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CERTIFIED PUBLIC ACCOUNTANTS

GEORGIA SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

TAX NEWSLETTER – JANUARY 2012

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1. FICA AND SELF-EMPLOYMENT TAXES

	<u>2011</u>	<u>2012</u>
For 2011, Social security wage base maximum taxed at 6.2% for employers, and 4.2% for employees	\$106,800.00	\$110,100.00
Medicare wage base maximum taxed at 1.45% for both employers and employees	No limit	No limit

For example:

	<u>2011</u>	<u>2012</u>
Amount of wages	\$106,800.00	\$110,100.00
Employees social security at 4.2%	4,485.60 *	4,624.20*
Employees Medicare at 1.45%	<u>1,548.60**</u>	<u>1,596.45**</u>
Total on 5.65% wages	6,034.20	6,220.65
Employers social security at 6.2%	6,621.60	6,826.20
Employers Medicare at 1.45%	<u>1,548.60**</u>	<u>1,596.45**</u>
Total tax	<u>\$ 14,204.40</u>	<u>\$ 14,643.30</u>

** For wages in excess of the FICA wage maximum, the employee and employer share of Medicare tax is each 1.45% (total of 2.9%) on an unlimited amount of wages.

* The 2% payroll tax cut reducing social security to 4.2% for employees has been extended through February 29, 2012, but is expected to be extended through December 31, 2012. An *additional* income tax will be imposed on those taxpayers who receive more than \$18,350 in wages during the first two months of 2012. The tax is an amount equal to 2% of the amount of wages received during the two-month period in excess of \$18,350 (and not greater than \$110,100). The IRS notes that the "recapture" tax is an add-on to income tax liability in 2012 and is not subject to reduction by credits or deductions. The extra tax is payable in 2013 when the taxpayer files his or her federal income tax return for the 2012 tax year.

Payments for the services of a child under age 18 who works for his or her parent in a trade or business are not subject to Social Security, Medicare or federal unemployment (FUTA) taxes if the trade or business is a sole proprietorship or a partnership in which each partner is a parent of the child. However, the wages for the services of a child are subject to Social Security, Medicare, and FUTA taxes if the child works for a corporation, even if controlled by the child's parent.

Generally the wages for the services of an individual who works for his or her spouse in a trade or business are subject to Social Security and Medicare taxes, but not to FUTA tax. Similar rules apply to wages for services of a parent employed by his or her child.

For 2011, health insurance premiums are deductible for purposes of computing self-employment taxes.

	<u>2011</u>	<u>2012</u>
2. <u>PERSONAL EXEMPTION</u>	\$3,700	\$3,800
3. <u>SOCIAL SECURITY COST OF LIVING INCREASE</u>	0%	3.6%
4. <u>STANDARD DEDUCTION</u>		
Married filing jointly	\$11,600	\$11,900
Head of household	8,500	8,700
Single	5,800	5,950
Married filing separately	5,800	5,950

The standard deduction that may be taken by someone who is claimed as a dependent on another taxpayer's return in 2012 and 2011 may not exceed the greater of \$950 or the sum of \$300 and the amount of his or her "earned" income (up to \$5,950 in 2012 and \$5,800 in 2011). The additional standard deduction for married individuals (whether filing jointly or separately) who are age 65 and over, or who are blind is \$1,150 in 2011 and 2012. The additional standard deduction for single individuals who are age 65 and over, or who are blind is \$1,450 in 2011 and 2012.

5. MAXIMUM EARNINGS WITHOUT LOSING SOCIAL SECURITY BENEFITS

	<u>2012</u>	<u>2011</u>	<u>Benefits Lost</u>
Under normal retirement age (NRA)	\$14,640	\$14,160	\$1 for each \$2 over threshold
NRA and over	\$38,880	\$37,680	\$1 for each \$3 over threshold

If normal retirement age will be reached in 2012, \$1 of benefits will be withheld for every \$3 of earnings over \$38,880, but the reduction applies only for months prior to attaining normal retirement age. There is no reduction for earnings starting with the month in which normal retirement age is reached (65 and 10 months for those born in 1942 and 66 for retirees born between 1943-1954, for example). Maximum social security benefits in 2012 and 2011 are \$2,513/month and \$2,366/month. For more answers to your social security questions go to www.socialsecurity.gov.

