

CHANGES IN 2011 TAX LAW YOU SHOULD BE AWARE OF

The image shows a close-up of a person's hand holding a black and silver pen, poised to write on a tax form. The form is partially obscured by a semi-transparent text overlay. Visible text on the form includes:

- Filing Status**
 - 1 Single
 - 2 Married filing jointly (even if only one had income)
 - 3 Married filing separately. Enter spouse's SSN above
- Exemptions**
 - 6a Yourself. If someone can claim you as a dependent, do not check one box.
 - b Spouse
 - c Dependents:
 - First name
 - Last name
 - (2) Dependent's social security number
 - (3) Dependent's relationship
- Income**
 - 7 Attach Form(s) W-2
 - 8 If required, attach Form(s) 1099

Other visible text includes "If more than four dependents, see page 19" and "Qualify this on the q".

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CHANGES IN 2011 TAX LAW YOU SHOULD BE AWARE OF

2010 was a banner year for tax law changes, almost everything shifted a little bit. Filing your 2011 taxes should be much less complex, since the tax laws have remained fairly stable. If you had a low tax burden for your 2010 taxes, your 2011 taxes will most likely reflect the same thing. As the economic crisis continues, this will have many individuals and families breathing a sigh of relief. Tax law changes signed by President Obama still will affect some areas that you should be cognizant of when doing your 2011 taxes, so read carefully over this guide, as it has incorporated all the new changes for 2011.

This article is intended to help you understand in general terms the major changes in tax law that were enacted in 2011, so that you can save the most money possible when you file in 2012. Even if at first glance, it doesn't look like any of the changes apply to your situation, it is always a good idea to consult a competent tax professional to help you take a detailed look at your own financial situation. To help make the information more accessible, we've flagged certain sections applicable to only one sector of the population and put them towards the end. These sections include; High Income, Employers and Students.

*As an aid to understanding tax jargon, it is especially important to understand the distinction between a tax credit and a tax deduction. According to the IRS Website:

- A tax credit reduces the amount of income tax you may have to pay.
- A deduction reduces the amount of your income that is subject to tax, thus generally reducing the amount of tax you may have to pay.

Payroll Tax Holiday

Some of the biggest tax news of 2011 was the continuation of the Payroll Tax holiday. (The festive term 'holiday' as used here means a brief suspension, relaxation, or lightening of a tax burden that does not reflect a permanent change in tax law). Under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, the payroll tax was reduced by 2%, and this benefit continued into the 2011 tax year. Essentially, as of January 1st, 2011, you should have been seeing more dollars in your paycheck. Although your employer was still paying payroll taxes of 6.2%, you were paying less taxes as an employee (4.2% into Social Security, instead of 6.2%). For the self-employed, this was reflected as total tax burden of 10.4% instead of 12.4% of their income. This 'holiday' is NOT scheduled to continue into 2012, so look for a resumption of the 6.2% Social Security payroll tax that you pay as an individual on your latest paychecks from January 2012.

However, especially if you are self-employed, it is well worth your time to make sure your 2011 tax filing reflects the lower amount you were required to pay in 2011. Important Note: This only applies up to the first \$106,800 an individual earns in annual salary, beyond that the full tax burden applies.

Affordable Care Act Tax Provisions

The affects of the 2010 health care bill on your taxes will remain static for 2011, so look to see things remain the same as last year. However, these changes were dramatic and widespread, so we have included the recap of last year's changes for your reference when preparing 2011 taxes.

Lowering Premiums in Employer-Provided Health Coverage

The good news: if you had really bad health coverage from your employer prior to 2011, you can look forward to significant improvements, without the money coming from your own pocket.

The bad news: if you had really great health coverage from your employer prior to 2011, you now will have just average coverage, probably without them reimbursing any pay cuts that you might have accepted due to the (previously) higher-than-average health coverage.

