

# VOLLMER, DANIEL, GAEBE & GROVE, LLP CERTIFIED PUBLIC ACCOUNTANTS

## TAX NEWSLETTER

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## Season's Greetings



As we move forward into the new year, we extend our wishes for a very special holiday season for you and your family.

We appreciate your trust and we look forward to our continued relationship.

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## Year-End Tax Planning

As tax year 2011 comes to a close, year-end tax planning offers a chance to execute some tax savings strategies that may effect tax year 2011 as well as 2012. Although traditional planning techniques remain fundamentally important considerations, the continual change to tax legislation makes it imperative that you keep up on the latest laws in order to make careful tax savings decisions.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended some expiring tax breaks and expanded others. Some provisions of the law are set to expire at the end of 2011 and others will expire after 2012. If you would like to discuss some alternatives, please call our office at your earliest convenience to arrange an appointment. Otherwise, make your income tax interview appointments in early February 2012.

## Highlights for 2011

1. Income tax rates scheduled for 2011 and 2012 will remain the same as 2010 with 10% being the lowest tax bracket and 35% being the highest tax bracket. There are slight increases to the taxable income thresholds. The tax rate for long-term capital gains and qualified dividends remains the same as 2010 for 2011 and 2012. Rates are 0% for those taxpayers in the 10% and 15% ordinary income tax brackets and 15% for those in higher tax brackets. After 2012, qualified dividends are set to be taxed at the taxpayer's ordinary income tax rate.
2. The Tax Relief and Job Creation Act of 2010 retroactively brought back the estate tax exemption to \$5,000,000 and the maximum tax rate of 35%. In 2012, the estate tax exemption will increase to \$5,120,000 from \$5,000,000. The annual exclusion for gifts will remain at \$13,000 for 2011 and 2012.
3. The Tax Relief and Job Creation Act of 2010 boosts the additional first-year depreciation allowance for qualifying new business equipment. For equipment placed in service after September 8, 2010 and through December 31, 2011, the bill provides for 100 percent bonus depreciation. In 2012, the bill provides for 50 percent bonus depreciation.
4. The Luxury Auto Limits in effect for 2011 include a first year bonus deduction of \$8,000 for passenger autos and \$8,200 for trucks and vans. Therefore, businesses can receive a total depreciation deduction, in the year acquired, up to \$11,060 for qualified autos and \$11,260 for qualified light trucks or vans.
5. The Section 179 Expense Deduction for equipment purchases in 2011 is limited to \$500,000, up to \$250,000 may be used for certain qualified restaurant, leasehold-improvement and retail improvement property in 2011. In 2012, the expensing limit is reduced to \$139,000.
6. The Tax Relief and Job Creation Act of 2010 extends the credit for education costs to years 2011 and 2012. The credit is available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. The list of qualified expenses was modified to include required course material. The maximum annual credit is \$2,500 per student. Depending on filing status and modified adjusted gross income, the credit may still be phased out. The Lifetime Learning Credit up to \$2,000 is available for postsecondary education expenses beyond the first four years. If you do not qualify for any of the education credits because your Modified Adjusted Gross Income (MAGI), you might be eligible for a deduction of up to \$4,000 of qualified higher education tuition and fees.
7. Small business owners may qualify for the Small Business Health Care Tax Credit. The credit is up to 35% of the employee premium costs for a small business. It phases out for employers with average wages between \$25,000 and \$50,000 or between 10 and 25 employees.
8. In 2011, a 30% tax credit remains for the cost of installing qualified residential energy efficient property (including solar energy systems) and energy-saving home improvements. The credit for energy efficient property is unlimited for 2011 through 2016. The qualified energy-saving home improvements credit is capped at \$1,500 and includes windows, doors, etc.

## 2011 – 2012 Payroll Information

Vollmer, Daniel, Gaebe & Grove LLP provides payroll tax compliance and consulting to many of our clients. The rules are complex and change frequently. To assist our clients and their bookkeeping and payroll staff in complying with these rules, we prepare the following annual summary of payroll related information. We hope you and your staff find this information helpful. If you have any questions, or wish to discuss specific situations, please contact us.

**State reporting** requirements exist for *all businesses* to report *all individuals who are Independent Contractors* and who perform *more than \$600* of services per year. Form DE 542 is available from the Employment Development Department at [www.edd.ca.gov](http://www.edd.ca.gov) or call (916) 322-2835. Penalties may be assessed for failure to comply.

