Morrow & Co. LLC

WE TAKE PRIDE IN PROVIDING
PERSONAL SERVICE TO OUR CLIENTS

Morrow & Co. LLC
CERTIFIED PUBLIC ACCOUNTANTS
ACCOUNTING FOR YOUR NEEDS

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SOCIAL SECURITY TAXES

On December 23, 2011 Congress passed legislation extending the payroll tax holiday on Social Security Tax. This holiday will reduce the tax on wages from 6.2% to 4.2% for an additional two months on the first $18,350 of income through February 29, 2012.

There will be a 2% surtax on income earned in excess of $18,350 during these months. The hope in Congress is that this extension will allow them time to develop a plan to pay for a full year extension either through additional revenue or reduced expenses in the government budget. We remain prepared to assist clients in complying with this legislation as it develops.

UNCERTAIN TIMES FOR TAX PLANNING

Congress is torn between the need to stimulate the economy and the need to balance the budget. Taxes, it seems, are caught in the middle. The result is, we have a tax code that is more or less temporary with provisions that are set to expire unless action is taken. American business hates uncertainty. One of the best things that could happen right now is for Congress to pass a tax bill with permanent provisions. Right now, a long-term comprehensive tax plan seems unlikely. It does seem that there will be tax increases in the form of letting some tax credits expire and possibly some rate increases for those with incomes above $200,000-$250,000. The purpose of this newsletter is intended to provide information for 2011 and guidance for 2012 based upon what we know today.

DEPRECIATION

For both 2011 and 2012 the tax law will continue to provide for normal depreciation rules: Code Section 179 expensing and bonus depreciation rules. The effect of these three provisions allows great flexibility in determining taxable income for those who purchase equipment for their businesses.

Normal depreciation rules provide the cost of capital purchases can be taken as a deduction over depreciable lives of: three years for software and web sites, five years for automobiles (with limits), airplanes, electronics, seven years for most other equipment, 10 years for certain land improvements, 27.5 years for residential rentals and 39 years for commercial buildings.

Code Section 179 expensing is an election that applies to both new and used equipment. The maximum deduction allowable for equipment other than automobiles is $500,000 for 2011, $139,000 for 2012 and $25,000 thereafter. The expensing provisions disappear for those who purchase more than $2 million in 2011, $560,000 in 2012 and $200,000 in 2013. Code Section 179 cannot be used to reduce the income of the business below $0, nor can it be used by estates, trusts or individuals who lease the equipment to others. It generally cannot be used on buildings or building equipment such as air conditioning, however, certain retail and restaurant improvement may qualify for 2011. Automobiles and light trucks under 6,000 pounds are subject to an overall depreciation limit of $11,260 for 2011 and the same for 2012 except that such amount will be adjusted for inflation.

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Trucks and SUVs with gross vehicle weights in excess of 6,000 pounds (or those without passenger seats) have no limit for 2011. For 2012 the Code Section 179 limit is $25,000- however, this is in addition to regular depreciation and bonus depreciation if it is applicable.

Bonus depreciation is an election that only applies to new equipment. The bonus rate is 100% of cost for 2011 and 50% of cost for 2012. Cost is reduced by any Code Section 179 claimed. Any amount not claimed as bonus is subject to regular depreciation. For a new vehicle over 6,000 pounds purchased in 2012, a taxpayer could claim $25,000 under Code Section 179, 50% of the remainder as bonus, and 20% MACRS depreciation on the remainder. Bonus depreciation is set to expire at the end of 2012.

Purchases from related parties generally negate the benefits of both Code Section 179 and bonus depreciation. For any depreciation rules to apply, the property needs to be both acquired and placed in service. The rules are designed so that there is no AMT penalty for full utilization of the rules.

ALTERNATIVE MINIMUM TAX

Despite attempts to eliminate this tax, it still is a part of the Code. The exemption amounts for 2011 are $74,450 for married filing joint, $48,450 for single persons and $37,225 for married persons filing separately. These amounts are up slightly from 2010. We continue to see this tax apply to more people, and it will be worse if Congress allows the exemption amounts to be smaller. Those who have large capital gains should seek tax planning from us to examine the effect of the AMT on their regularly taxed income.

LONG TERM CAPITAL GAIN RATES

Long-term capital gain rates (over one year) remain at 15% for most taxpayers. A 0% capital gains rate applies to those taxpayers in the 15% bracket. Long-term gains often trigger the alternative minimum tax to apply to a taxpayer's ordinary income. Dividends presently qualify for capital gains rates (generally). Kansas does not provide for a reduced capital gains rate. The federal reduced rates are set to expire at the end of 2012.

Higher rates apply to the depreciation recapture and to the sale of collectibles.

50% CAPITAL GAINS REDUCTION

A seldom-used provision of the law allows for the sale of stock of a small business corporation to exclude 50% (or more in certain cases) if the corporation was incorporated after August 10, 1993 and held for more than five years. If this provision is used, the tax rate is 28% and the taxed portion is subject to a special 7% inclusion in alternative minimum taxable income.

