

JANUARY 2011 NEWSLETTER

Chan CPA & Company, Inc. is in full swing for the 2010 tax season. All our individual organizer packages have gone out and pre-scheduled appointments made. If you didn't get an appointment card and would like to schedule a meeting, please call the office. Our corporate and entity organizer packages will be going out this week.

The team of Chan CPA tax specialists look forward to providing our clients with dedicated and individualized tax expertise. We appreciate the confidence you have shown in us, and we remain ready to assist you with your 2010 returns, tax planning and projections for 2011, along with all your accounting requirements.

It's tax time again

It's time to file various tax returns once again. If any of the following tax deadlines will apply to you, circle the dates on your 2011 calendar.

January 18 – Due date for the fourth quarterly installment of 2010 estimated taxes for individuals unless you file your tax return and pay any taxes due by January 31.

January 31 – Employers must furnish 2010 W-2 statements to employees. Payers must furnish payees with Form 1099s for various payments made. (The deadline for providing Form 1099B and consolidated statements to customers is February 15.)

January 31 – Employers must generally file annual federal unemployment tax returns.

February 28 – Payers must file information returns, such as Form 1099s, with the IRS. This deadline is extended to March 31 for electronic filing.

February 28 – Employers must send Form W-2 copies to the Social Security Administration. This deadline is extended to March 31 for electronic filing.

March 1 – Farmers and fishermen who did not make 2010 estimated tax payments must file 2010 tax returns and pay taxes in full.

March 15 - Corporate tax returns for 2010 are due.

April 18 – Individual federal income tax returns for 2010 are due.



E-File vs Paper Tax Forms

The IRS is urging taxpayers to E-file instead of mailing paper tax forms to minimize confusion over the recent tax changes and ensure accurate tax returns.

Taxpayers will need to wait to file if they are within any of the following three categories:

- Taxpayers claiming itemized deductions on [Schedule A](#). Itemized deductions include mortgage interest, charitable deductions, medical and dental expenses as well as state and local taxes. In addition, itemized deductions include the state and local general sales tax deduction extended in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 enacted Dec. 17, which primarily benefits people living in areas without state and local income taxes and is claimed on Schedule A, Line 5. Because of late Congressional action to enact tax law changes, anyone who itemizes and files a Schedule A will need to wait to file until mid- to late February.
- Taxpayers claiming the Higher Education Tuition and Fees Deduction. This deduction for parents and students — covering up to \$4,000 of tuition and fees paid to a post-secondary institution — is claimed on [Form 8917](#). However, the IRS emphasized that there will be no delays for millions of parents and students who claim other education credits, including the American Opportunity Tax Credit and Lifetime Learning Credit.
- Taxpayers claiming the Educator Expense Deduction. This deduction is for kindergarten through grade 12 educators with out-of-pocket classroom expenses of up to \$250. The educator expense deduction is claimed on [Form 1040](#), Line 23, and Form 1040A, Line 16.

For those falling into any of these three categories, the delay affects both paper filers and electronic filers. The IRS emphasizes that e-file is the fastest, best way for those affected by the delay to get their refunds.

New law extends Bush-era tax rates for two years

After weeks of wrangling over the details, both the Senate and the House passed a bill that will extend the tax rates in effect in 2010 for another two years, through December 31, 2012. President Obama signed the 2010 Tax Relief Act into law on December 17, 2010.

Here's an overview of the key provisions in the law.

Tax rates. The existing tax rates established in the 2001 and 2003 tax laws will continue for all taxpayers through 2012. This means the top tax rate for 2011 and 2012 will remain at 35% instead of reverting to 39.6% as it would have done had the 2010 Tax Relief Act not passed.

Capital gains and dividends. The top rate for long-term capital gains will remain at 15% for taxpayers in all but the two lowest ordinary income brackets; those taxpayers will continue to have a 0% rate on capital gains. Dividends will continue to be taxed at the 15% and 0% rates instead of reverting to ordinary income rates as high as 39.6%.

Itemized deductions and personal exemptions. Higher-income taxpayers will not have their itemized deductions limited and their personal exemptions phased out.

Education tax breaks. The law extends the American Opportunity Tax Credit through 2012. The income exclusion for up to \$5,250 of employer-provided education assistance to employees is continued for two years. The higher contribution limit of \$2,000 and other enhancements to Coverdell Education Savings Accounts were extended for two years.



Alternative minimum tax (AMT). The AMT was given another “patch” for 2010 and 2011, a move that will keep the tax from hitting millions more taxpayers. For 2010, the exemption amount is \$47,450 for individuals and \$72,450 for married couples filing joint returns. For 2011, the exemption is \$48,450 for singles and \$74,450 for couples. Without this adjustment, the exemption amounts for 2010 and 2011 would have been \$33,750 for singles and \$45,000 for couples.

Payroll tax. A new tax break is created for workers who pay social security taxes. For 2011, the employee rate for social security tax is cut from 6.2% to 4.2% on wages up to \$106,800. Self-employed individuals will pay 10.4% on self-employment income up to \$106,800. Employers will continue to pay 6.2% on employee wages. This payroll tax rate cut does not affect the Medicare portion of payroll taxes for either employees or employers.

Extenders. Tax breaks that have come to be called “extenders” because they’re typically extended retroactively every year, but just for a year, are again extended by the new law.

Effective for 2010 and 2011 returns, taxpayers have the option of deducting state and local sales taxes instead of state and local income taxes. The deduction for up to \$4,000 of higher education expenses and the deduction for teachers who buy classroom supplies are extended. Those age 70½ or older may again contribute up to \$100,000 tax-free from an IRA to a charity. Note that the deduction for real estate taxes paid by non-itemizers was not extended.

Business provisions. The law extends the research tax credit for 2010 and 2011, and it extends the work opportunity tax credit through 2011. Bonus depreciation is increased from 50% to 100% for qualified business purchases made from September 9, 2010, through December 31, 2011. 50% bonus depreciation will be available in 2012.

Estate tax. The estate tax was perhaps the most contentious issue in the law, and it came close to unraveling the deal. The compromise that was agreed upon restores the estate tax retroactive to January 1, 2010, and continues it through December 31, 2012. It establishes a top rate of 35% and an exclusion amount of \$5 million (\$10 million for married couples). Estates of persons who died in 2010 have the option of applying the estate tax and receiving a step-up in basis on property passing to heirs or having no estate tax but using a carryover of the decedent’s basis in property.

The 2010 Tax Relief Act also provides an additional 13 months of benefits to the unemployed.

Most of the provisions in the new law will probably go unnoticed by the majority of taxpayers since the law basically keeps things as they were for another two years. However, there are several significant changes that are likely to affect you or your business. For more information and planning guidance as you begin sorting out your tax situation for 2011, contact our office.

As our continuing commitment to support you, please take advantage of our referral program. For each new individual client you refer, you get a \$50 discount on your tax invoice (once their returns are completed), and as a new client they get a \$50 discount PLUS a complimentary 30 minute consultation with Diana !

This newsletter provides business, financial, and tax information to clients and friends of our firm. General information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.