6. FEDERAL INCOME TAX RATES - 2011

Tax Rate	Married Filing Jointly	Single	Head of Household	Married Filing Separately	Estates & Trusts
10%	\$ 0 – 17,000	\$ 0 – 8,500	\$ 0 – 12,150	\$ 0 – 8,500	–
15%	\$ 17,001 – 69,000	\$ 8,501 – 34,500	\$ 12,151 – 46,250	\$ 8,501 – 34,500	\$ 0 – 2,300
25%	\$ 69,001 – 139,350	\$ 34,501 – 83,600	\$ 46,251 – 119,400	\$ 34,501 – 69,675	\$2,301 – 5,450
28%	\$139,351 – 212,300	\$ 83,601 – 174,400	\$119,401 – 193,350	\$ 69,676 – 106,150	\$5,451 – 8,300
33%	\$212,301 – 379,150	\$174,401 – 379,150	\$193,351 – 379,150	\$106,151 – 189,575	\$8,301 – 11,350
35%	Over \$379,150	Over \$379,150	Over \$379,150	Over \$189,575	Over \$11,350

CORPORATE TAX RATES

<u>Taxable Income</u>	<u>Pay</u>	<u>% on Excess</u>	<u>of the Amount Over</u>
Up to \$50,000	\$ 0	15%	\$ 0
\$50,001-\$75,000	7,500	25%	50,000
\$75,001-\$100,000	13,750	34%	75,000
\$100,001-\$335,000	22,250	39%*	100,000
\$335,001-\$10 million	113,900	34%	335,000
\$10 million-\$15 million	3,400,000	35%**	10,000,000
\$15 million-\$18,333,333	5,150,000	38%***	15,000,000
Over \$18,333,333	0	35%	0

* Includes additional 5% "recapture" tax under 1986 law.

** Personal service corporations pay a flat rate of 35%.

*** Includes additional 3% "recapture" tax under 1993 law.

7. CAPITAL GAINS AND QUALIFIED DIVIDENDS

Net long-term capital gains are taxed in 2012 and 2011 at a maximum 15% rate if held more than 12 months, with the **EXCEPTION** that for 2012 and 2011 there is **NO** capital gains tax for taxpayers in the 10% or 15% tax brackets. Gifts of appreciated securities to taxpayers in those tax brackets might also continue to be a worthwhile technique to maximize the value of such gifts.

Exceptions! Long-term capital gains on the sale of collectibles (e.g., artworks, jewelry) are taxed at a maximum tax rate of 28%. Also, long-term gain on the sale of depreciable real estate (e.g., depreciable buildings) representing depreciation previously taken, will be taxed at a maximum rate of 25%.

"Qualified" dividends (those received from a domestic corporation or a qualified foreign corporation) are also taxed at 15% in 2012 and 2011, and the same rules permitting no tax for taxpayers in the 10% and 15% tax brackets also apply. For taxpayers who own a C corporation, it is generally possible to pay dividends from the corporation and realize a federal tax of only 15%.

8. ALTERNATIVE MINIMUM TAX RATES

The rates for the alternative minimum tax for 2011 are:

Alternative minimum taxable income (AMTI) of \$175,000 or less (\$87,500 for married filing separately)	26%
Amount of AMTI in excess of \$175,000 (\$87,500 for married filing separately)	28%

Generally, the alternative minimum tax rate on capital gains and dividends drops to the applicable capital gains or dividend rates.

The alternative minimum taxable income exemption amount in 2011 is \$74,450 for married persons filing a joint return (\$48,450 for single persons and heads of households). The exemption is phased-out by 25% of AMTI of married persons exceeding \$150,000 (\$112,500 for single persons and heads of households), causing the exemption amount to be completely phased-out when AMT is \$447,800 or more (\$306,300 for single persons and heads of households).

9. CHILDREN'S EARNINGS

Children subject to "Kiddie Tax" who do not have earned income from jobs can earn up to \$1,900 in 2012 and 2011 without being taxed at the parents' federal tax rates.

