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NAME  
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Re: 2011 Tax Planning Letter Update No. 1

Dear NAME,

With the signing of the *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act* on December 17, 2010, the tax rates and rules that were in effect in 2010 were extended for another two years. These were commonly referred to as the “Bush tax cuts”. The new law (short title: *2010 Tax Relief Act*) also extended unemployment benefits for an additional 13 months, provided a “patch” to the alternative minimum tax, cut payroll taxes on employees for 2011, gave businesses 100% bonus depreciation on new equipment purchases, and restored the estate tax with a top rate of 35% and an exemption of \$5 million.

A new year always provides fresh opportunities for tax planning. With the recently passed legislation, 2011 tax planning becomes both more critical and potentially more rewarding, and the earlier in the year you start, the more effective your efforts are likely to be.

This *New Year Letter* is being sent to you as a reminder of our commitment to work with you to find the best tax-cutting moves for your particular circumstances. We hope you find the *Letter* informative and helpful. If you have questions or if we can assist you in any way, please contact our office. And if you have friends or associates who might be interested in this *Letter*, please pass it along to them. You can also contact our office and we will provide you with additional copies.

## **New tax law brings 2011 planning opportunities**

If you think you can relax now that the Bush-era tax cuts have been extended, think again. There are still plenty of changes and challenges ahead to make tax planning in 2011 as important as ever.

### **■ Seize the moment**

December’s tax legislation rescued many of the tax breaks we have become accustomed to. But have you taken full advantage of those perks? For example, higher earning taxpayers will again be spared limitations to their itemized deductions, so 2011 might be a year to maximize your charitable, home interest, and property tax deductions.

Have you invested in green technology for your home or business yet? Modified energy tax credits are still available for qualified energy-saving purchases in 2011. The enhanced college education expense credit was also preserved, averting a return to the old Hope credit rules. This means families will continue to qualify for education credits and deductions, subject to income limits.

## ■ Maximize your nest egg

Investors should note that the historically low capital gains tax rates have been extended through 2012. With that in mind, it might be time to “harvest” some of those unrealized gains in case tax rates rise again in the future. Also a tax-savvy way to completely eliminate your capital gains tax might be to donate appreciated stock to charity and receive a deduction equal to the security’s current market value. Special rules apply to noncash donations, so check with us before you move forward on this strategy.

## ■ Know your IRA options

Thanks to the extension of the “charitable IRA rollover” rule, taxpayers age 70½ and older can again use their IRA to make a donation to their favorite charity. The distribution can be used to offset some or all of your required minimum distribution.

Another option is a Roth IRA conversion. If you procrastinated on converting your regular IRA to a Roth last year, you can still do so in 2011. Although converting your IRA generates taxable income in the year of the transfer, later withdrawals of contributions and income from the Roth are tax-free. Making this transfer while income tax rates remain low could pay off big time. And your conversion opportunities are not limited to just traditional IRAs. You can also convert your 401(k), 403(b), or 457 plan to a Roth.

## ■ Cash in on the new business rules

Get an early start to maximize the new tax breaks for your business. The 50% bonus depreciation was increased to 100% – but only for assets purchased from September 9, 2010, through December 31, 2011. While this increase makes it seem there’s little difference between bonus depreciation and Section 179 expensing, each election has distinct rules that can impact decision making. One example: Bonus depreciation is available only for new assets; expensing applies to both new and used assets. Another depreciation break is the reinstatement of the 15-year expensing period for qualified leasehold improvements, restaurant property, and retail improvement property.

Qualified businesses with less than 25 full-time employees can receive a tax credit of up to 35% of employer-paid health care costs. Another fringe benefit to consider is the tax-free reimbursement of employees’ mass-transit commuting expenses. Workers can be reimbursed up to \$230 per month for qualified highway vehicle transportation and transit pass expenses, and up to \$20 per month for bicycle commuting costs.

While it doesn’t reduce your tax bill, you might raise your workers’ morale by informing them that they no longer have to account for the personal use of their company-provided mobile phone. Such recordkeeping requirements were eliminated last year.

## ■ Consider a few proven strategies

From year to year, some old-time tax strategies consistently pay off. For example, maximizing your annual retirement plan contribution usually makes sense. Even though contribution limits remain the same in 2011, you might stretch your retirement planning dollars even more by making payments

earlier in the year rather than just at the end. Contributing earlier could possibly result in some stock market appreciation throughout the course of the year.

Another issue: Get an early handle on your tax withholdings and estimated tax payments. Changes in your family or work situation – as well as the new social security tax cut – might result in a lower tax bill in 2011 and a decrease in required tax payments. And if you anticipate moving or changing jobs this year, remember that out-of-pocket expenses incurred while searching for a new job or moving to a new city can score you a possible deduction.

This might also be a good year to tighten up your bookkeeping methods. IRS audits are on the rise, and you will want the peace of mind that comes with a rock-solid recordkeeping system.

