

Wright Ford Young & Co.

Certified Public Accountants and Consultants, Inc.

February 1, 2011

Dear Clients, Colleagues and Friends:

Tax Law Changes in Effect for 2011

The tax laws enacted in the last couple of years contain important income tax and information reporting provisions that are effective for the first time in 2011. To inform you of what's new in the tax rules, here's a summary of the key tax changes for 2011, broken down into two categories: Personal Income Taxes and Tax Changes for Businesses and Investors. If you'd like to discuss how these changes affect your personal or business situation, please contact our office.

Personal Income Taxes

- *Payroll tax holiday in place.* Employees will pay only 4.2% (instead of the usual 6.2%) OASDI (Social Security) tax on compensation received during 2011 up to \$106,800 (the wage base for 2011). Similarly, for tax years beginning in 2011, self-employed persons will pay only 10.4% Social Security self-employment taxes on self-employment income up to \$106,800. In either case, the maximum savings for 2011 will be \$2,136 (2% of \$106,800) per taxpayer. If both spouses earn at least as much as the wage base, the maximum savings will be \$4,272.
- *Restricted definition of medicine for health plan reimbursements.* Beginning this year, the cost of over-the-counter medicines can't be reimbursed with excludible income through a health flexible spending arrangement (FSA), health reimbursement account (HRA), health savings account (HSA), or Archer MSA (medical savings account), unless the medicine is prescribed by a doctor or is insulin. This new rule applies to amounts paid after 2010. However, it does not apply to amounts paid in 2011 for medicines or drugs bought before Jan. 1, 2011. Also, for distributions after 2010, the additional tax on distributions from an HSA that are not used for qualified medical expenses increases from 10% to 20% of the disbursed amount, and the additional tax on distributions from an Archer MSA that are not used for qualified medical expenses increases from 15% to 20% of the disbursed amount.

Tax Changes for Businesses and Investors

- *Electronic filing rules now in place.* Beginning Jan. 1, 2011, employers must use electronic funds transfer (EFT) to make all federal tax deposits (such as deposits of employment tax, excise tax, and corporate income tax). Forms 8109 and 8109-B, Federal Tax Deposit Coupon, cannot be used after Dec. 31, 2010.
- *Up-to-\$1,000 credit for "retained workers" in 2011.* Employers may claim a "retention credit" for retaining qualifying new employees (certain formerly unemployed workers meeting specific requirements). The amount of the credit is the lesser of \$1,000 or 6.2% of wages you pay to the retained qualified employee during a 52 consecutive week period. The qualified employee's wages for such employment during the last 26 weeks must equal at least 80% of wages for the first 26 weeks. The credit may be claimed for a retained worker for the first tax year ending after Mar. 18, 2010, for which the retained worker satisfies the 52 consecutive week requirement. However, the credit applies only for qualifying employees hired after Feb. 3, 2010, and before Jan. 1, 2011.

- *New basis and character reporting rules.* Generally effective on Jan. 1, 2011, every broker required to file an information return reporting the gross proceeds of a “covered security” such as corporate stock must include in the return the customer's adjusted basis in the security and whether any gain or loss with respect to the security is short-term or long-term. The reporting is generally done on Form 1099-B, “Proceeds from Broker and Barter Exchange Transactions.” A covered security includes all stock acquired beginning in 2011, except stock in certain regulated investment companies (i.e, mutual funds) and stock acquired in connection with a dividend reinvestment plan (both of which are covered securities if acquired beginning in 2012).
- *Information reporting for real estate.* For payments made after Dec. 31, 2010, for information reporting purposes, a person receiving rental income from real estate is treated as engaged in the trade or business of renting property. As a result, recipients of rental income from real estate generally are subject to the same information reporting requirements as taxpayers engaged in a trade or business. In particular, rental income recipients making payments of \$600 or more during the tax year to a service provider (such as a plumber, painter, or accountant) in the course of earning rental income must provide an information return (typically Form 1099-MISC) to the IRS and to the service provider.
- The rental property expense payment reporting requirement doesn't apply to: (1) an individual who receives rental income of not more than a minimal amount (to be determined by the IRS); (2) any individual (including one who is an active member of the uniformed services or an employee of the intelligence community) if substantially all of his or her rental income is derived from renting the individual's principal residence (main home) on a temporary basis; or (3) any other individual for whom the information reporting requirement would cause hardship (to be defined by the IRS).

If you would like more details about these provisions or any other aspect of the new law, please do not hesitate to call.

Wright Ford Young & Co.
Certified Public Accountants & Consultants, Inc.