

# Jim Gage & Co., C.P.A.'s L.L.P.

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Dear Friend:

January 10, 2011

On December 17, 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. This legislation addressed many of the extender items due to expire in 2010. The act also contained important considerations for 2010-2012 income tax returns. Following is a summary of items from this new legislation plus reminders on items previously enacted in the tax law.

## **EXTENDERS APPROVED**

- **AMT** (a second tier flat tax system) provisions were indexed for inflation essentially fixing the AMT tax problem for many of you. However, this has only been fixed for two years – 2010 & 2011.
- The **\$250** deduction for **teachers'** out-of-pocket classroom-related expenses for 2010 & 2011.
- Tax free donations up to \$100,000 from **IRA's** to **charity** for taxpayers age 70 ½ or older for 2010 & 2011.
- Deduction of qualifying mortgage insurance premiums for 2010 & 2011.
- Election to claim itemized deductions for state/local sales tax for 2010 & 2011.
- **\$1,000 child tax credit** for children under age 17 thru 2012.
- **Dependent care** credit maximum expense of \$3,000 for one child and \$6,000 for two or more children thru 2012.
- **Tuition and fees deduction** of \$4,000 for qualified college expenses is available thru 2011. Qualified expenses include tuition, books, supplies, and equipment (computers).
- **American Opportunity Tax Credit** (maximum credit of \$2,500) for qualified college expenses is available thru 2012. The qualified expenses include tuition, books, supplies, and equipment (computers). This credit is for the first four years of undergraduate college education.
- The \$2,500 deduction for student loan interest is available thru 2012.
- Coverdell ESA's are available thru 2012 with a maximum contribution of \$2,000 per year per beneficiary. However, these continue to be non-deductible on your income tax return.
- Scholarships for National Health Service Corps and Armed Forces Professions programs are excluded from income thru 2012.
- **Work Opportunity Credit** is extended thru 2011. This is an excellent credit of up to \$2,400 for wages paid to new employees, between the ages of 18 and 40, meeting certain requirements. **If you are going to hire someone new in 2011, contact our office for information and forms.** The forms must be filled out before you hire an individual and submitted within 28 days to the authorities. The authorities have rejected many of these if not timely submitted.

- The 2010 Tax Relief Act extended all individual rates from **10% to 35%**.
- Continuation of **capital gain and qualified dividend** income tax rates thru 2012 so capital gains tax remains favorable at a maximum of **15%** and many at **0%**.
- The adoption credit is available for 2010 and 2011 for qualified adoption expenses up to \$13,170 and is now refundable.

## FARM/BUSINESS ITEMS APPROVED

1. 100%/50% BONUS DEPRECIATION - note - bonus depreciation is only on **NEW** assets not used.
  - a. **Bonus** depreciation is 50% on qualifying assets placed in service from January 1, 2010 thru September 8, 2010 and 100% on qualifying assets placed in service from September 9, 2010 thru December 31, 2011. Bonus depreciation changes back to 50% on qualifying assets placed in service in the year 2012. The expanded definition of qualifying assets for 2010-2012 includes **general purpose farm structures such as machine sheds**.
  - b. SUV's or short box pickups **over 6,000 pounds** are also qualified property for **bonus** depreciation and not limited to \$25,000 for purchases after September 8, 2010 as in the past.
  - c. Vehicles **less than 6,000 pounds** are capped at \$11,060 for 2010 purchases.

2. **For landlords, bonus** depreciation is available on improvements like drainage tile, wells, irrigation systems, and farm building improvements for purchases after September 8, 2010. So in 2011, if any of these are done, they can be 100% deductible against rental income.

Be aware though, for items 1 and 2, **Iowa did not** couple with **bonus** depreciation. This will create more taxable income on Iowa; however you don't lose the depreciation on Iowa. Iowa depreciates assets over the standard IRS lives thus creating a timing difference.

3. SECTION 179 (Fast Depreciation)  
Sec. 179 depreciation expense is the same in 2011 as 2010, \$500,000 if total assets acquired are less than \$2,000,000, otherwise phase-outs begin.

