



PO BOX 757 – 12855 LAKE BLVD
LINDSTROM, MN 55045
PHONE: 651.257.2152 FAX: 651.257.4236

2011 Income Tax Changes & Updates

IRA News and Updates:

- **2010 Roth IRA Conversion Installment Due**
 - If you did a Roth IRA Conversion in 2010 and elected the spread the tax payments over 2011 and 2012 you will have to pay one-half of the tax owed from the conversion with your 2011 Income Tax Return. The other half will be due with your 2012 Income Tax Return.
 - If you took a distribution in 2011 from your 2010 Roth IRA Conversion you may be required to pay more to cover the taxes from the distributed amount.
- **2011 Roth IRA Conversion**
 - There is not deferral of the taxes and you will have to pay the taxes with your 2011 Income Tax Return.
- **2011 Contribution Deadline**
 - The 2011 IRA Contribution deadline is extended to April 17, 2012 due to April 15th falling on a Sunday and the observance of Emancipation Day in the District of Columbia on Monday, April 16th.
- **Qualified Charitable Distributions**
 - Through December 31, 2011 taxpayers could make a nontaxable distribution directly by the trustee to an eligible charitable organization under the following rules:
 - Taxpayer is age 70 ½ at the time of the distribution
 - Distribution amounts up to \$100,000 per taxpayer
 - Taxpayer cannot receive the funds. The funds must go directly from the trustee to the charity.
 - Charity must receive the funds in the same year the QCD was distributed from the IRA.
 - Donor advised funds and certain private foundations are not eligible charities.
 - Even though it is not taxable, it qualifies for the taxpayer's required minimum distribution up to \$100,000.
 - If excluded from income it cannot be taken as an additional deduction on Schedule A.

First-Time Homebuyer Credit

If you are subject to repayment of an installment of the First-Time Homebuyer Credit that you received in 2008 or 2009 you repayment installment will be reflected on Line 59b of Form 1040 and you will not be required to file form 5405 anymore. If you sold your home, or are no longer using it as your primary residence you will need to speak with a tax professional to determine any additional amounts that may be due.

Making Work Pay Credit

This credit of up to \$400 for each taxpayer on the return expired on December 31, 2010.



PO BOX 757 – 12855 LAKE BLVD
LINDSTROM, MN 55045
PHONE: 651.257.2152 FAX: 651.257.4236

Social Security 2% Employee Withholding Reduction

Beginning January 1, 2011 your wages were subject to a reduced withholding of 4.2% for Social Security, instead of the normal 6.2%. If you are self-employed you will be subject to a 13.4% Self-Employment Tax instead of 15.2% on your 2011 Profits.

- This has been extended through February 2012

Basis Reporting for Investors – Capital Gains

Brokers are now required to report the basis of transactions on Form 1099-B that have occurred during the year if the stock/investment. Taxpayers should be aware that the Internal Revenue Service will be matching this information with what is reported on the return.

- Investment transactions will now be reported on Form 8949 instead of being entered directly onto Schedule D of your income tax return.

Foreign Assets

Foreign Account Tax Compliance Act (FATCA) reporting requires foreign assets to be reported if they have a total value of more than \$50,000 (\$100,000 if married filing jointly). FATCA is broader than what is defined under the Report of Foreign Bank and Financial Accounts, or FBAR. For example, FATCA includes stock or securities issued by someone other than a U.S. “person,” any interest in a foreign entity, and any financial instrument or contract that has an issuer or counterparty other than a U.S. “person.”

- In addition to the prior obligation to report FBAR accounts on Form TDF90-22.1, FATCA must now be reported on a new Form 8938.

Employer Sponsored Health Coverage Reporting

For 2011 W-2s issued in 2012 some employees will see a code “DD” in Box 12 of their W-2 indicating the amount of their employer-sponsored health coverage. This is optional for W-2s issued for 2012 for 2011, but will be mandatory information for W-2s issued for 2012 and future years.

Self Employed Health Insurance Deduction

Eligible self-employed individuals and S corporation shareholders can use this deduction to reduce their income tax liability. Premiums paid for health insurance covering the taxpayer, spouse and dependents generally qualify for this deduction. In addition, premiums paid to cover an adult child under age 27 at the end of the year, also qualify, even if the child is not the taxpayer’s dependent.