Effective January 1, 2011, employers will report for state quarterly reporting, total subject wages, Unemployment Insurance (UI) and Disability Insurance (DI) taxable wages and contributions, by filing a new Quarterly Contribution Return and Report of Wages (DE 9) quarterly instead of annually. Employers will continue to report employee wages and personal income tax withheld quarterly on the new Quarterly Contribution Return and Report of Wages (DE 9C).

Employers are required to deposit federal income tax withheld and FICA liability under a monthly, semi-weekly, or \$100,000 next-day deposit rule. The Internal Revenue Service will notify the employer *annually* of its deposit status based on its previous deposit history. The *monthly* deposit rule requires employment taxes to be deposited by the 15th day of the following month. *Semi-weekly* depositors are required to deposit employment taxes on Wednesdays or Fridays, depending on which day wages are paid. The *\$100,000 next-day deposit rule* requires a deposit the day after an accumulated employment tax liability exceeds \$100,000.

Some employers with small payrolls, including government employers, will file Form 944, Employers Annual Employment Tax Return, instead of filing Form 941 each quarter. Generally, if you have annual liability of \$1,000 or less for withheld income tax, Social Security and Medicare tax, you are affected by this change in filing requirement and the IRS will notify you early in the year. California requires a deposit when state income tax withholding exceeds \$350 for monthly depositors or \$500 for semiweekly depositors.

<u>Year</u>		<u>Base</u>	<u>Employer FICA Rate</u>	<u>Employee FICA Rate</u>	<u>Employer FICA Tax</u>	<u>Employee FICA Tax</u>	<u>SE Rate</u>	<u>SE Tax</u>
2011	Social Security	\$106,800	6.20%	4.20%	\$6,621.60	\$4,485.60	10.40%	\$11,107.20
	Medicare	Unlimited	<u>1.45%</u>	<u>1.45%</u>			<u>2.90%</u>	
	Combined		<u>7.65%</u>	<u>5.65%</u>			<u>13.30%</u>	
2012	Social Security	\$110,100	6.20%	6.20%	\$6,826.20	\$6,826.20	12.40%	\$13,652.40
	Medicare	Unlimited	<u>1.45%</u>	<u>1.45%</u>			<u>2.90%</u>	
	Combined		<u>7.65%</u>	<u>7.65%</u>			<u>15.30%</u>	

(2011–2012 Payroll Information Continued from Page 3)

Beginning January 1, 2011, all federal tax deposits must be made electronically. The new regulations announced by the IRS eliminate federal tax deposits by paper coupons. Instead, taxpayers must use the Electronic Federal Tax Payment System (EFTPS). The State (EDD) has not made any such requirement and will continue to accept paper Form DE-88 coupons in 2012. However, it may be beneficial to enroll in the State EFT (Electronic Funds Transfer) at the same time you enroll in EFTPS as the State may adopt similar requirements for electronic deposits. If you need assistance in enrolling in EFTPS (Federal) or EFT (State), please contact us.

All agricultural wages are subject to federal income tax withholding and FICA withholding if the agricultural employer pays wages of \$150 or more to an individual employee or \$2,500 or more to all employees. (An exemption may apply to certain hand harvest piece-rate labor.)

Federal Unemployment (FUTA) (Employer) net tax rate for 2011 has been reduced from 0.8% to 0.6%. On July 1, 2011 Congress announced that the FUTA 0.2% surcharge, first enacted in 1977, will not be extended after June 30, 2011. It is uncertain if the rate is expected to be the same by 2012 at this time. Special rules apply to agricultural employers.

State Disability Insurance (SDI) tax rate for employees is 1.20% (includes the Paid Family Leave Tax) on the first \$93,316 of subject wages for 2011 and the rate will decrease to 1.0% on the first \$95,585 of subject wages for 2012.

State Unemployment Insurance (Employer) tax rate schedule in effect for 2012 provides UI contribution rates from 1.5% to 6.2%. The taxable wage limit is \$7,000 per employee. The UI rate for new employers is 3.4% for up to three years.

Household Wages paid for domestic services may be subject to employment taxes. Withholding of federal and state income taxes is generally not required. For 2011 and 2012, wages are subject to FICA taxes when they exceed \$1,700 annually and subject to FUTA taxes when they exceed \$1,000 quarterly. State payroll taxes may be required if wages exceed \$750 in a calendar quarter.

Worker's Compensation Insurance Coverage for most employees is mandatory in California. Review your policies with your servicing insurance agent for proper coverage.