10. LONG-TERM CARE INSURANCE

Premiums paid for a qualified long-term care insurance contract are a deductible medical expense, but the deductible amount of the premium is limited by the age of the individual at the close of the tax year. The maximum deductible amounts (per person) for 2011 and 2012 are as follows:

	<u>2011</u>	<u>2012</u>
Age 40 and younger	\$ 340	\$ 350
Age 41 – 50	640	660
Age 51 – 60	1,270	1,310
Age 61 – 70	3,390	3,500
Age 71 and older	4,240	4,370

11. ESTIMATED TAX PAYMENTS

To avoid a penalty for underpaying taxes in 2011 and later years, taxpayers with adjusted gross income of up to \$150,000 (\$75,000 for married individuals filing separately) are generally required to pay at least 100% of the prior year tax liability or 90% of their current year tax liability via withholding and/or estimated taxes.

An individual with adjusted gross income in excess of \$150,000 (\$75,000 for a married individual filing separately) in 2010 and thereafter can generally avoid the estimated tax penalty by paying 110% of the amount of tax shown on the prior year's tax return.

For State of Georgia purposes, underpayment penalties can be avoided by paying 100% of the prior year tax or 70% of the current year tax.

12. ESTATE, GIFT AND GENERATION SKIPPING TAX

- General

The 2010 Tax Relief Act generally reinstates the estate tax retroactive to January 1, 2010. However, under the Act, for 2011 and 2012, the estate exemption amount is increased to \$5 million and \$5.12 million respectively, and the tax rate of the amount of the estate in excess of the exemption is 35%. Under the modified carryover basis rule, there is a limited amount of basis increase for certain appreciated properties (e.g., up to a \$1.3 million in general and an additional \$3 million for assets passing to the surviving spouse). For individuals dying after 2012, the exemption amount is scheduled to be \$1 million, and the top rate is scheduled to be 55%.

- **Unused Estate Tax Exemption Amount of First Spouse to Die Available to Estate of Surviving Spouse**

Historically, each spouse's estate has been entitled to a full estate tax exemption amount (e.g., \$3.5 million for 2009 and \$5 million for 2010 through 2012). However, technical estate tax planning structures and strategies (e.g., credit shelter trusts) were often necessary to ensure that the estate tax exemption amount of the first spouse to die was not partially or completely wasted. For individuals dying in 2011 and 2012, the Tax Relief Act provides that the personal representative of the deceased spouse's estate may elect for any of the \$5 million exemption amount for 2011 or \$5.12 million for 2012 not used by the estate of the first spouse to die to be available to the estate of the surviving spouse. Thus, this new "portability" feature should make it much easier for couples to shelter up to \$10.24 million of their combined assets from the estate tax even when credit shelter trusts are not established. This provision will particularly benefit estates where the taxable estate of the first spouse to die is less than exemption amount and the taxable estate of the surviving spouse is more than the exemption amount.

- **Gift Tax Changes**

Although the 2001 Act repealed the estate tax for 2010, the 2001 Act did not repeal the gift tax. For gifts made in 2011 and 2012, the Act unifies the "estate" and "gift" tax exemption amount at a single \$5 million for 2011 and \$5.12 million for 2012 with any excess gift or estate amounts taxed at 35%.

- **Generation-Skipping Tax**

In addition to the gift tax, there is also imposed a generation-skipping tax on gifts which skip a generation (e.g., gifts for grandchildren). The generation-skipping exemption amount is \$5 million for 2011 and \$5.12 million for 2012. However, the generation-skipping tax rate on gifts in excess of these exemption amounts will be 35% for 2011 and 2012.

13. **GIFT TAX EXCLUSION**

The gift tax exclusion is \$13,000 for 2012 and 2011.

14. **PHASE-OUTS**

The prior law phase-out of itemized deductions and personal exemptions no longer applies for tax years 2011 and 2012.

15. **RETIREMENT PLAN LIMITS**

	<u>2011</u>	<u>2012</u>
Maximum deferred compensation contribution to 401(k) plans:		
Under age 50	\$16,500	\$17,000
Age 50 or older	22,000	22,500
Maximum SIMPLE IRA contribution:		
Under age 50	11,500	11,500
Age 50 or older	14,000	14,000
Maximum earnings used to determine retirement benefits	245,000	250,000
Maximum addition to defined contribution plan	49,000	50,000
Income limit for definition of "highly compensated"	110,000	115,000

16. **IRS INTEREST RATES ON UNDERPAYMENTS OF TAX**

January 1 – March 31, 2011	3%
April 1 – September 1, 2011	4%
October 1 – December 31, 2011	3%
January 1– March 31, 2012	3%

17. **ELIGIBILITY FOR MAKING TRADITIONAL (NOT ROTH) IRA CONTRIBUTIONS**

If neither you nor your spouse is covered under a retirement plan, you are still permitted to make a deductible IRA contribution of up to \$5,000 for 2012 and 2011 (\$6,000 for individuals who are at least 50 by year-end).