- The deduction from self-employment income for determining self-employment tax no longer applies.
- The insurance plan must be set up under the taxpayer’s business, and the taxpayer cannot be eligible to participate in an employer-sponsored health plan.

Health Savings Accounts (HSA)

The additional tax on distributions from a health savings account (HSA), not used for qualified medical expenses, increases from 10% to 20%.

Medical Savings Accounts (MSA)



PO BOX 757 – 12855 LAKE BLVD
LINDSTROM, MN 55045
PHONE: 651.257.2152 FAX: 651.257.4236

The additional tax on distributions from an Archer medical savings account (MSA), not used for qualified medical expenses, rises from 15% to 20%

Limited Nonbusiness Energy Property Credit

This nonrefundable credit generally equals 10% of what a homeowner spends on eligible energy-saving improvements, up to a maximum tax credit of \$500. In addition, the energy standards are increased for most property; windows, exterior doors and skylights, for example, must meet Energy Star Program requirements.

- Your credit for 2011 will be reduced by any nonbusiness energy property credits claimed on your 2006, 2007, 2008, 2009 or 2010 since this is a lifetime credit. If you have used up the entire credit in prior years you are not eligible for any additional credit.
- The cost of certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass all qualify, along with labor costs for installing these items.
- The cost of energy-efficient windows and skylights, energy-efficient doors, qualifying insulation and certain roofs also qualify for the credit, though the cost of installing these items do not.

Standard Mileage Rate

- **January 1 – June 30:**
 - You are eligible for an expense of \$0.51 per mile for business use of a car, van, pick-up or panel truck that you are not reimbursed for.
 - You are eligible for an expense of \$0.19 per mile for medical reasons that you are not reimbursed for.
 - You are eligible for an expense of \$0.19 per mile for a deductible moving expense that you are not reimbursed for.
 - You are eligible for an expense of \$0.14 per mile for services provided to charitable organizations.
- **July 1 – December 31:**
 - You are eligible for an expense of \$0.555 per mile for business use of a car, van, pick-up or panel truck that you are not reimbursed for.
 - You are eligible for an expense of \$0.235 per mile for medical reasons that you are not reimbursed for.
 - You are eligible for an expense of \$0.235 per mile for a deductible moving expense that you are not reimbursed for.
 - You are eligible for an expense of \$0.14 per mile for services provided to charitable organizations.

AMT Exemption

For tax-year 2011, the alternative minimum tax exemption increases to the following levels:

- \$74,450 for a married couple filing a joint return and qualifying widows and widowers
- \$37,225 for a married person filing separately
- \$48,450 for singles and heads of household



PO BOX 757 – 12855 LAKE BLVD
LINDSTROM, MN 55045
PHONE: 651.257.2152 FAX: 651.257.4236

1099 Requirements

Taxpayers involved in a trade or business will now be required to indicate on their tax return if they made payments that would require them to file Form 1099 and if they actually filed them.

- No form 1099-MISC is required for payments made to corporations or if the payment is for the purchase of merchandise, supplies, fixed assets, and other purchases where the payee recognizes the payment as gross proceeds from the sale of property.
- Credit card companies and electronic payment processors are required to annually file transaction reports with the IRS listing their total annual payments to individual merchants who receive more than \$20,000 and conduct more than 200 transactions each year.

Cell Phones

Cell phones are no longer considered listed property. When provided to an employee for non-compensatory purposes, the business and personal use of the cell phone is generally nontaxable to the employee and recordkeeping of use is no longer required.

- Reimbursements to employees that are required to have cell phones are tax-free.

E-filing Mandate.

Beginning with tax returns filed in 2012 tax preparers that prepare tax returns are required to e-file all tax returns. If you do not want your return electronically filed you will need to inform your tax preparer in writing to opt out of e-filing.

Tax Preparer Exam – Register Tax Return Preparer

The IRS now requires paid tax preparers other than attorneys, CPAs and enrolled agents, to take and pass an exam by December 31, 2013.

Filing Deadline for Calendar Year Return Filers.

The 2011 Income Tax Return filing deadline is extended to April 17, 2012 due to April 15th falling on a Sunday and the observance of Emancipation Day in the District of Columbia on Monday, April 16th.

