

“THE NEWSLEDGER”

Z & A GOES ELECTRONIC

We will begin filing tax returns electronically starting January 2011. The IRS mandates e-filing for preparers who expect to prepare 100 or more federal income tax returns in 2011. Individuals must sign Form 8879, IRS e-file Signature Authorization, prior to the preparer uploading the tax return. Officers of a Corporation or Members of a Partnership must sign their own respective version of Form 8879. More information will be mailed out in January to explain this new process.

The benefits of electronic filing include faster refund and quicker processing times with the IRS and the respective States. If a balance is due with the tax return, you do have the option to have your payment processed up until the due date of the tax return. For example, if an individual owes \$1,000 and files their 1040 in March, they can pay by mailing in a check with a payment voucher, Form 1040-V or have the funds electronically withdrawn from their bank account on any day they elect up to the standard filing due date of April 15th.

IRS REQUIRES ELECTRONIC TAX DEPOSITS

The IRS has announced that all federal tax deposits after 2010 must be made electronically. These taxes include: corporate income taxes, corporate estimated taxes, employment taxes, FUTA taxes, as well as excise taxes, estimated taxes on certain trusts, nonpayroll taxes, and excise taxes reported on Form 720, Quarterly Federal Excise Tax Return. In order to pay these taxes electronically, Corporations and other applicable Tax Paying Organizations must sign up on EFTPS.gov. Our firm has sent out a letter with

instructions on how to sign up at EFTPS.gov, if you have not received this letter, please let us know and we will send one out immediately. If you need help signing up, we'll be glad to help.

OBAMA SIGNS SMALL BUSINESS JOBS ACT AND SIGNS TAX RELIEF ACT OF 2010

On September 27, 2010, the President signed the 2010 Small Business Jobs (SBJ) Act. On December 17, 2010, the President signed the Tax Relief (TR) Act of 2010, a tax Bill that extends Bush-Era tax cuts for two more years. The TR Act also enhances some of the tax incentives included in the SBJ Act. The SBJ Act included \$12 Billion in tax incentives including increased Code Section 179 expensing, Bonus Depreciation, 100% qualified small business stock exclusion, increased first year deduction of qualified startup expenses, additional Schedule C deductions, and the reporting of cell phones. The TR Act included payroll tax relief and a compromise between Obama and Republicans to lower estate taxes.

The 2011 Income Tax Rates remain essentially unchanged, which if this bill was not signed, would cause the average middle-class family to pay an extra \$3,000 in income taxes next year. The 2011 brackets were set to increase to 15, 28, 31, 36, and 39.6 percent from 10, 15, 25, 28, 33, and 35 percent, but the TR Act has prevented that change and extended the lower rate brackets for two years through December 31, 2012.

Taxpayers can now immediately expense equipment purchases up to \$500,000 under Code Section 179 through 2011, an increase of

\$250,000 from 2009. The phase-out threshold amount is raised to \$2 million in fixed asset purchases up from \$800,000. Qualified property for Code Section 179 has temporarily been expanded to qualified leasehold improvements, restaurant and retail improvement property. Under the TR Act, for 2012, Section 179 is limited to \$125,000 with a threshold investment limit at \$500,000.

Under the SBJ Act, taxpayers could take an additional 50% first year bonus depreciation for qualified property placed into service between September 8, 2010 and December 31, 2011. Under the TR Act, taxpayers can take 100% bonus depreciation for qualified investments made after September 8, 2010 and before January 1, 2012. The 50% bonus depreciation is available for the 2012 calendar period. Certain long-live property is eligible for the 100% bonus if placed in service by December 31, 2012.

The TR Bill decreases the employee share of the Social Security Tax by 2% for the 2011 calendar year. This means workers making \$50,000 would receive an additional \$1,000 during the year. Self-employed individuals would pay 10.4% on self-employment income up to the \$106,800 wage base.

With a 55% estate tax rate and a \$1 million applicable exclusion looming, the TR Act increases the exclusion and lowers the tax rate. For decedents dying in 2010 through 2012, the applicable exclusion, threshold for taxability, for estates has been increased to \$5 million. The maximum federal estate tax rate was decreased to 35%. (Maryland's maximum estate tax rate is 16%.) For decedents dying in 2010, the 0% tax rate is available if estates accept the carry-over basis rules.