If you are covered under a retirement plan, amounts may not be deductible, depending on your income level:

If you are Covered by an Employer Retirement Plan:
Reduced Deduction if Modified AGI

<u>Filing Status</u>	<u>2011</u>	<u>2012</u>
Single/Head of Household	\$56,000 - \$ 66,000	\$58,000 - \$ 68,000
Married-jointly	90,000 - 110,000	92,000 - 112,000
Married-separately	0 - 10,000	0 - 10,000

If you are Not Covered by an Employer Retirement Plan, but Your Spouse Is:
Reduced Deduction if Modified AGI

<u>Filing Status</u>	<u>2011</u>	<u>2011</u>
Married-jointly	\$169,000 - \$179,000	\$173,000 - \$183,000
Married-separately	0 - 10,000	0 - 10,000

18. ROTH IRA'S

The \$5,000 maximum 2012 and 2011 contribution that can be made to a Roth IRA is the same as for a traditional IRA but is phased-out based on modified adjusted gross income as follows:

<u>Filing Status</u>	<u>2011</u>	<u>2012</u>
Married-jointly	\$169,000 - \$179,000	\$173,000 - \$183,000
Single	107,000 - \$122,000	110,000 - \$125,000
Married-separately	0 - \$10,000	0 - \$10,000

In order to receive the tax-free advantages of a Roth, distributions must be qualified. A qualified distribution is any payment or distribution that meets the following requirements.

1. It is made after the 5-year holding period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and
2. The distribution or payment is:
 - a. Made on or after the date you reach age 59 1/2,
 - b. Made because you are disabled,
 - c. Made to a beneficiary or to your estate after your death, or
 - d. Made for qualified first-time home buyer expenses

Generally you do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA(s). However, you may have to include part of other distributions in your income and you may have to pay the 10% additional tax on early distributions.

If you converted amounts from a traditional IRA in 2010 to a Roth IRA in 2010, any amount you have to include in income as a result of the conversion is generally included in income in equal amounts in 2011 and 2012 unless you elected to include the entire amount in income in 2010. You must include in your gross income distributions that you would have had to include in income if you had not rolled them over into a Roth IRA. You do not include in gross income any part of a distribution from a qualified retirement plan that is a return of contributions (after-tax contributions) to the plan that were taxable to you when paid.

If within the 5-year period starting with the first day of your tax year in which you convert an amount from a traditional IRA or rollover an amount from a qualified plan to a Roth IRA, you take a distribution from a Roth IRA, you may have to pay the 10% additional tax on early distributions. The 5-year period used for determining whether the 10% early distribution tax applies to a distribution from a conversion or rollover contribution is separately determined for each conversion and rollover, and is not necessarily the same as the 5-year period used for determining whether a distribution is a qualified distribution.

The question of whether or not to make the conversion depends on many factors, including your income tax rate, the length

of time you can invest the funds without needing to take distributions and how you will pay the income taxes due on the conversion. It may also depend on where you think income tax rates are headed.

19. NANNY TAX

The amount paid by an employer for domestic services in the employer's home will not be considered FICA wages if less than \$1,700 for 2011 and \$1,800 for 2012.

20. GEORGIA 529 COLLEGE SAVINGS PLAN

Georgia's Path2College 529 Contributions for 2011 of up to \$2,000 on behalf of any beneficiary are deductible for Georgia income tax purposes regardless of the taxpayer's annual income if made by April 17, 2012. In order to claim the deduction (generally worth \$120 in tax savings) it is not necessary to itemize deductions. In addition, grandparents and others can make contributions since the beneficiary does not need to be a dependent in order to claim the deduction. The plan is managed by TIAA-CREF Tuition Financing, Inc. You can obtain more information at www.path2college529.com.