Iowa limits Sec. 179 depreciation to \$134,000 with a ceiling of \$530,000 on assets acquired, therefore, you have another timing difference as noted under bonus depreciation.

4. HEALTH INSURANCE CREDIT  
There is a 25% credit for employers who pay for at least 50% of the premiums for employees- subject to two phase-outs. Keep in mind though, payments for **related parties'** (spouse, children, siblings, parents, in-laws, etc.) **health insurance does not qualify**.

5. SOCIAL SECURITY WITHHOLDING  
The **employee withholding** for 2011 only is **4.2% rather than 6.2%** as in previous years. The medicare withholding remains the same at 1.45%. The employer's half of social security and medicare remains the same at 7.65% (6.2% and 1.45%).

## 6. EFTPS FOR PAYROLL AND CORPORATE DEPOSITS

The paper coupon system for Federal Tax Deposits will no longer be maintained by the Treasury Department after 12-31-10. Therefore, Electronic Federal Tax Payment System (EFTPS) must be used either by telephone or computer. All federal payroll tax deposits and any corporation estimated tax or tax due on the 1120 will need to be paid in 2011 and beyond by EFTPS. Enrollment can be done online or by calling 1-800-555-4477.

## PERSONAL ITEMS

### 1. NON-BUSINESS ENERGY CREDITS

There are non-business energy credits available again in 2011. These are **not as generous** as they've been in the last two years. The credits are the same ones that were available in 2006 and 2007. The credit is 10% of the cost and there is a lifetime limit of \$500 (\$200 for windows) including any credits taken in 2006 and 2007. Credits on some items can't exceed the following:

- \$50 main air circulating fan (used in natural gas, propane, or oil furnace with no more than two percent of total annual energy use and the furnace has an efficiency rating of at least 95)
- \$150 qualified natural gas, propane, or oil furnace or hot water boiler (efficiency of 95+and a biomass stove 75%)
- \$300 energy efficient building property (electric heat pump water heater with at least 2.0, electric heat pump achieving the highest efficiency tier, central air conditioner with highest efficiency tier, natural gas, propane or oil exterior windows, skylights, and exterior doors meeting Energy Star requirements).
- The geothermal credit remains at 30% of cost thru 2013.

## ESTATE ITEMS

1. Estate exemptions and rates are now answered for two more years. For 2011 and 2012, the estate exemption is \$5,000,000 per person and \$10,000,000 per couple. Due to **portability**, if the first spouse to die does not use all of his/her \$5,000,000, then the surviving spouse can add the amount not used to his/her estate exemption. Also, the step-up to fair market value rules remain.
2. For deaths in 2010, the executor can elect to follow the no estate tax and use the modified carryover basis rules which are not explained in this newsletter.
3. \$13,000 remains the annual amount of gifts you can give per person without any reporting requirements.

**CAUTION:** IRS announced that due to the late tax breaks, taxpayers who utilize itemized deductions, use the \$250 educator deduction, or use the college tuition and fees deduction will not be able to e-file their returns until mid- to late February.

To get you started for tax season, start computing year end numbers and collecting all the tax forms that you receive in the mail.

If you expect a refund, you may want to utilize direct deposit of your refund. The refund will arrive faster than by a check in the mail. If you decide to use direct deposit, you will need to provide your tax preparer with your bank's routing number and the savings or checking account number you want the deposit in. Be sure to tell the preparer if it is a savings or checking account as there is a box to mark for the direct deposit.

Finally, if you have questions, call our office or check out the IRS website ([www.irs.gov](http://www.irs.gov)) which is user friendly and can help you with questions.

All of the above items are a brief synopsis of each tax item. Many items have various provisions that are too cumbersome for this newsletter. Therefore, be sure to contact us if you have any questions on items in this newsletter.

Have a good 2011!

*Jim, CPA    Julie, CPA    Greg, CPA    Deb, E.A.*

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PS - Be sure to check out our website at [www.gagecpa.com](http://www.gagecpa.com)