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2011 Tax Year-In-Review

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NEWSLETTER
JANUARY 2012

2011 Lays Groundwork For Tax Reform, Makes Important Changes Impacting 2012

2011 was a quite year in federal tax news, because it stood between major tax legislation in 2010 and expected tax reform in 2012. But Yr 2011 had many tax developments from the Obama Administration, Congress, the Treasury Department, the IRS, and the courts.

TAX LEGISLATION

Payroll Tax Cut

Temporary Payroll Tax Cut Continuation Act of 2011 was signed by President Obama on Dec. 23, 2011. Under the new law, the employee-share of OASDI taxes is 4.2% for the first 2 months of 2012 (10.4% for self-employment income).

Rental Property Expense Reporting

The 2010 Small Business Jobs Act would have required qualified landlords to report certain rental property expense payments of \$600 or more in conjunction with their rental properties after Dec. 31, 2010. This rental property expense reporting was repealed by the Comprehensive 1099 Taxpayer protection Act.

Government Withholding

President Obama signed the 3% Withholding Repeal and Job Creation Act of 2011 to repeal 3% government withholding on payments to contractors. Three percent government withholding was repealed as if it had never been enacted.

Health Care Tax Credit

The Trade adjustment Assistance Extension Act of 2011 (2011 TAA Act) increased the percentage for coverage months beginning after Feb. 12, 2011. The Health Coverage Tax Credit (HCTC) is scheduled to expire after 2013.

Health Premium Assistance Credit

After Jan. 1, 2014, taxpayers who purchase qualified health care



coverage through an American Health Benefit Exchange are entitled to a refundable income credit equal to the health insurance premium assistance credit.

Preparer EIC Penalty

The individual must meet due diligence requirements when preparing returns including a claim for the earned income credit (EIC). The U.S.-Korea Trade Agreement of 2011 increased the penalty for failing to meet the EIC due diligence requirements to \$500 (per occurrence) for returns filed after Dec. 31, 2011.

FUTA Surtax

The 0.20% Federal Unemployment Tax Act (FUTA) surtax expired after June 30, 2011. Employers that pay their state UI taxes on time receive a credit of up to 5.4% towards the Federal Unemployment Tax.

DOMESTIC COMPLIANCE MEASURES

IRS Audits

The IRS audit rate for individual returns filed in fiscal year (FY) 2010 was 1.1%, according to statistics released by the agency in 2011 (IR-2011-27). The audit mainly focuses on high income individuals and large corporations (corporations with assets over \$10 million).

Broker Information Reporting

Basis reporting began for purchases of individual corporate stock on or after Jan. 1, 2011; begins for purchases of mutual fund or dividend reinvestment plan shares using the average basis method on or after Jan. 1, 2012; and begins for other securities as specified by the IRS on or after Jan. 1, 2013.

Merchant Payment Card Reporting

Code Sec. 6050W imposes information reporting requirements on payments made in settlement of payment card and third-party network transactions.

Bank Interest Reporting

The IRS issued proposed regulations to expand information reporting on bank deposit interest paid to nonresident alien individuals who are residents of any foreign country.

FOREIGN COMPLIANCE MEASURES

FBAR

The Treasury Department's Financial Crimes Enforcement Network (FinCEN) issued final rules on Form TD-F 90-22.1, Report of Foreign Bank and Financial Accounts (FBAR). Generally, United States persons are required to file an FBAR if United States persons had a financial interest in or signature authority over at least one financial account located outside of the U.S.;



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and the aggregate value of all foreign financial accounts exceeded \$10,000 at any time during the calendar year to be reported.

FATCA Reporting

The Foreign Account Tax Compliance Act (FATCA) requires certain U.S. taxpayers holding foreign financial assets to report information about those assets on a new form (Form 8938, Statement of Foreign Financial Assets) that must be attached to the taxpayer's annual tax return. Reporting requirement applies for tax years beginning after March 18, 2010. FATCA also requires foreign financial institutions to report directly to the IRS certain information about financial accounts held by U.S. taxpayers - starts in 2013.

Foreign Tax Credit

The IRS issued final regulations on the reduction of foreign tax credit limitations under Code Sec. 904(d) as amended by the 2004 Jobs Act. These regulations continue a strict "baskets" approach, fine-tuning certain recapture and safe harbor.

HEALTH CARE REFORM

W-2 Reporting

The IRS expanded interim relief from reporting the cost of employer-provided health insurance coverage on Forms W-2 as required by the Patient Protection and Affordable Care Act for small employers. Small employers are not required to report until further guidance is issued.

Small Employer Tax Credit

Small employers may be eligible to claim the credit to offset the costs of providing health insurance to employees.

BUSINESS DEDUCTIONS/CREDITS

The economic downturn continued to play a role during 2011 in the area of business deductions and credits.

Small Business Expensing

In 2012, Code Sec. 179 small business expensing has less amounts than in 2011. The \$179 dollar limit for tax years beginning in 2012 is \$139,000 and the investment limit for tax years beginning in 2012 is \$560,000.

Mileage Rates

Mid-year adjustment. In 2011, the IRS made a mid-year adjustment to the optional mileage rates to reflect an increase in gasoline prices. For miles driven between July 1 and Dec. 31, 2011, the business standard mileage rate increased from \$0.51/mile to \$0.555/mile; and the medical/moving standard mileage rate increased from \$0.19/mile to \$0.235/mile.

2012 rates. For 2012, the business standard mileage rate remains \$0.555/mile, medical/moving standard mileage rate is \$0.23/mile, and the charitable rate is \$0.14/mile.



Business Travel

For business travel after Sept. 30, 2011, the IRS issued the simplified per diem rates that taxpayers can use to reimburse for business travel expenses. The IRS-approved per diem rate for high cost areas for 2012 is \$242; and for all other areas is \$163.

Real Estate Activities

The IRS released procedures in 2011 to allow qualified real estate professional to make a late election to aggregate rental real estate interests for applying the passive activities loss rules under Code Sec. 469.

Mandatory E-Filing for Specified Tax Return Preparers

Year	Threshold
Returns filed in 2011	100 or more covered returns
Returns filed in 2012	11 or more covered returns

*If you have any questions, please don't hesitate to call.
 We are at your service.*