Starting in tax year 2011, the Affordable Care Act required employers to report the value of the health insurance coverage they provided employees. You will probably see this information on your W-2 form you receive in 2012 for the filing of your 2011 taxes as a report, but it has no direct relation to or impact upon your tax filing. However, you have probably already seen the *indirect* effect of these new mandatory reporting laws.

Essentially, the name of the game for employers is to stay below the new government mandated levels for health care premiums, to avoid being labeled 'Cadillac' plans. Health care plans with premiums above the threshold will result in the employer being subject to a hefty tax. Employers and insurers mostly reacted by changing their benefits to have lower premiums, BUT have higher deductibles and copayments, as well as terminating employer contributions to health and flexible spending accounts.

So if you are an individual who is paying your own health care premium out of pocket every year, and are not under coverage by an employer, these tax changes have probably already saved you money. Also if you or your family members have pre-existing conditions that make getting health insurance difficult or impossible, you should be beginning to see significant savings from the new legislation.

However, if you are a basically healthy individual whose premiums are covered by an employer, these changes are probably going to *cost* you significant amounts of money. Since your out-of-pocket health expenses are from paying co-pays, meeting deductibles, and benefiting from employer match in HSA and Flexible Spending accounts, you will be taking the biggest hit financially as these benefits are reduced or eliminated in order for employers to meet the low premium threshold. If you are a basically healthy individual whose employer provides average, but not excellent, health coverage, you are unlikely to see much immediate change in your situation, since your employer will not be scrambling to get below the high premium penalty tax threshold. Employer reporting of their health coverage is optional in 2011, and mandatory in 2012, so the either improvement or degradation of your health care plan that started in 2011, will get increasingly worse/better in 2012, and so on.

Health Savings Accounts

One of the primary ways that individuals will have already seen their tax burden affected by the Affordable Care Act in 2011 is the new regulations on Health Savings Accounts (HSAs), Health Reimbursement Accounts (HRAs) and Flexible Spending Accounts (FSAs). As of January 2011, these accounts could no longer be used for non-prescription medicines, and over-the-counter drugs. For taxpayers who have traditionally used these accounts to reduce the cost of their healthcare throughout the year, the benefit of having them is now dramatically decreased. The necessity of having a doctor-written prescription in order to authorize release of funds from them is a significant factor in the reduction of their utility. An interesting unintended consequence to look for is a marked increase in the number of doctor visits, with patients heading in to see their doctors (at their insurances' expense) simply to get a script written for medication that would previously have been obtained over the counter via their HSAs.

Kids Get Covered Longer

Traditionally, health insurance plans had various cut-off ages for the children of the primary insured to be eligible for coverage on the plan, ranging from age 21 to 26, but more usually right around 24. Under the new law, if for some reason you have a child who does not have their own health insurance through their post-college employer, they can be covered on your plan until age 27, *tax-free*. You still have to pay a little more, but it is now a pre-tax contribution that comes from your paycheck before it is taxed. This also applies to self-employed individuals who qualify for the self-employed health insurance deduction on their federal income tax return.

Small Business Health Care Tax Credit

Targeted towards small businesses with low and moderate income workers, now small business that cover at least half the cost of single coverage health insurance for their workers are eligible for a tax credit to help defray this expense.

Adoption Credit

The Affordable Care Act raises the maximum adoption credit to \$13,170 per child, up from \$12,150 in 2009. The adoption credit is a tax credit adoptive parents are eligible for, intended to help defray the costs of travel expenses, legal fees and adoption fees. In addition to raising the credit maximum, the ACA also makes the credit refundable, meaning that eligible taxpayers can get it even if they owe no tax for that year. However, as of 2012, this credit is NO LONGER REFUNDABLE and is scheduled to decrease slightly.