Other two year extensions include: the Capital Gains tax of 15%, 0% for taxpayers in the 10 and 15% income tax brackets; the Child Tax Credit of \$1,000; and, the American Opportunity Tax Credit for qualified education expenses.

Qualified small business stock purchased between September 27, 2010 and January 1, 2011 is 100% excludable for non-corporate

taxpayers from regular and AMT tax imposed on the sale if the stock is held more than 5 years.

Start-up expenses are amortized over 60 months, but taxpayers may elect to deduct \$10,000 in the first year, up from \$5,000 in 2009, not including the first year's amortization of start-up expenses. The first year deduction of \$10,000 is reduced by the amount that the cumulative costs of start-up expenses exceeds \$60,000, up from \$50,000 in 2009.

Self-Employed individuals can deduct medical premiums on their Schedule C for 2010. This will lower their Self Employment taxes by up to 10.4% of the medical premiums paid.

Starting after 2010, the IRS will require recipients of rental income to file Form 1096, Annual Summary and Transmittal of U.S. Information Returns, reporting payments made to service providers in the aggregate of more than \$600. There may be reporting delays as landlords need to collect tax ID numbers to distribute 1099s.

2011 VEHICLE DEPRECIATION LIMITS

The IRS released the new depreciation limits for business automobiles, trucks and vans placed in service during 2011. Only the depreciation deduction for trucks and vans has increase from 2010. The first year bonus depreciation of \$8,000 on new automobiles was extended to 2010, but was not extended to 2011.

The maximum depreciation amounts for passenger automobiles first placed in service during 2011 are:

- \$3,060 for the first year;
- \$4,900 for the second year;
- \$2,950 for the third year; and
- \$1,775 for each tax year thereafter.

The IRS allows higher depreciation deductions for trucks and vans due to the higher purchase price of these vehicles. The amounts for 2011 are:

-\$3,160 for the first year;
-\$5,200 for the second year;
-\$3,150 for the third year; and
-\$1,875 for each tax year thereafter.

CHANGES IN W-2 REPORTING REQUIREMENTS

The Patient Protection and Affordable Care Act of the new health care reform package required employers to report the value of health insurance coverage they provide employees. This reporting will be effective for W-2's reporting 2012 income, but is optional for 2011 W-2's. This employer sponsored coverage includes the cost of health insurance, vision insurance and dental insurance, but excludes coverage for long term care, accident, and disability income insurance. The breakdown of the various types of medical coverage is not required. The Act also states that effective for tax years beginning after December 31, 2017, a 40% excise tax will be imposed on the cost of coverage for an employee that exceeds a threshold amount.

THE IRS FINALLY SENDS HELP TO TAX PREPARERS WITH INCREASED BROKER REPORTING REQUIREMENTS

Brokers are required to report stock sales on 1099-B's. The 1099-B only reports proceeds from stock sales. That's going to change in 2011 when brokers are required to report the adjusted basis of the stock sold and the type of gain from the sale of the stock. The basis and type of gain is required for: stocks acquired on or after January 1, 2011; stock in a mutual fund or dividend reinvestment plan acquired on or after January 1, 2012; and, other securities and options acquired on or after January 1, 2013.

IRS ANNOUNCES 2011 COLA LIMITS

The IRS announced the 2011 Cost of Living Adjustments for Qualified retirements plans as well as other official amounts for the 2011 tax year. There have not been too many increases due to very low inflation. The maximum contribution to Defined Contribution Plans, such as 401(k)s and 403(b)s, remains unchanged at \$16,500. Catch-up contributions for eligible

individuals above age 50 remains unchanged for IRAs at \$1,000 and for 401(k)s, 403(b)s, and SEPs at \$5,500 for 2011.

The Social Security Wage Base remains unchanged at \$106,800. The gift tax exclusion for 2011 remains unchanged at \$13,000 for individuals and \$26,000 for married couples splitting the gift. The Child Tax Credit is set to revert back to \$500 in 2011 under the provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001. The standard deduction to compute the "Kiddie Tax" is unchanged at \$950.

