residential Energy Credit applies during tax years 2011 through 2016 for qualified solar hot water property, geothermal heat pumps, and wind energy property. The credit rate is 30% on the full cost of the improvements (including labor costs for preparation, assembly, and original installation). There is no cap on the amount of a credit that can be taken for these "High Tech" improvements.

## **IRA DEDUCTIONS**

Each taxpayer can contribute up to \$5,000 to either a traditional or Roth IRA for 2011 subject in some cases to the amount of your adjusted gross income. If you are age 50 or older you can make an additional \$1,000 “catch-up” contribution to traditional or Roth IRAs for a total of \$6,000. You have until April 17, 2012, to make these contributions.

## **SAVER’S TAX CREDIT**

The “saver’s credit” may benefit single taxpayers with adjusted gross incomes of \$28,250 or less, and married taxpayers (filing jointly) with adjusted gross incomes of \$56,500 or less.

If you make IRA contributions or elective deferrals to 401(k) or other qualified plans (such as a Keogh or SEP plan), you may qualify for a tax credit that reduces federal income tax of up to \$2,000 for married taxpayers and up to \$1,000 for single taxpayers.

## **HEALTH AND LONG-TERM CARE INSURANCE DEDUCTIBILITY**

Please make sure you provide us with complete information concerning the total amount paid in 2010 for health insurance premiums for each member of your family. A **portion** of the premiums paid for long-term care insurance may be deductible on federal returns (as an itemized deduction) as health insurance premiums. The portion of long-term care premiums that is deductible depends on the age of each member of the family as of December 31, 2011 [ranging from \$340 to \$1270 up to age 60; \$3,390 for ages 61-70; and \$4,240 if over age 70]. Thus, long-term care premiums must be allocated between husband and wife on the tax worksheet.

**For self-employed persons, 100% of the total of health insurance and eligible long-term care premiums is fully deductible on the federal returns without itemizing.**

The total of your health insurance premiums and all eligible long-term care insurance premiums is also **100% deductible for all individuals** in computing net income on your Iowa return, without itemizing. Thus, it is very important that you provide us with information on your insurance premiums, even if you do not itemize deductions.

## **MISCELLANEOUS NOTES OF TAX INTEREST**

1. On Iowa returns a partial exclusion from income is provided for the receipt of pensions, annuities, self-employed retirement plans (such as Keogh), deferred compensation, IRA distributions, and other retirement benefits (excluding social security) by taxpayers 55 or older. If your tax status is married filing jointly, the exclusion is up to \$12,000. For all other tax filing statuses the exclusion is up to \$6,000.
2. **Spousal IRA.** Deductible IRA contributions of up to \$5,000 can be made for each spouse (**including a spouse not employed outside the home**) if the combined compensation of both spouses is at least equal to the total contributed amount, and certain other rules are met.

3. The business rate for automobile mileage in 2011 was 51 cents per mile for the first half of the year, and 55.5 cents per mile for the second half of the year. The rate will be 55.5 cents for 2012.
4. If you claim the credit for child care for children under 13 you must provide the name, address, and social security number or E.I.N. for each child care provider.
5. The maximum amount of employment-related expenses for child care that qualify for the credit for child care is \$3,000 for one child, and \$6,000 for two or more children.
6. Single persons with earned income of less than \$36,052 with one dependent child (\$43,998 if you have three or more children), may be entitled to the federal earned income credit. The credit also is available to those 25 years old or older, without children, who earned less than \$13,660. Higher amounts apply to those married filing jointly. The Iowa earned income credit (7% of the federal credit) now is a refundable credit.

### **TUITION, TEXTBOOK AND ACTIVITY FEE CREDIT FOR IOWA TAXPAYERS**

Taxpayers who have one or more dependent children attending grades K through 12 in an Iowa public or private accredited school may claim a **twenty-five (25%) percent tax credit** on the Iowa return **for the first \$1,000 paid for tuition, textbooks and activity fees for each dependent**. **The definition of textbooks has been expanded to include books and materials for extracurricular activities as follows:**

The cost of **the following items are eligible** for the credit: activity fees; booster club dues; cleats for football, baseball, soccer, track, and golf shoes; costumes for a play; special clothing for a concert; rental of musical instruments for school or band or for lessons at a school; sheet music used in a school; cost of basic materials for shop class or mechanics class; and band, hockey and football uniforms. New this year you are also able to claim the cost of items purchased to fulfill a mandatory school supply list.

The cost of **the following items are not eligible** for the credit: basketball shoes; purchase of musical instruments; clothing for a play or concert that is suitable for everyday wear; travel expenses for trips; cost of music lessons outside of school; and expenditures for wood or materials for making furniture or repair of personal vehicles.

### **DOMESTIC HOUSEHOLD EMPLOYEES**

If you employed domestic employees in 2011 (e.g. cleaning persons, health aides, persons providing child care in your own home, etc.) and paid wages totaling \$1,700 or more, you are required to pay employment taxes on these wages -- and the payment is made with your individual federal income tax return. You should bring in all information regarding domestic employees (e.g. name, address, social security number, gross wages, etc.) with your regular income tax information. Please note that Forms W-2 will need to be prepared and filed by January 31 for these employees regardless of the amount of wages paid.

## **1099 AND WAGE REPORTS DUE FEBRUARY 1**

If you are required to issue Forms 1099 or W-2 in connection with your business or farm operation, please remember that these documents must be sent to the person paid on or before January 31, 2012. If your tax appointment is after this date, please bring all necessary information to the office before January 29 so the proper reports can be prepared and filed by the due date. Failure to comply with these information report-filing requirements can result in a penalty of \$100 for each report not filed.

As in the past, if you have paid wages for agricultural labor during the year in the amount of less than \$150, you do not have to pay social security tax on the wages. However, if all of your agricultural wages total \$2,500 or more, you must pay social security taxes on all employees ... whether a particular employee earned \$25, or \$125, or \$1,000.

Agricultural wages, which are subject to social security taxes, also are subject to federal and state income tax withholding. You should contact the office if you have any questions.

## **COST BASIS FOR STOCK OR MUTUAL FUNDS SOLD**

To correctly compute the capital gain on the sale of any stock or mutual fund, you must provide us with cost basis information. This is the original cost plus any brokerage fees. If there have been dividend reinvestments, we need information on all dividends reinvested each year you held the stock or fund.

Beginning this year, brokers will provide some cost basis information on Form 1099-B. You need to compare this information with your own records to confirm its accuracy.

## **BROKERS HAVE UNTIL FEBRUARY 15 TO SEND 1099 FORMS**

Remember, brokers now have until February 15, 2012 to mail Forms 1099 to you (rather than January 31).

## **2011 FEDERAL INCOME TAX BRACKETS**

<b><u>Married Filing Jointly</u></b>		<b><u>Single</u></b>	
<b>Taxable Income</b>	<b>Tax Rate</b>	<b>Taxable Income</b>	<b>Tax Rate</b>
\$ 0 to \$ 17,000	10%	\$ 0 to \$ 8,500	10%
\$ 17,001 to \$ 69,000	15%	\$ 8,501 to \$ 34,500	15%
\$ 69,001 to \$139,350	25%	\$ 34,501 to \$ 83,600	25%
\$139,351 to \$212,300	28%	\$ 83,601 to \$174,400	28%
\$212,301 to \$379,150	33%	\$174,401 to \$379,150	33%
\$379,151 and over	35%	\$379,151 and over	35%

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