Indoor Tanning Services Excise Tax

If you are one of the millions of American's who enjoy fake-baking to a golden year-round tan, it's now going to cost you more. Why? Because it's costing *them* more. As of July 2011, all indoor UV Tanning Services were required to pay a TEN PERCENT excise tax. There is an exception for physical fitness facilities that offer tanning as an incidental service to members without a separately identifiable fee, so look for gym memberships to start offering two-for-one programs that include tanning at attached salons as part of your membership package. This tax remains in effect for 2012, and is not expected to change any time soon.

Additional Changes

The Affordable Care Act establishes a number of new requirements for group health plans, and adds requirements in the Internal Revenue Code that tax-exempt hospitals must meet to maintain their tax-exempt status. It also amended section 833 of the Code, which provides special rules for the taxation of Blue Cross and Blue Shield organizations and certain other organizations that provide health insurance. Finally, the Affordable Care Act created an annual fee payable beginning in 2011 by certain manufacturers and importers of brand name pharmaceuticals. So look for the cost of certain specific drugs to go up, and maybe more generic drugs to come forward.

Energy-Saving Home Improvements Tax Credit

The 30% tax break of 2009 and 2010 on the cost of all energy-saving home improvements is GONE. For the 2011 tax year all home improvement tax incentives revert to the 2005-2008 levels. If you installed energy efficient materials in your home in 2011, like windows, replacing furnaces and air conditioners, you will receive only a 10% tax credit when you do your taxes in 2012. This is instead of the previous 30%, and mandates a cap at \$500 (instead of \$1500). Also, you can't claim this credit if you have previously maxed out your \$500 cap anywhere between 2005 and 2008.

The tax law for 2011 has also reduced the credit for installing energy efficient furnaces and boilers (capped at \$150-\$200) and increased their efficiency requirement to 95%. Water and wood heating systems are capped at \$300. Energy efficient windows are capped at \$200, but a broader range does apply (e.g., Energy Star windows now qualify.)

Residential Energy Efficient Property Tax Credit

If you have the urge to go green, there's good news too. Scheduled to remain in effect until January 2017, you also get this same tax break of 30% of the cost to install solar equipment (water heaters, electricity etc.), in your primary residence. Geothermal heat pumps, small wind turbines and fuel cell property are also eligible. This amount is not limited to \$1,500, instead everything you spend is eligible for the 30% tax break, and it counts for your primary residence *and* second home. (However, for fuel cell property a \$500 per half-kilowatt capacity limit exists.) Again, always check the manufacturer's tax credit certification statement to make sure you are installing products that actually qualify for the tax break.

Income Taxes rates for 2011 have not changed greatly from 2010.

Your total amount of earned income for the year, as well as your filing status, is used to determine which tax bracket you fall into as a taxpayer. The brackets for 2011 will continue to be 10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent, and are named for the percentage of your earned income you will pay as taxes. The 10% bracket will apply to the first \$8,500 of earned income by singles (\$17,000 married filing jointly).

Standard Deductions Remain the Same

The standard tax deductions are raised only slightly in 2011 from their 2010 levels, and you can no longer add into your deduction any property or real estate taxes paid OR any casualty losses for nationally declared disaster areas. The standard deduction amounts for 2011 are as follows:

Married filing jointly

- Standard deduction \$11,600

Single filers

- Standard deduction \$5,800

Head of Household

- Standard deduction \$8,500

The additional standard deduction for taxpayers who are legally blind and senior citizens is \$1,150 for married filing jointly and \$1,450 for single taxpayers.

Higher Income Maximums for Married Filing Jointly

The legislation alleviating what is commonly referred to as the marriage penalty, which has previously encouraged married couples to complete their taxes ‘married filing singly’ rather than ‘married filing jointly’ to realize a lower tax liability, will continue for the 2011 tax year. Meaning, the 15% tax bracket has been expanded for married filing jointly so that it includes twice much income as it does for single filers(\$17,000). Also, the standard deduction for married filing jointly has also been doubled. Both of which only make sense, unfortunately, this is scheduled to revert back to its original status in 2013.