Businesses have another reason to keep good records: the new Form 1099 reporting rules. Unless Congress changes a 2010 law, beginning in 2012, businesses will have to file Form 1099s reporting all payments made to vendors for goods or services totaling \$600 or more per year – including payments to corporations. To avoid last minute headaches, begin collecting vendor tax identification numbers now and make sure your accounting system can handle the new requirement.

### ■ **Maintain your edge**

Even with the extension of many old rules, tax planning this year will be a brand new challenge. Don't let your guard down. Call our office early in 2011 to identify the tax-saving opportunities suited to your individual circumstances.

## **Highlights of the *2010 Tax Relief Act***

The new *2010 Tax Relief Act* extends tax breaks for individuals and businesses, provides a payroll tax cut, and temporarily restores the estate tax with a top rate of 35%.

- **Individual income tax rates.** A tax law passed in 2001 created what has become known as the “Bush-era tax cuts.” Those tax cuts, including the tax rates in effect for 2010, were set to expire December 31, 2010, and, had that occurred, everyone's taxes would have gone up in 2011. The *2010 Tax Relief Act* extends the Bush tax rates for all taxpayers for another two years. Therefore, the federal income tax rates for 2011 and 2012 will be in brackets of 10%, 15%, 25%, 28%, 33%, and 35%.

- **Tax rates on capital gains and dividends.** The new law continues the 2010 tax rates on capital gains and dividends through 2011 and 2012. The maximum rate remains at 15% for taxpayers in the top four regular tax brackets and at 0% for those in the 10% and 15% tax brackets. Without this extension, the maximum capital gains rate would have risen in 2011 to 20%, and dividends would have been taxed at ordinary income rates as high as 39.6%.

- **Itemized deductions and personal exemptions.** For 2010, the maximum deduction for qualified costs of starting a business is increased to \$10,000, with a \$60,000 phase-out threshold.

- **Qualified small business stock.** Higher-income taxpayers are entitled to full deduction of their personal exemptions and itemized deductions for 2010. The new law continues this full deduction for 2011 and 2012. Without this extension, those whose incomes exceeded certain threshold amounts would have had their itemized deductions limited and their personal exemptions phased out.

- **Marriage penalty relief.** The new law extends the current marriage penalty relief for two years. The standard deduction for married couples filing a joint return will be twice the amount for a single taxpayer, and the size of the 10% and 15% tax rate brackets for couples will be twice that of single taxpayers.

- **Payroll tax cut.** The law creates a new tax break for working taxpayers who pay social security taxes. For 2011, the social security portion of payroll tax paid by employees will be reduced from 6.2% to 4.2% on wages up to \$106,800. This new tax break replaces the Making Work Pay credit which expires after 2010. Self-employed individuals will pay 10.4% on self-employment income up to \$106,800.

The employer share of social security tax paid on employee wages up to \$106,800 will continue to be 6.2%. The payroll tax rate cut does not affect the Medicare portion of the tax.

- **Alternative minimum tax.** The new law provides a two-year “patch” to the alternative minimum tax by raising the exemption amounts. For 2010, the exemption is \$47,450 for individuals and \$72,450 for married couples filing jointly. For 2011, the exemption is \$48,450 for singles and \$74,450 for couples. Without this patch, the exemption amounts for 2010 and 2011 would have been \$33,750 for singles and \$45,000 for couples.

- **Bonus depreciation.** Under a prior tax law, 50% bonus depreciation was reinstated for qualified business property placed in service in 2010 (through 2011 for certain property). The *Tax Relief Act* authorizes 100% bonus depreciation for qualified property placed in service from September 9, 2010, through 2011 (through 2012 for certain property).

- **Business credits.** The research tax credit for businesses had expired at the end of 2009. The new law extends the credit retroactively through 2010 and 2011. The new law extends the Work Opportunity Tax Credit through 2011. It had been scheduled to expire after August 31, 2011.

- **Higher education credit.** Recent enhancements to the American Opportunity Tax Credit (AOTC), which were scheduled to expire after 2010, have been extended through 2012. The maximum AOTC remains at \$2,500, but it is phased out for higher-income taxpayers.

- **Individual extenders.** The new law retroactively extends from January 1, 2010, through 2011 several provisions that were scheduled to expire after 2009. The items include the following:

- the option for deducting state and local sales taxes in lieu of deducting state and local income taxes.
- the above-the-line deduction for up to \$4,000 for higher education expenses.
- the above-the-line deduction of up to \$250 for classroom supplies purchased by teachers.
- allowing taxpayers 70½ or older to make tax-free contributions of up to \$100,000 from an IRA to a charity.

- **Estate tax relief.** After the one-year repeal for 2010, the federal estate tax was scheduled to return in 2011 with a 55% top rate and an exclusion amount of \$1 million. The *2010 Tax Relief Act* retroactively establishes a \$5 million exemption and a top estate tax rate of 35% for 2010 through 2012. It also allows portability of exemptions for couples, removes modified carryover basis rules for heirs, and reunifies the estate and gift tax systems.