21. UNIFORM LIFETIME TABLE

To calculate minimum required distributions from IRAs and retirement plans, use the following formula for each account:

Account Balance as of December 31 of the prior year / Factor from New Uniform Lifetime Table*
 (adjusted, if necessary, for any rollovers or transfer in process on 12/31 of the prior year) (use the divisor that corresponds to the age the account owner attained in the MRD year)

Example:

Account balance as of December 31 of the prior year: \$100,000

IRA owner's attained age in MRD year: 72

MRD Divisor = \$100,000 / 25.6 = \$3,906.25

Uniform Lifetime Table			
Age of Account Owner	Divisor	Age of Account Owner	Divisor
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1

92

10.2

115 and older

1.9

*The Uniform Lifetime Table can be used by all IRA owners, unless their sole beneficiary for the entire year is their spouse who is more than 10 years younger. In that case, the regular Joint Life Expectancy Table is used, which could reduce the MRD even further. Note: If you are taking MRDs from an inherited IRA, the formula, example, and table above are not applicable.

22. REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS (FBAR)

If you own or have authority over a foreign financial account, including a bank account, brokerage account, mutual fund, unit trust or other types of financial accounts, you may be required to report the account yearly to the Internal Revenue Service. Under the Bank Secrecy Act, each United States person must file a Report of Foreign Bank and Financial Accounts (FBAR) annually by June 30.

The FBAR is required because foreign financial institutions may not be subject to the same reporting requirements as domestic financial institutions. The FBAR is a tool to help the United States government identify persons who may be using foreign financial accounts to circumvent United States law. Investigators use FBAR's to help identify or trace funds used for illicit purposes or to identify unreported income maintained or generated abroad.

The Internal Revenue Service may impose a civil penalty on any person who fails to file an FBAR when required. In the case of unintentional violations, the maximum penalty is \$10,000. If a taxpayer willfully fails to file an FBAR, the IRS may assess a civil penalty equal to \$100,000 or 50% of the balance of the account at the time of the violation, whichever is larger.

If you have an association with any type of foreign account and are not currently filing the FBAR form, call us to discuss specific filing requirements. Failure to report income and file FBAR is a serious matter.

23. FOREIGN FINANCIAL ASSET REPORTING

Certain individuals will need to attach the new Form 8938, Statement of Specified Foreign Financial Assets, to Form 1040 this tax season, in addition to filing the FBAR. The purpose of the Form 8938 and FBAR are similar and there is significant overlap. Yet the filing of Form 8938 does not relieve individuals of the requirement to file the FBAR.

Filing thresholds for the Form 8938 vary, with the lowest threshold being \$50,000. Filing is required when an affected individual has an interest in one or more specified foreign assets having an aggregate fair market value exceeding either \$50,000 on the last day of the year or \$75,000 at any time during the year. In the case of married individuals filing a joint return, the aggregate values are applied to all specified assets in which either spouse has an interest and are doubled to \$100,000 and \$150,000 respectively. For qualified individuals residing outside of the U.S., the threshold is \$200,000 on the last day of the year or \$300,000 at any time of the year. For married individuals filing a joint return and residing outside of the U.S., the thresholds are \$400,000 and \$600,000, respectively.

Failure to file a complete Form 8938 when required subjects the individual to a \$10,000 penalty. A continuing \$10,000 failure-to-file penalty may be assessed for each 30 day period an affected individual fails to file or correct a filing after being notified by the IRS. The maximum penalty is \$50,000. For purposes of penalty assessment, the Commissioner may presume that the aggregate threshold is exceeded if insufficient information is provided.

Failure to file a complete Form 8938 may also extend the statute of limitations for income tax.

24. MEDICARE PREMIUMS FOR 2012

Medicare Part B premiums for 2012 are based on your 2010 (Yes, 2010) income. If you didn't file an income tax return for 2010, your income tax return for 2009 is used by the Social Security Administration to tally your Medicare Part B premium for 2012.

Social Security Administration quote: "If your income has gone down due to any of the following situations and the change will make a difference in the income level we consider, contact us to explain you have new information and may need a new decision about your income-related monthly adjustment amount.

- You married, divorced, or became widowed;

- You or your spouse stopped working or reduced your work hours;
- You or your spouse lost income-producing property due to a disaster or other event beyond your control;
- You or your spouse experienced a scheduled cessation, termination, or reorganization of an employer's pension plan; or
- You or your spouse received a settlement from an employer or former employer because of the employer's closure, bankruptcy, or reorganization."