Child Tax Credit

The 2010 legislation extends the higher levels of child tax credits initiated in 2009, now scheduled to expire in December of 2012. Every child you list as a dependent (must be under the age of 17) you receive a \$1,000 tax credit. *Like 2009, if you do not claim the child as a dependent, you cannot claim the child tax credit.* Like all good things tax-wise, this tax credit starts to phase out if your modified AGI is \$75,000 for single filers (110,000 for married filing jointly) and the AGI cap is \$95,000 for singles, (130,000 for married.)

If for some reason you have a really low tax liability, you can receive all or part of the tax credit which exceeds your tax liability as a refunded check. In order to be eligible for this, you also have to have an earned income higher than \$3,000 for the years 2010 and 2011 (which is dramatically reduced from the previous levels of 2008). For every \$1000 of earned income you have beyond \$3,000, you can receive \$150 actual cash refunded until you have reached the \$1000 child tax credit limit (or amount remaining after the tax credit is subtracted from your total tax liability).

Earned Income Tax Credit (EITC) Maximum Levels for 2011

The Earned Income Tax Credit, as expected, has not risen significantly since its dramatic increase in 2009, but new legislation extends these levels through December 2012. The AGI phase-out levels where you become ineligible for the credit are only slightly higher for 2011 since the 2009 jump that made it open to more taxpayers.

There are two hurdles to cross when determining your eligibility for the EITC tax credit. The first is based on the level of earned income for your household. If you earn more than the maximum allowable income, you are completely ineligible. If you earn equal to or less than the maximum allowable income, you are *eligible* for the maximum EITC listed below.

- If you have no children and your earned income is equal to or less than \$6,070 your maximum EITC is \$464.

- For 1 child with an earned income equal to or less than \$9,100, your maximum EITC is \$3,094.
- For 2 children with an earned income equal to or less than \$12,780, your maximum EITC is \$5,112.
- If you have 3 or more children with an earned income equal to or less than \$12,780 your maximum EITC \$5,751.

However, just because you are eligible for the EITC does not mean you automatically receive it. After determining eligibility based on earned income levels, your total household AGI comes into play. Once you reach the upper indicated limit of the AGI, you will receive no EITC benefit, regardless of your earned income level.

- If you have no children and your AGI is between \$7,590 and \$13,660 (married filing jointly \$12,670 and \$18,740).
- If you have 1 child and your AGI is between \$16,690 and \$36,052 (married filing jointly \$21,770 and \$41,132).
- If you have 2 children and your AGI is between \$16,690 and \$40,964 (married filing jointly \$21,770 and \$46,044).
- If you have 3 or more children and your AGI is between \$16,690 and \$43,998 (married filing jointly \$21,770 and \$49,078).

If your earned income is higher than the lowest threshold of AGI listed, but not higher than the maximum threshold amount, you will receive gradually phased down levels of EITC per child as your AGI increases. You should also be aware that investment income is considered part of your AGI for the purposes of determining the EITC credit.

Advance payment of the credit:

As of 2011, there will no longer be advance payments of the EITC credit, as have been provided to taxpayers in previous tax years.

Direct Donations of IRAs to Charity

2009 was supposed to be the last year that IRA deductions are not limited by a taxpayer's AGI (which caps charitable contributions from the IRA) or subject to the itemized deduction phase-out laws. However, recent legislation extends these benefits through December of 2011. Also extended is the allowance for IRA holders of age 70 ½ and older to donate up to \$100,000 of their IRAs to charity *without* having to deduct the donation (as a charitable contribution) and report the withdrawal as income. This has been a great little tax break for the charitably minded who fund non-profit organizations, as the amount donated this way, thru 2011, counts as all or part of the required minimum distribution mandated to all IRA owners. (e.g.-you *have* to take money out, you can't just let it sit there). Brace yourselves charities, however, this option expires for 2012.

