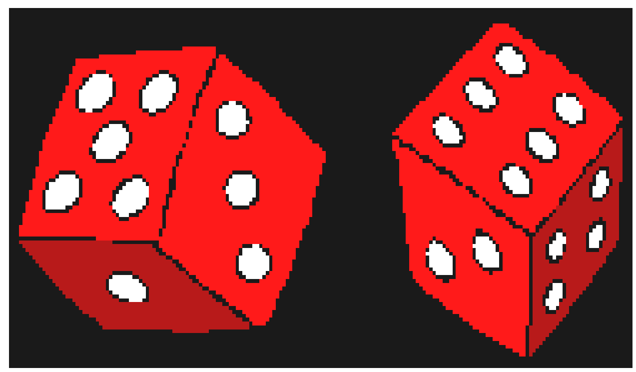
2011 - Everyone's a Winner

Inside this issue:

Everyone wins in the world of tax in 2011

In the very last moments of 2010, Congress compromised on a tax bill that saved all US taxpayers from what would have been a substantial tax hike for 2011.

A little tax history…
In 2001 Congress passed a tax bill to slowly revive the economy over a ten year period. After the ten year period of increasingly lower taxes, the tax rates were to revert back to pre-2001 conditions. 2010 would be as good as it gets, and 2011 would be a real tax shocker.



It became evident that a tax shocker would not be appropriate for our shaky economy, so Congress went to work.

Thanks to Congress, tax rates will remain at 2010 levels for 2011 and 2012. If everything had gone as scheduled, and Congress hadn't acted, the lowest tax rate would have jumped from 10% to 15% and the highest rate from 35% to 39.6%.

How will you be affected? The tax compromise has something for everyone.

If you are an upper income taxpayer: **You will benefit the most.**

A single taxpayer in the top 1% (income over $380,354) will receive a cut from the rate reduction of around $12,000.

A single taxpayer in the top 5% (income over $159,900) will receive a cut of about $4,000.

A single taxpayer in the top 10% (income over $113,799) will receive a cut of about $2,500.

A single taxpayer in the top 25% (income over $67,280) will receive a cut of about $1,100.

Higher income taxpayers will also benefit from the elimination of itemized deduction and personal exemption phaseouts that increased tax bills for many before 2010.

If you are a worker:

You will benefit immediately from the payroll tax cut. Instead of extracting 6.2% from your paycheck for Social Security taxes, 4.2% will be taken. This gives you an extra 2% of every check for take home pay. For example, if you earn $50,000 per year, you will get an extra $1,000 to spend (at least that's what the government wants you to do with it).

Self employed workers will also get a break on Self-employment tax.

The payroll tax cut replaces the Making Work Pay Credit (in 2011 only) providing workers at all levels with an immediate income boost designed to increase consumer spending.

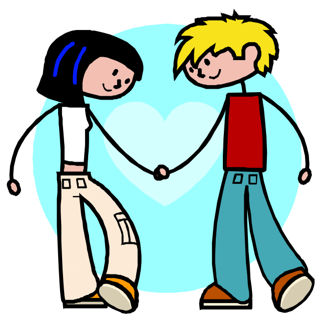
If you are out of work:

You are already benefiting from the extended unemployment benefits. Under the tax deal, benefits will be extended through the end of 2011. Also, with all the tax breaks available for businesses, you will probably have a better chance of getting a job.

Boost the US economy by spending your 2% payroll bonus, or, i you would rather save, boost your retirement income by increasing your 401(k) contribution by 2%.

If you are married:

You will have relief from the marriage penalty for 2 more years, saving even more tax. The standard deduction and tax tables were adjusted just for you.



If you have stock:

You have been saved for two more years (2011 and 2012) from a significant tax hike on both long term capital gains and qualified dividends.

If you are in the 10 or 15% tax bracket, long term capital gains are taxed at 0%.

If you are in the 25% or higher tax bracket, long term capital gains and qualified dividends are taxed at 15%.

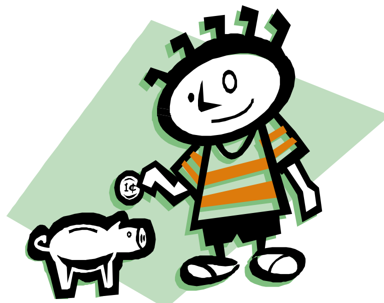
You have two years to save taxes on stock market moves:

If your income is under $44,000 (single) or $88,000 (married) you will enjoy free dividends and are a candidate for a free stock sale.

If you are in a higher tax bracket, you will save taxes on qualified dividends and long term capital gains.