Information Returns (Form 1099) are required for certain types of payments of \$600 or more (\$10 for certain interest paid) per year made by a trade or business (including farmers) to an unincorporated entity. Penalties apply to (1) not filing or late filing of an information return, (2) not including a payee's identification or social security number on an information return, or (3) not providing copies of information returns to payees. Electronic filing requirements apply if you have 250 or more W-2's or 1099's. If the payee fails to furnish the *proper* name and number, a 28% withholding requirement will apply.

Employment Eligibility Verification (Form I-9) is required of all employees and must be retained by all employers for the Immigration and Naturalization Service. Penalties may be assessed for failure to comply.

(Highlights for 2011 Continued from page 2)

9. Legislation was signed in 2011 to “repeal” the requirement for rental property owners to issue Form 1099-MISC. We encourage rental property owners to continue keeping accurate records of rental income and expenses so that appropriate limitations surrounding passive activities are thoroughly considered. The 2011 legislation also “repeals” the requirement to report on Form 1099-MISC payments for goods or property and payments made to corporations.
10. If a traditional IRA was converted to a Roth IRA in 2010 and the tax due was deferred, the payment for the first installment must be made on your 2011 income tax return and the final installment will be due on your 2012 income tax return.
11. If you have a financial interest in or signature authority over a foreign account, including a bank account, brokerage account, mutual fund, trust, or other type of foreign financial account, you may be required to report such account yearly to the Internal Revenue Service by filing Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts (FBAR). If you feel you need to file this form please contact our office for assistance.
12. Effective January 1, 2011 distributions from Health Savings Accounts (HSAs), for the cost of over-the-counter medicines or drugs (except for insulin) are only allowed if they are purchased with a prescription.
13. The \$250 deduction for teachers and educators was renewed for 2011.
14. Self-employed individuals may deduct health insurance costs for children under the age of 27.
15. Mileage Reimbursement Rates for 2011:
 

	<u>1/1 – 6/30</u>	<u>7/1 – 12/31</u>
a. Business –	51 Cents/Mile	55.5 Cents/Mile
b. Medical –	19 Cents/Mile	23.5 Cents/Mile
c. Charitable –	14 Cents/Mile	14 Cents/Mile
16. For calendar-year taxpayers, the 2011 estimated tax is payable in quarterly installments on April 16, June 15, September 17, and January 16. In 2011 and 2012, the California amount of the installment due for the first payments is equal to 30% of total estimated tax for the year. The second installment must be equal to 40%. No payment is due for the third installment and the fourth required installment must also be equal to 30% of the estimated tax for the year.

### Credits vs. Deductions

How is a tax **credit** different from a tax **deduction**?

A tax credit reduces your tax dollar for dollar ~ a \$1,000 tax credit actually saves you \$1,000 in taxes.

By comparison, a tax deduction reduces your *taxable income*, but is only worth the percentage equal to your marginal tax bracket. For example, if you are in the 25% marginal tax bracket, a \$1,000 deduction saves you \$250 in taxes (.25 X \$1,000), which is \$750 less than the savings with a \$1,000 tax credit. The higher your tax bracket, the more a deduction is worth, but a credit is always worth more than a dollar-equivalent deduction.

## Range of Services

In addition to income tax planning, preparation, and compliance, we offer a variety of other related services including:

- ◆ Audited, Reviewed, and Compiled Financial Statements
- ◆ Estate and Gift Planning and Return Preparation
- ◆ Litigation Support
- ◆ Business Valuation
- ◆ Accounting Systems and Computerization (including help in selection of the proper accounting system and computer software for your needs)
- ◆ Personal Financial Affairs (including paying of bills, medical insurance claims, et cetera)
- ◆ Computerized Bookkeeping and Payroll
- ◆ Transaction Planning (call us early – while you plan the deal)
- ◆ Business Consulting
- ◆ New Entity Planning (Limited Liability Companies, Family Limited Partnerships, S-Corporations, Etc.)

## Disclosure of Privacy Policy

CPAs have been and continue to be bound by professional standards of confidentiality that are more stringent than those required by law. Therefore, we have always protected your right to privacy.

As your CPA, we are required to keep all information about our engagement confidential so we will not disclose any information about you unless we have your approval or as required/permitted by law. This applies even if you are no longer a client.

We are committed to the safe keeping of your confidential information and we maintain physical, electronic, and procedural safeguards that comply with our professional standards.

The privacy of your nonpublic information, our professional ethics, and our ability to provide you with quality financial services are very important to us.

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## Milestones & Anniversaries

For more than 45 years, our firm has been providing quality business related and accounting services to our clients.

We appreciate the hard work and dedication provided by our employees. We would like to recognize a few anniversaries celebrated during 2011.

**25 years** – Vicki Fishel