Higher Income Limits for Deductible IRAs and for Roth IRAs

In 2011 the income cap has been extended slightly for the level of earned income allowed before you are barred from taking the full IRA and Roth IRA deduction on your taxes because you are covered by a retirement plan at work. For 2011 those new modified AGI levels are single or head

of household \$56,000 (married filing jointly \$90,000). After these levels you are allowed a partial deduction until your modified AGI hits \$66,000, head of household (\$110,000 married filing jointly). If you are married filing separately you are eligible if your AGI less than \$10,000, and NOT if it is more.

Also good news for those retirement savers out there (which should be *everybody* the way Social Security is looking), in 2011 you can still contribute to a Roth IRA up until your modified AGI reaches \$107,000 for single filers (\$169,000 for married). At that point the amounts you can contribute are gradually phased down until your modified AGI reaches \$122,000 for single filers (\$179,000 married filing jointly).

*Keep in mind that no tax law changes have affected the cap to yearly donations to an IRA, which remains at \$5000 for individuals under 50, and \$6,000 for individuals over 50 years of age.

Estate Tax is Back for 2011.

Recent tax legislation has gradually increased the federal estate tax exemption and reduced the estate tax rate. In the year 2010, the entire estate tax was repealed, allowing individuals to inherit grandma's money with no strings attached. So basically 2010 was the year to die folks, unfortunately, if you've kicked the bucket in 2011, no such deal applies.

The much-vilified Estate Tax was back in full force in 2011, so if you are filing in 2012, expect to pay 35% tax on assets returns. The estate tax for 2011 will operate on what is referred to as a 'Stepped Up Basis.' If you inherit less than \$5 million (\$10 million if you are married) you don't have to pay an estate tax. If you inherit more than this, the income tax value of the decedents estate is stepped up (or stepped down) to its value on the date of their demise, and you cannot be taxed any *more* than 35% of what you inherit.

Contribution Limit for 401(k) Plans Remains the Same in 2011

2010 tax law continues to give retirement savers a nice tax break in maintaining the maximum amount of employee contribution to a 401K and similar employer-based retirement plans (like 403(b)s and the federal Thrift Savings plan) at \$16,500 per individual. Starting in 2012, this contribution limit will be indexed to inflation, and allowed to increase in \$500 increments.

Catch-Up Provision for 50+ Individuals Remains the Same in 2011

Also, individuals over the age of 50 and currently employed in 2011 maintain the same level of catch-up contribution eligibility to a 401K at \$5,500, making their maximum contribution \$22,000. These limits remain through 2012, and are indexed to inflation after that.

Retirement Savings Contributions Tax Credit or Savers Credit Remains

The news remains good for folks saving for retirement. You could still be eligible in 2011 for the Savers Credit, which allows you to take a non-refundable tax credit up to \$1000 (\$2000 for married filing jointly) which is a percentage of the qualifying contribution to 401K amount. (The highest rate being available to taxpayers with the lowest income.) This credit is in addition to whole or partial deduction you can claim for your contributions to traditional IRAs. Usually if you are a taxpayer earning at these levels, you would be eligible for both. The modified AGI

limits to be eligible for the Savers Credit in 2011 are \$28,250 for single filers, \$56,500 for married filing jointly, and \$42,375 for head of household. This benefit is still scheduled to be available in 2012 as well.

Dividend and Capital Gains Tax Rates

The 2010 legislation continued the tax break for taxpayers who fall within the 10% and 15% tax rate (based on modified AGI) and receive money in dividends are excused the 5% maximum rate previously owed. The tax rate for dividend funds of qualifying individuals will remain zero percent through 2012.

For those individuals who do not fall within the lower tax brackets, do not despair, you still receive a nice little tax break, now continued thru December 31, 2012. Previously taxed as ordinary income at your ordinary income tax bracket rate, dividend income paid by U.S. corporations (and some qualified foreign corporations) cannot be taxed more than 15%. Following the December deadline, it will again be subject to standard income tax rates.

