

Some good news, some bad for taxpayers filing 2011 returns

By Nancy Zoellner-Hogland

Other than the Temporary Payroll Tax Cut Continuation Act of 2011, which temporarily extends the two percentage point payroll tax cut for employees, no new tax laws were passed this year. However, according to two local certified public accountants, taxpayers will be able to take advantage of a few changes adopted earlier but phased in for 2011. But beware – individuals also may face lower deductions in other areas.

Jerry Dunstan, CPA and co-owner of DeClue and Dunstan Accountants in Eldon, said the Temporary Payroll Tax Cut Continuation Act of 2011 temporarily extends the two percentage point payroll tax cut for employees, continuing the reduction of their Social Security tax withholding rate from 6.2 percent to 4.2 percent of wages paid

through Feb. 29, 2012.

He also said under the American Recovery and Reinvestment Act (ARRA), more parents and students qualify for the American opportunity credit to pay for college expenses.

The American opportunity credit originally available only for tax years 2009 and 2010 was extended for 2011 and 2012. It also adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two on tuition above any scholarships received. The full credit is available to individuals whose modified adjusted gross income is \$80,000 or less, or \$160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes above these levels.

Taxpayers also may be able to claim a lifetime learning credit of up to \$2,000 for qualified education expenses paid for all students enrolled in eligible educational institutions. There is no limit on the number of years the lifetime learning credit can be claimed for each student. However, a taxpayer cannot claim both the American opportunity credit and lifetime learning credits for the same student in one year.

Dunstan said individuals will also get to take advantage of a change in capital gains and business owners can reap the rewards of an extension of the law covering equipment purchases.

Eldon H. Becker Jr., CPA, who has an office in Lake Ozark, said individuals who claim deductions for health plans also will see modifications.

First, the bad news.

“Expenses that can be reimbursed tax-free by a health Flexible Spending Account (FSA), Health Reimbursement Account (HRA), Health Savings Account (HSA) or Archer Medical Savings Account (MSA) no longer include over the counter medicines except insulin,” he said, adding that the penalty tax for nonqualified withdrawals from a HSA or MSA increased to 20 percent.

In addition, employers must report the value of health insurance coverage they provide to their employees on the employee’s form W-2.

“However, the IRS has announced that it will not enforce this provision for 2011,” Becker said.

The good news is that the standard mileage rate allowed for operating expenses for a car

when it is used for medical reasons increased slightly midway through the year. Tax payers can deduct 19 cents per mile from January 1 to June 30, and 23.5 cents per mile from July 1 to December 31, 2011.

For more information, taxpayers can obtain a newly revised comprehensive tax guide free of charge by visiting IRS.gov.

However, Dunstan said the money spent to hire an accountant usually can pay off in the long run.

“I can’t tell you how many returns we’ve re-filed where we’ve saved thousands of dollars. Tax preparation software is pretty safe for people who don’t itemize but since 1986, when several substantial changes were made to ‘simplify’ things, it got much more complicated and hasn’t gotten any simpler since,” he quipped.

Rates and taxes remain in place for now

Standard Deductions. The standard deduction rates -- or the amount that you can claim if you don’t itemize your deductions -- stay largely the same for 2011. They are \$5,800 for single taxpayers or those married taxpayers filing separately, \$11,600 for married taxpayers filing jointly and \$8,500 for taxpayers filing as head of household. The additional standard deduction allowed for senior citizens and taxpayers who are legally blind is \$1,150 for married taxpayers filing jointly and \$1,450 for single taxpayers.

Personal Exemptions. The personal exemption amount for 2011 is \$3,700, an increase from \$3,650 in 2010.

Income tax rates. Tax rates for 2011 remain relatively close to those for 2010. The tax deal -- which extended existing breaks -- means that tax rate cuts remain in place with a few adjustments to account for inflation. The tax brackets for 2011 are:

\$212,300-\$379,150	33%
\$379,150+	35%
Head of Household	
\$0-\$12,150	10%
\$12,150-\$46,250	15%
\$46,250-\$119,400	25%
\$119,400-\$193,350	28%
\$193,350-\$379,150	33%
\$379,150+	35%
Married Filing Separately	
\$0-\$8,500	10%
\$8,500-\$34,500	15%
\$34,500-\$69,675	25%
\$69,675-\$106,150	28%
\$106,150-\$189,575	33%
\$189,575+	35%

Alternative Minimum Tax (AMT). The AMT exemption for 2011 is \$74,450 for taxpayers filing jointly, \$48,450 for single taxpayers and those filing as head of households, and \$37,225 for married couples filing separately.

Pease and PEP limitations. High-income taxpayers benefit from a temporary repeal of the PEP (personal exemption phase-out) and “Pease” limitations. Under PEP, personal exemptions (which start at \$3,700) for high-income taxpayers were reduced as adjusted gross income (AGI) increased, while the Pease provision reduced itemized deductions by 3% at the top of the brackets. With the temporary repeal, high-income taxpayers hold onto their exemptions and the full value of their itemized deductions for two more years.

Capital Gains and Dividends. Lower rates for capital gains and dividends are extended through 2011.

Flexible Spending Accounts (FSAs). In 2011, over the counter (OTC) medications are generally no longer eligible as FSA expenses unless a doctor writes a prescription for the medications (insulin is a significant exception

to this rule). The new rule also affects HRA (health reimbursement accounts), HSA (health savings accounts) and Archer MSA (medical savings account) plans.



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