This is only a summary of some of the changes. There may be additional changes that are more specific to your situation. Additionally, legislation after this document went to print may have changed. There are always additional changes that may be pending in legislation that may affect your situation. You will want to confirm with your tax professional if certain information still applies.



PO BOX 757 – 12855 LAKE BLVD
LINDSTROM, MN 55045
PHONE: 651.257.2152 FAX: 651.257.4236

Changes for 2013

Medical Expense Deduction

The threshold for the itemized deduction for unreimbursed medical expenses will increase from 7.5% of AGI to 10.0% of AGI. However, if you turn 65 before the end of the tax year in 2013 – 2016 the 7.5% threshold will still remain.

Increased Medicare Tax on Earned Income

The employee portion of FICA will be subject an additional tax of 0.9% on combined wages and/or self-employed income received in excess of the following thresholds:

- Single \$200,000
- Married Filing Separate \$125,000
- Married Filing Joint \$250,000
- Employers will be required to pay the tax on wages in excess of \$200,000 without taking into consideration the income of their employee's spouse.
- The taxpayer will be responsible for the tax if it was not withheld by their employer(s).

Medicare Tax on Unearned Income

Individuals, estates, and trusts will be subject to an unearned income Medicare contribution tax:

For individuals the tax is 3.8% of the lesser of net investment income, or the excess of modified adjusted gross income over the following threshold amounts:

- Single \$200,000
- Married Filing Separate \$125,000
- Married Filing Joint \$250,000

For estates and trusts the tax is 3.8% of the lesser of undistributed net investment income or the excess of adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins.

- Tax does not apply to a nonresident alien or to a trust all the unexpired interests in which are devoted to charitable purposes.
- Tax also does not apply to a trust that is exempt from tax under IRC section 501 or a charitable remainder trust exempt from tax under IRC section 664.

Large Employer Health Coverage Requirement

Employers with an average of at least 50 full-time employees during the preceding calendar year will be required to offer affordable health insurance to its full-time employees (average of 30 hours per week)

- Seasonal workers do not count.
- Full-time equivalent employees are calculated on a pro-rata basis.
- Employer must pay at least 60% of the cost of the benefits. There is no penalty if an employee rejects coverage.



PO BOX 757 – 12855 LAKE BLVD
LINDSTROM, MN 55045
PHONE: 651.257.2152 FAX: 651.257.4236

Changes for 2014

Health Insurance Requirement

Beginning in January 2014, non-exempt U.S. citizens and legal residents will be required to have health insurance.

- Exempt individuals include those that are incarcerated (only applies during those months), not legally present in the U.S., or maintain religious exemptions. Individuals residing outside the U.S. are deemed to maintain minimum essential coverage.
- There will be penalties for failure to maintain health insurance. These penalties will be the greater of the base amount or the percent of excess household income over the filing threshold amount (\$9,500 for single and \$19,00 for married couple as of 2011):
 - 2014: \$95 or 1%
 - 2015: \$325 or 2%
 - 2016 and after: \$695 or 2.5% (will be indexed annually for inflation)
 - Individuals under age 18 will be subject to half the adult penalty. Individuals will be liable for the penalties imposed for their dependents.
 - The total household penalty cannot exceed 300% of per adult penalty.
 - Individuals who cannot afford coverage because their required contribution for employer-sponsored coverage or the lowest cost bronze plan in the local exchange exceeds 8% of household income for the year are exempt from the penalty. After 2014, the 8% exemption is increased by the amount which premium growth exceeds income growth.

Health Insurance Premium Assistance

Low-income individuals may qualify for a refundable premium assistance credit to subsidize the purchase of health insurance through an exchange. Individuals (single or joint filers) incomes will have to be between 100% and 400% of the federal poverty level for the family size involved who do not receive health insurance through an employer or spouse's employer.

Health Insurance High-Deductible Plan Cost-Sharing Subsidy

Low-income individuals may qualify for a cost sharing subsidy to help reduce the maximum annual deductible and out-of-pocket expense limits. Individuals (single or joint filers) incomes will have to be between 100% and 400% of the federal poverty level.

This is only a summary of some of potential changes that are pending for the future. There may be additional changes that are more specific to your situation. Additionally, legislation after this document went to print may have changed. There are always additional changes that may be pending in legislation that may affect your situation. You will want to confirm with your tax professional if certain information still applies.