If you have young children:

- The Child Tax Credit for taxpayers with children under age 17 remains at $1,000 per child for taxpayers with incomes under $110,000 (married filing joint) and $75,000 (others). This credit was scheduled to be reduced to $500 until it was saved at the last minute by Congress. Taxpayers who owe no tax (47% of us) will still be able to benefit from the refundability of this credit.



- For lower income families, the Earned Income Tax Credit was extended for families with 3 or more children and was adjusted so married taxpayers get the same breaks as the unmarried.

- Expenses qualifying for The Dependent Care Credit for children under age 13 was scheduled to be reduced from $3,000 to $2,400, but the last minute tax act retained the $3,000 level for 2 more years.

If you have children in college:

If you paid for post secondary tuition and course materials for a student in the first four years in a degree or certification program, you are still in luck.

The American Opportunity Tax Credit was scheduled to disappear for 2011. This $2,500 tax credit is really a jewel for taxpayers with children in college and incomes under $160,000 (married joint) or $80,000 (single). The credit is phased-out for higher incomes and totally disappears at $180,000 (married joint) and $90,000 (single).

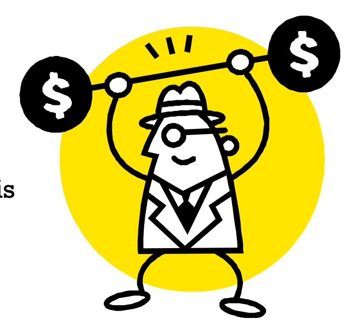
Even if your tax is 0, the credit is 40% refundable unless you are a child claiming the credit who has at least one living parent.

To make the most o the American Opportunity Tax Credit, remember to keep track o required course materials in addition to tuition.

If you own a business:

Congress wants **you** to stimulate the economy. Special 100% expensing rules were enacted to encourage you to invest in business expansion.

According to the White House, this provision will enable two million businesses to invest and create jobs in the United States. It is the largest temporary investment incentive in American history.



2011 is a good year to invest in business equipment. You'll have to hurry, however, the special expensing ends on 12/31/11.

If you missed out on the energy credits in 2010 or before:

You have one more chance for a credit in 2011.

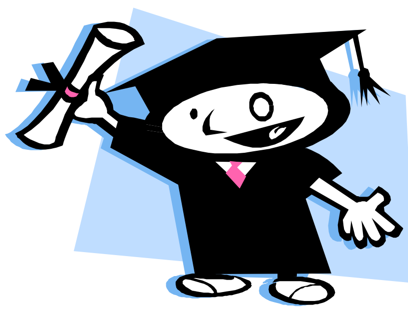
Instead of the 30% credit (maximum $1,500) allowed for 2009 and 2010, you will get a 10% credit (maximum $500) for qualifying energy improvements to your home in 2011.

The credit for windows is capped at $200, advanced main air circulating fans are $50, qualified boilers are $150, energy efficient building property is capped at $300, and Energy Star windows and doors are 10%. Energy Credits taken in 2006 and 2007 reduce the amount of credit for 2011.

If you pay interest on student loans:

Student loan interest on loans more than five years old was slated to become non-deductible.

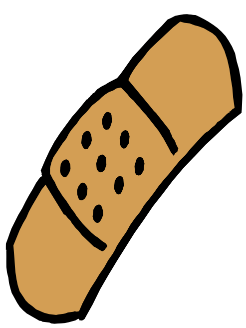
Once again, thanks to the last minute efforts of Congress, you can now deduct interest up to $2,500 on your old loans through 2012. This deduction is subject to an income phase-out, but if you miss out on the student loan interest deduction because of high income, you will save more on the rate reduction.



If you usually pay AMT (Alternative Minimum Tax)

You probably will still pay AMT.

Congress patched the AMT by increasing the exemption amount. Without the patch, an estimated 21 million additional households would have been subject to AMT in 2011, and the amount you usually pay would have increased substantially.



The President's Deficit Commission is looking for new solutions for the future. Stay tuned.

Going, going gone…

2011 is your last chance to take advantage of the following tax breaks:

- Mortgage insurance premiums on your personal residence
- The teachers special deduction for up to $250 in classroom supplies
- Sales tax instead of state income tax as an itemized deduction
- The adjustment deduction for post secondary tuition.
- Direct charitable contributions of IRA proceeds

Everyone is a winner for 2011 and 2012, but beware. The government cannot afford to stimulate our economy forever. It would be wise to watch the efforts of the President's Deficit Commission as they try to iron out a solution. A big tax change is in your future.