You Pay	If your Yearly Income is:	
	Single	Married Couple
\$99.90	\$85,000 or less	\$170,000 or less
\$139.90	\$85,0001-\$107,000	\$170,001-\$214,000
\$199.80	\$107,001-\$160,000	\$214,001-\$320,000
\$259.70	\$160,001-\$214,000	\$320,001-\$428,000
\$319.70	Above \$214,000	Above \$428,000
You Pay	If You Are married and lived with your spouse at some time during the taxable year but you file a separate tax return from your spouse and your yearly income is:	
\$ 99.90	\$85,000 or less	
\$259.70	\$85,001-\$129,000	
\$319.70	Above \$129,000	

25. GEORGIA RETIREMENT EXCLUSION

The retirement income exclusion for taxpayers who are age 65 or older was \$35,000 in 2011 and increases in tax years 2012 through 2016 as follows:

- 2012 - \$ 65,000 exclusion
- 2013 - \$100,000 exclusion
- 2014 - \$150,000 exclusion
- 2015 - \$200,000 exclusion
- 2016 - unlimited exclusion

The retirement exclusion for taxpayers who are age 62 to 64 will remain at \$35,000. Retirement income includes interest, dividend, rent and royalty income, capital gains, pensions, annuities, other unearned income and up to \$4,000 of earned income.

26. CHARITABLE CONTRIBUTIONS

General Rules: The law requires that you have a receipt, letter, or other written communication from the charity (showing the name of the charity, the date and the amount of the contribution) documenting all charitable contributions made in cash and that you have a receipt or a bank record (e.g., a cancelled check) documenting all contributions made

by check or by other monetary means. For contributions of property, you generally need a receipt which contains the name of the charity, a description of the property, and the date and location of the contribution.

Contributions of \$250 or more. For all individual donations of \$250 or more (contributions of cash or property), the law requires a receipt (written acknowledgment) from the charity to which you made the donation stating the date and amount of the contribution as well as a statement as to whether you received anything in return for your contribution. The receipt (written acknowledgment) must be received by the earlier of the date the taxpayer files the tax return, or the due date of the return. The courts have upheld this unusually strict rule and have disallowed contributions for which receipts were obtained at a later date. If you received goods or services in return for the contribution, the receipt should include a description and an estimate of the value of the goods or services received in return for the contribution. If the goods or services received consist solely of intangible religious benefits, the receipt should include a statement to that effect.

Contributions of vehicles, boats, or airplanes of more than \$500. If you are claiming a deduction of more than \$500 for a vehicle, a boat, or an airplane you contributed to charity, the law requires that you obtain a Form 1098-C or other written acknowledgment containing the same information shown on Form 1098-C from the charity in order to deduct your contribution.

Contributions of clothing or household items. Generally, a deduction is not allowed for a charitable contribution of clothing or household items unless the items are in good used condition or better. Household items generally include furniture, furnishings, electronics, appliances, linens, and other similar items.

Noncash contributions of \$5,000 or more (other than traded securities). Taxpayers must obtain a qualified appraisal of noncash donations valued at \$5,000 or more. The appraisal must be obtained not earlier than 60 days before the donation is made. For purposes of determining the threshold dollar amounts for the reporting requirements, all similar items of noncash property, whether donated to a single donee or multiple donees, are aggregated and treated as a single property donation.

27. SECTION 179 DEDUCTION, BONUS DEPRECIATION AND SOFTWARE EXPENSING

All businesses are allowed to expense up to \$500,000 in 2011 and \$139,000 in 2012 of the full cost of what would otherwise be depreciable personal property; however this amount begins to phase-out when total personal property acquisitions exceed \$2,000,000 in 2011 and \$560,000 in 2012. This Section 179 deduction also applies on up to \$25,000 paid for vehicles having a gross loaded weight of more than 6,000 pounds (many SUV's weigh enough to qualify). For tax years beginning in 2011, \$250,000 of the annual dollar limit may be used to expense qualified real property which generally consists of qualified leasehold improvements, qualified restaurant property and qualified retail improvement property.

Congress used the 2010 Tax Relief Act in December 2010 to double and extend bonus depreciation from 50% to 100% for qualified property acquired after September 8, 2010 and before January 1, 2012, and placed in service before January 1, 2012. The 50% bonus depreciation rules return for 2012 for eligible assets placed in service during the year. In order to qualify for bonus depreciation, the property must be new (not used).

The Tax Relief Act also extends the allowance of expensing for off-the-shelf computer software for software placed in service before 2013.