*Dividends from a REIT (real estate investment trust) sale may be exempt from these new tax rates, as well as some few other select types of dividend income.

*Also good to know, the maximum rate at which long-term capital gains (gains on assets held more than one year) can be taxed was reduced from 20% to 15%. The new tax rate does only apply to gains realized after May 5, 2003, and is scheduled to expire after December 31, 2012.

Higher Annual Gift Tax Exemption

As of 2009, the Gift Tax limits were increased. Recent legislation continues this level through December 2012. Until that point, you can gift any individual up to \$5 million without paying gift tax. However, starting in Jan. 2011, estate tax and gift taxes were considered the same thing, hence, the same \$5 million exclusion. E.g., you can't get \$5 million in gifts AND \$5 million in inherited estate, and still not pay taxes on it. But the rule that it can't be more than 35% of the gift or estate's total value still holds through 2012. You should also be aware that after 2012, the maximum you can claim exempted of the gift tax, over your lifetime, is \$1 million dollars.

Alternative Minimum Tax (AMT) "Patch" Extended

The alternative minimum tax, established in 1969, is the lowest amount of tax an individual taxpayer is allowed to pay, regardless of actual tax liability. It was intended to stop those naughty rich folk, once again, from skinnying out of all tax liability, but the brainiacs who passed it forgot to index it to inflation, so it has increasingly applied to less and less affluent households. Although it is highly likely most of us will pay more than the AMT, we cannot pay less. The *exceptions* to this rule are taxpayers whose modified AGI is below certain minimum exemption levels. The last minute legislation in December of 2010 stopped these levels from their previously scheduled plummet, and scheduled instead a slight raise for both 2010 and 2011. For single filers the magic number for 2011 is now \$48,450 (\$74,450 for married filing jointly and \$37,225 for married filing separately. In other notes on the Alternative Minimum Tax, interest accrued from private activity bonds issued in 2010 and 2011 is exempt from the AMT.

TAX BENEFITS ELIMINATED FOR THE 2011 TAX YEAR

The New and Existing Home Buyers Credits:

These credits and rebates were one time options that are no longer available, so don't waste time looking for them when filing your 2011 taxes!

Sales Tax Deduction for New Vehicles:

Yet another bonus that did not get extended with the new legislation in 2011, you cannot deduct the sales tax for any vehicle purchased after January 1st, 2011 on your 2011 tax return.

Educators' Deduction

In December 2010 legislation extended the nice tax break for teachers and educators from early childhood to college, graduate and post-graduate levels, allowing them to deduct up to \$250 of classroom supplies, provided you purchased them with your own money, not the schools.' But pay attention teachers! *This deduction was not applicable for 2011!* If you thought it was, I hope you kept your receipts.

Tax Exclusion for Unemployment Benefits

The tax law passed in 2009 to ease the taxation burden on unemployment benefits paid out by the government has not been extended into 2010 OR 2011. In 2009, the first \$2,400 in unemployment benefits taxpayers received was considered non-taxable income. However, this is NOT THE CASE for 2011.

FOR HIGH INCOME

80% Cap to Reduction in Itemized Deductions Stays Repealed for 2011

If you're making lots of money, you get hit pretty hard by the reductions in itemized deductions and personal exemptions, which are phased out as your income rises. Traditionally, once your AGI exceeds \$166,800 (regardless of your filing status) your itemized deductions are reduced by 3 percent of the amount by which your AGI exceeds the cap, up to 80% of your itemized deductions. It used to be that you couldn't ever get *more* than 80% knocked off your itemized deductions (although that could still majorly hurt your bottom line) but that is no longer the case.

Unfortunately for those above these AGI limits, in 2001, the limit to the amount you could get hit by was eliminated. It was supposed to be a temporary repeal, which reverted back to the 80% rule in 2010, but was extended for 2010 and 2011. This limit to how much of your total itemized deductions can be eliminated (80%) is supposed to be back in 2013, but I wouldn't hold my breath.