2011 MILEAGE RATES

The new 2011 IRS optional standard mileage rate increased one penny to 51 cents for business miles. The rate increased 3.5 cents to 19 cents per mile for medical or moving purposes, and remains unchanged at 14 cents per mile for charitable miles driven.

OWED A REFUND FROM THE IRS?

The IRS announced that 112,000 taxpayers are due one or more refund checks totaling \$164 million, but due to problems with mailing addresses the checks remain undelivered. Taxpayers can use Form 8822 to change their address. Wondering the status of your refund? Use the "Where's my refund?" tool on IRS.gov.

ZIMMERMAN & ASSOCIATES EVENTS

We would like to wish Bob and Carol Zimmerman a Happy 29th Anniversary. They spent a week in Florida touring St. Augustine, the oldest city in the nation, as well as watching a Quidditch match at The Wizarding World of Harry Potter Theme Park at the Universal Orlando Resort.

Rich Brunner has been a huge fan of the Minnesota Vikings since childhood. Rich took Bob Zimmerman on a four day car ride to Minneapolis, Minnesota to see Brett Favre take on the Dallas Cowboys. Favre was at game 290 of his 297 Consecutive Regular-Season Football

Game starts. Minnesota kicked a field goal with 4:03 to go in the 4th Quarter to win the game.

Have you heard a new voice when you have been calling the office? Well a new player has been added to our expanding staff of professionals. Dianna Koch joined the firm in October as our receptionist and has been taking on new tasks ever since. She is a hard worker and an aspiring artist.

Kristin Redford has stepped up the ladder to accountant-in-training. She has taken on many of our accounting projects and has passed every task with flying colors. She heads the preparation of the Maryland Personal Property Taxes and prepares all of our Quarterly Payroll Tax returns.

Fun was had by all at our annual day at the Maryland State Fair. Rich did leave with a frown on his face as we we're not able to find the world's smallest woman, 'Tiny Tasha,' a yearly attraction we visit at the fair. As usual, we subsidized Maryland horse racing as we suffered losses at the track, however we had enough left over at the end for everyone to go home with a stuffed animal.

We would like to congratulate Jamie Zimmerman. Again! In the last Newsledger we congratulated Jamie for her success at the University of Alabama on the Women's Soccer Team. This time it is for her success as the assistant coach for the Women's Soccer team at Stevenson University. The team went 12-7-1 for the year and beat Frostburg for the CAC Championship. Unfortunately, the Mustangs of Stevenson lost in the opening round of the NCAA Division III Women's Soccer Championship.

Z&A would like to take this opportunity to introduce you to our new found friendly clients:

INNOVATIVE SYSTEMS & SOLUTIONS, INC.
STONEBROOK COMMUNITY ASSOC., INC.
DOMPA, LLC
DMA MANAGEMENT INCORPORATED
BAYMAR PARTNERSHIP
ENTERPRISE DENTAL SPECIALISTS, INC.
NICHOLAS GARCIA FAMILY DENTISTRY
LAW OFFICE OF DAVID ELLIN, LLC

TIKI JOE, LLC
SHEPARD MANAGEMENT, INC.
ALVIN MIRANDA, DDS
ELECTRIC MASTERS SERVICE, INC.
MANAGEMENT VISIONS, INC.
PEGASUS, INC.
3KS & ASSOCIATES, INC.
HEALTH DATA ESSENTIALS, INC.
TOP SHELF FOODS, INC.
SUNDAY KITCHEN & BATH, LLC
GIBBONS MARINE CONSTRUCTION, LLC
NATURES BREW
STAGE GARB, INC.
OUTLIER ATHLETICS
WASHINGTON D.C. POLICE FOUNDATION
PMD MANAGEMENT CONSULTING, INC.
RICHARD SEMAN INSURANCE APPRAISALS
FINANCIAL ADVANTAGE
GAINSVILLE FAMILY DENTISTRY
CENTER FOR COSMETIC DENTISTRY, P.C.

From all of us here at the Z&A Professional Building – have a wonderful holiday and a Happy New Year!

FOOD FOR THOUGHT

Is a hippopotamus just a really cool optimist?