28. STANDARD MILEAGE RATES

The standard mileage rates per mile for vehicles used in business, charitable work, medical and moving are as follows:

	<u>2011</u> <u>Jan. – June</u>	<u>2011</u> <u>July – Dec.</u>	<u>2012</u> <u>Jan. – Dec.</u>
Business	.51	.555	\$.555
Charitable	.14	.14	.14
Medical and moving	.19	.235	.23

29. AUTOMOBILE DEPRECIATION

For a new vehicle acquired during 2011, depreciation deductions are generally limited to the following amounts (trucks, vans and electric vehicles carry a higher amount):

	<u>Autos</u>	<u>Trucks & Vans</u>
Year 1	\$11,060*	\$11,260*
Year 2	4,900	5,200
Year 3	2,950	3,150
Year 4 and thereafter until cost is recovered	1,775	1,875

If the business use percentage is less than 100% (which is often the case), your deductions are even smaller. You must multiply the above numbers by the business percentage.

* Applies unless taxpayer elects out of bonus depreciation; otherwise, the deduction is \$3,060 for autos and \$3,260 for trucks and vans.

30. FORM 1099 AND FORM W-2 REMINDERS

If you operate a trade or business (including the ownership of rental property) and make payments of \$600 or more for rent or for services to any non-corporate entity, remember to report the payments to the payee in January. In addition, Form 1099's must be filed on all interest and dividend payments in excess of \$10. Also remember that income reflected on Form W-2's must be grossed up to include the personal usage of vehicles and that FICA tax must be withheld.

Payers must insert on the Form 1099 the phone number of someone who can answer questions about information on the form.

Form 1099's must be provided to the IRS by February 28, 2012, and Form W-2's must be sent to the Social Security Administration by February 29, 2012. If filing electronically with the IRS and Social Security Administration, the due date is April 2, 2012. Copies for recipients are to be provided to each recipient by January 31, 2012. Penalties for non-compliance with each information return reporting to the payee, the Social Security Administration and the IRS varies depending upon how far after the due date the taxpayer files:

Returns filed up to 30 days after the due date	\$60
Returns filed more than 30 days after the due date, but on or before August 1, 2012	\$120
Returns filed after August 1, 2012	\$200
Minimum penalty for intentional failure to file correct returns	\$500 or 10% of reportable amount

For the 2012 tax year, employers with 250 or more employees are required to report the annual aggregate cost of coverage under any group health plan provided to employees on the employee's Form W-2. This is only an informational reporting requirement and will not change the tax-free treatment of employer-provided health coverage that exists under current law.

31. BACKUP WITHHOLDING

Aside from the requirement to file Form 1099's, a requirement also exists to withhold taxes from individuals to whom 1099's will be provided unless such individuals complete Form W-9's indicating their taxpayer identification numbers and that they are not subject to backup withholding.

We recommend that all businesses obtain a properly completed Form W-9 from all non-employees with whom they conduct business unless they are obviously incorporated entities. (The normal reporting requirements do not apply to incorporated entities.) When in doubt ask for the Form W-9. It will protect you from the requirement to withhold and will also serve as the basis for preparing Form 1099's at year-end. (It shows the recipient's name, address and ID number).

If you request but do not receive the Form W-9 within 30 days, or receive an incomplete Form W-9, commence withholding taxes at a rate of 30%. Report these amounts annually on Form 945, and remit taxes according to the instructions.

Failure to comply with these rules may result in liability for taxes not withheld plus penalties.

32. FEDERAL UNEMPLOYMENT TAXES

Employers are required to make quarterly deposits of federal unemployment taxes (FUTA) if the accumulated tax exceeds \$500. Employers owe FUTA tax on the first \$7,000 of wages paid to each employee during the calendar year. The effective FUTA tax was .08% on wages paid before July 1, 2011 (\$56 per employee), but has been reduced to .06% for wages paid after June 30, 2011 (\$42 per employee).

However, a state that has not repaid money it borrowed from the federal government to pay unemployment benefits is called a credit reduction state. For the 2011 tax year, Georgia is a credit reduction state. Its reduction rate was .003 resulting in additional FUTA tax due for up to \$21 per employee (\$7,000 x .003). This is in addition to the \$56 or \$42 amounts, raising the effective maximum amounts to \$77 prior to July 1 and \$63 after June 30.

33. STATE UNEMPLOYMENT TAXES

Most employers liable for unemployment taxes are required by Georgia law to file tax and wage reports for each calendar quarter. The reports, and any payment due, must be filed on or before April 30th, July 31st, October 31st and January 31st. However, domestic employers must file an annual report on Form DOL-4A.