## Your tax numbers for 2011

Adjustments for inflation are made to various tax numbers each year, and tax laws with phase-in and phase-out provisions cause some numbers to change annually. The numbers for 2010 in the chart below apply to your 2010 returns, and the numbers for 2011 should be used in your 2011 tax planning.

Provision	2010	2011
Standard mileage rate for business driving	50¢ a mile	51¢ a mile
Mileage rate for medical and moving expense deductions	16.5¢ a mile	19¢ a mile
Mileage rate for charitable driving	14¢ a mile	14¢ a mile
Adoption credit	\$ 13,170	\$ 13,360
Maximum wages subject to social security tax	\$ 106,800	\$ 106,800
Social security earnings limit		
• Under full retirement age	\$ 14,160	\$ 14,160
• Year full retirement age reached	\$ 37,680	\$ 37,680
• Full retirement age	No limit	No limit
Top estate tax rate	35% (see note below)	35%
Amount exempt from estate tax	\$ 5 million (see note below)	\$ 5 million
Annual gift tax exclusion (per donee)	\$ 13,000	\$ 13,000
Maximum retirement plan contributions		
• IRA for those under age 50	\$ 5,000	\$ 5,000
• IRA for those 50 and over	\$ 6,000	\$ 6,000
• SIMPLE plan for those under age 50	\$ 11,500	\$ 11,500
• SIMPLE plan for those 50 and over	\$ 14,000	\$ 14,000
• 401(k) plan for those under age 50	\$ 16,500	\$ 16,500
• 401(k) plan for those 50 and over	\$ 22,000	\$ 22,000
“Kiddie tax” threshold	\$ 1,900	\$ 1,900
“Nanny tax” threshold	\$ 1,700	\$ 1,700
Personal exemption	\$ 3,650	\$ 3,700
Standard deduction		
• Single	\$ 5,700	\$ 5,800
• Joint returns and surviving spouses	\$ 11,400	\$ 11,600
• Married filing separately	\$ 5,700	\$ 5,800
• Head of household	\$ 8,400	\$ 8,500
• Additional for elderly or blind (married)	\$ 1,100	\$ 1,150
• Additional for elderly or blind (single)	\$ 1,400	\$ 1,450

NOTE: For deaths occurring in 2010, estates have a choice between applying the retroactively reinstated estate tax with a step-up in basis to fair market value for estate property or no estate tax with a modified carryover of the decedent’s basis.

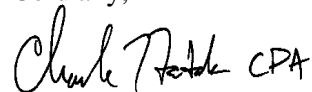
## Your tax reminder checklist

- **Filing deadlines.** The filing deadline for 2010 tax returns for individuals and partnerships is April 18, 2011. The IRS extended the deadline because Washington, D.C. observes the Emancipation Day holiday on April 15. The deadline for calendar-year corporations to file 2010 returns is March 15, 2011. Extension requests can be filed, giving individuals and corporations an additional six months to file (but not to pay taxes owed). Partnerships can request an additional five months to file.
- **Contribution recordkeeping.** The IRS is a stickler when it comes to required recordkeeping for charitable contributions. Here's what you need in order to deduct your donations. Cash contributions under \$250 require a bank record such as a cancelled check, credit card record, or receipt from the charity. For larger donations, a receipt from the charity must be obtained before filing your return.
- **Restored deductions.** The tax law passed in December restored for 2010 and 2011 deductions that had expired at the end of 2009. Don't overlook those that apply to you: the option to deduct state and local sales taxes in lieu of state and local income taxes, the teacher's deduction for buying classroom supplies, and the deduction for college tuition and fees.
- **Children's filing requirements.** Your children may have to file a 2010 income tax return. Generally, a return is required if the child had wages of more than \$5,700, self-employment earnings over \$400, or investment income (such as dividends, interest, and capital gains) over \$950. If your child had both earned and investment income, other thresholds apply. Also, if your child is due a refund, a return must be filed to get it.
- **Medical account rule changes.** If you've been buying over-the-counter medications with funds from tax-favored medical savings accounts, be aware that doing so is no longer allowed in 2011. Also be aware that the penalty has doubled to 20% for nonqualified withdrawals taken from health savings accounts or Archer medical savings accounts.

As the end of the year approaches, you should carefully examine your investment portfolio. Depending on your situation, it may be beneficial tax-wise to sell securities that have declined in value and offset the loss against gains recognized earlier in the year. But there are a few other factors to consider, including transaction costs and your overall investment strategy.

This letter is meant to provide assistance and guidelines to you as you review your tax planning strategy for 2011. If you have any questions or comments regarding the contents of this letter or if there is anything we can assist you with please do not hesitate to contact us.

Cordially,



Charles Z. Fedak, CPA

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*NOTE: This newsletter is issued periodically to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.*