Also important to note, deductions for medical expenses, investment interest deduction, deductible gambling losses and any casualty and theft losses remain static regardless of your AGI.

Temporary Repeal of the Reduction of Personal Exemptions

However, there is some good news for those in the high income brackets. Traditionally for those over the \$166,800 AGI limit, your personal exemptions would be reduced 2% for each \$2,500 of AGI you make over a certain cap. (\$250,200 for married filing jointly, \$208,500 for heads of

households and \$166,800 for singles). In cases of certain massive personal exemptions, this reduction cannot exceed \$1,217 per exemption. **However**, for 2010 and 2011 this has been repealed, and you may claim the *full* amount of your *personal* deductions.

*President Obama has targeted these laws for 2011 changes, but has been unsuccessful in passing it so far. But definitely keep an eye on it in 2012 if this affects you!

Kiddie Tax

Originally passed by congress to prevent wealthy parents from transferring assets to their minor children to be taxed at a lower rate, you don't have to worry about the Kiddie Tax until your child has investment income over \$1,900 (for 2009 tax year). If you are between the ages of 14 and 19, and your investment income, such as gains and dividends, is over \$1,900, the child will be taxed at their parents' marginal rate. The Kiddie Tax still applies from the years 19-23 to all children who are full-time students for 5 months of the year, or longer, provided the investment income in question is more than half their overall support. Over the age of 18, your child's investments will be taxed at your marginal rate until they either stop being a full-time student, or have an earned income higher than their investment income.

FOR EMPLOYERS

Tax-Free Parking for Employees

For the tax years 2010 and 2011, due to the most recent legislation, employers can continue catch a tax break on the parking and transit fees they pay for their employees. Firms can now pay up to \$230/mth per employee *tax free*, a significant increase from \$10/mth in 2008. Transit passes can also be purchased for employees, tax free, up to \$230/mth (up from \$115/mth in 2008).

FOR STUDENTS AND EDUCATORS

College Tuition Tax Credit:

The Hope tax credit has been replaced for the tax years 2009 thru 2012 with a new credit called the **American Opportunity Tax Credit**. Up to \$2,500 per student per year for four years of college, on the first 4,000 of qualifying education expenses.

- 100% of the first \$2,000 in qualifying education expenses, plus
- 25% of the next \$2,000 in qualifying expenses

In addition, that amount now covers the cost of books and course materials. The AGI cap for this credit to begin to taper off is \$80,000 for single filers and \$160,000 for married filing jointly.

(In the fine print: you cannot claim the tuition and fees tax deduction in the same year that you claim the American Opportunity Tax Credit or the Lifetime Learning Credit. You must choose to either take the credit or the deduction and should consider which is more beneficial for you.)

The super cool thing about this tax credit now is that if the credit is more than your income tax liability, *40% of it is refundable!* AND, remember the nasty Alternative Minimum Tax – the amount based on income bracket that *everybody* has to pay, do not pass go, etc? This tax credit is allowed against *THAT*. Basically, grab your books and head to school, it's a great day to be a

student. However, unless it is extended by congress, 2012 will be the last year this credit is available.

Expanded Definition of Qualified Education Expenses

The definition of qualified higher education expenses for tax-free distributions from a qualified tuition program is expanded to include amounts paid in 2009 or 2010 for the purchase of computer software, any computer or related peripheral equipment, fiber optic cable related to computer use, and Internet access (including related services) that are to be used by the beneficiary and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution.

College Savings Plans

If you are the owner or recipient of a 529 College Savings plan, you are aware that the allowed uses of the funds are extremely restricted if you wish to spend them without paying taxes on them. However, starting in 2009 these proscriptions WERE relaxed slightly, allowing the purchase of a computer or payment for monthly internet access using College Savings Plan funds tax free. **Unfortunately, with the expiration of the Bush tax cuts in 2011, this is no longer the case for 2012.**