Employers are required to pay unemployment tax on the first \$8,500 paid to each individual during the calendar year. New employers are assigned a tax rate of 2.70%, but the rate may be adjusted in later years based on the employers experience rating. A new employer could have a tax liability of up to \$229.50 per employee for the calendar year depending on the amount of wages paid.

34. GEORGIA WITHHOLDING DEPOSIT RULES

Deposits of Georgia withholding taxes must be made monthly by the 15th day of the following month if taxes withheld exceed \$200 per month. The State of Georgia has withholding remittance schedules similar but not identical to those of the Internal Revenue Service (described below). The state requirements can be found at:

<http://www.etax.dor.ga.gov/inctax/withholding/whgeninfo.aspx>.

35. FEDERAL PAYROLL TAX DEPOSIT REQUIREMENTS

As of January 1, 2011, you must use electronic funds transfer to make all federal tax deposits. If an employer incurs an employment tax liability of \$50,000 or more for the 2010 calendar year it is a "semi-weekly" depositor, and must always deposit taxes by either a Wednesday or a Friday. Taxes must be deposited on or before Wednesday if the payroll was dated on the previous Wednesday, Thursday or Friday. Taxes must be deposited on or before Friday if the payroll was dated on the previous Saturday, Sunday, Monday or Tuesday. If an employer has less than \$50,000 in annual tax liabilities or is a new employer without any prior experience, taxes for each month must be deposited by the 15th day of the following month. If at any time within a deposit period accumulated employment taxes reach \$100,000 or more, they must be deposited on the next banking day and thereafter deposited semi-weekly. The penalties for failure to make a required deposit on time are: 2% of underpayment if made 1 to 5 days late, 5% of underpayment if made 6 to 15 days late and 10% of underpayment if made 16 or more days late. However, a penalty of 15% is imposed if the payment is not made within 10 days of the date of the first delinquency notice to the taxpayer. There is also a 10% penalty if amounts are subject to electronic deposit requirements, but are mailed directly to the IRS or mailed with the tax return.

Employers who owe less than \$2,500 per quarter are generally not required to make tax deposits. Instead they pay when they file their quarterly returns. If you have any questions concerning tax deposits that are not explained here, please call us.

36. CASH PAYMENTS OF \$10,000 OR MORE

One matter that we mention every year in this newsletter is that the receipt of cash, cashier's checks, bank drafts, travelers checks and money orders from a single source in the amount of \$10,000 or more while conducting a trade or business requires that a Form 8300 be filed with the IRS. Criminal penalties can apply for failure to file the form or for aiding others in attempting to circumvent the filing of the form. The rule also applies if cumulative amounts exceed \$10,000 in "related transactions".

37. CREDIT CARD CHARGES

If you operate a business, charges to credit cards before year-end can be deducted in the year charged, even if you don't pay the bill until a later year. This applies to general-use charge cards (Visa, MasterCard, American Express, etc.), not store cards.

38. BUSINESS PERSONAL PROPERTY TAX RETURNS/BUSINESS LICENSES

Each Georgia county and many out-of-state counties require the filing of an annual business personal property tax return in order to calculate property taxes due on tangible personal business assets including inventory. No tax is due with the filing of the return; each county bills businesses during the summer based on its respective millage rate and the amounts shown on the returns as filed. The filing dates for the returns vary. Gwinnett county returns, for example, are due March 1st each year while Cobb, DeKalb and Fulton county returns are due April 1st.

If you operate a new or existing business that owns tangible personal property and did not file a business personal property tax return in 2011, please contact us to discuss this requirement further.

It is becoming more difficult for small businesses, including those operating from home and with few personal property assets to avoid being singled out by taxing authorities. Non-filers should be aware that penalties for non-filing would likely be assessed if the failure to file is detected by taxing authorities.

All businesses are generally required to purchase an annual business license from their local city or municipality.

If you have any questions about how these rules apply to your particular situation, please don't hesitate to call.

Note that this newsletter presents in general form information that needs to be tailored to your circumstances. We try conscientiously to convey accurate and current information, but in an environment of continuous change, such information must not be construed as rendering legal, accounting or other professional services and no liability can be assumed in connection with its use. You will need professional guidance to apply this information to your best advantage so please call us with any questions you have.