ENERGY TAX CREDITS

Energy tax credits for homeowners are not as generous as in prior years. However, credits of up to $500 can be claimed in 2011 by those who have not previously utilized their full credit available.

The credit contains componentized limitations of $200 for Energy Star windows and $300 for certain water heaters and air conditioners. The full $500 may be used for insulation, doors and qualifying roofs.

DISAPPEARING DEDUCTIONS

Some years ago, instead of raising income tax rates on higher income individuals, Congress passed laws which made itemized deductions and exemptions "disappear" through phase-out rules based on income. These phase-out rules will not apply to itemized deductions or exemptions for 2011 only. However, phase-out rules will continue to apply to a number of other provisions in the tax law.

EDUCATION CREDITS

The American Opportunities Credit for higher education has been extended through 2012. The credit applies to the first four years of post-secondary education at a qualified institution. The credit is 100% of the first $2,000 plus 25% of the next $2,000 for a maximum of $2,500.

DO THE WEALTHY PAY TAX?

BREAKDOWN OF INCOME AND TAXES PAID BY CATEGORY:

INCOME CATEGORY	2009 AGI	PERCENT OF ALL INCOME	PERCENT OF TAXES PAID
Top 1%	Over $343,927	17%	37%
Top 5%	Over $154,643	32%	59%
Top 10%	Over $112,124	43%	70%
Top 25%	Over $66,193	66%	87%
Top 50%	Over $32,396	87%	98%
Bottom 50%	Under $32,396	13%	2%

ABOUT US

We remain committed to serve our present clients. This is in a world where some companies offer better deals to prospective clients than their present loyal and trusted clients. We hold on to the values of fair dealing while adapting to the ever-changing business world. We continue to embrace new technologies and constantly seek more efficient ways of delivering our services. We don't sell insurance or securities in order to make sure the advice we give regarding these matters remains independent.

We work hard to be competent at what we do. We strive to deliver quality services ahead of time. We answer phone calls and emails promptly. We like what we do, and we are set up to serve your needs for a lot of years into the future. If we haven't told you lately, we sincerely appreciate your business. If you like what we do for you, tell a friend.

We will need the 1098T form and any amounts paid for books and supplies. The credits are reduced for amounts paid by scholarships and may be reduced by amounts withdrawn from 529 plans. The credit is to be claimed by the person who claims the student as an exemption, however, parents can waive claiming the dependency exemption in order to allow the student to claim the educational credits. If waived, and if the student is a dependent, the exemption is lost by both parties. The credit is phased out for married filers with adjusted gross incomes in excess of $160,000 and $80,000 for other filers. The lifetime learning credit phase-outs begin at $122,000 and $61,000, respectively.

STANDARD MILEAGE RATES

The standard mileage rates are 51 cents per mile for the first half of 2011 and 55 ½ cents per mile for the last half of 2011. The 2011 rates for medical and moving expenses are 19 cents per mile and driving for charity are 14 cents per mile. For 2012, the rates are 55 ½ cents per mile, 23 cents per mile and 14 cents per mile, respectively.

HEALTH INSURANCE CREDIT

Businesses that pay at least ½ the premium for single health coverage may be eligible to claim the small business health care tax credit. The credit does not apply to those who employ more than 25 full-time equivalent workers and/or those whose average annual wage exceeds $50,000. We have sent out input forms for those clients we expect may qualify. If you believe you qualify and have not received an input form, please call us.

TAX ON UNEARNED INCOME

After 12-31-2012, a new Medicare tax of 3.8% is to apply to unearned income for married taxpayers with modified adjusted gross incomes in excess of $250,000 (single persons $200,000). In general, estates and trusts will pay this tax as well on incomes starting at $1. Net investment income includes interest, dividends, annuities, royalties, certain rents, and capital gains attributable to property other than property held for use in a trade or business. It does not include interest on tax-exempt bonds, veteran's benefits nor excluded gain on the sale of a principal residence. Remember, gains on the sale of a residence can be taxed if the gain is more than $500,000 (married filing joint) or $250,000 (single), or if you fail to meet the two years out of five rule, the house has a period of non-qualified use, or one spouse has used the residential gain exclusion in the last two years.

IRA DEDUCTIONS

Traditional IRAs continue to provide an opportunity for a tax deduction and tax deferral on the IRA earnings. The maximum combined deduction for Traditional and Roth deductions remains at $5,000 ($6,000 for those over age 50) per participant in 2011. The deductions are limited to earned income and alimony income. For those who are covered by a retirement plan, deductions may be claimed by individuals with modified adjusted gross incomes under phase-out ranges of $56,000-$66,000 ($90,000-$100,000 if married filing joint or qualified widow or widower). If one spouse is covered but one is not, the non-covered spouse may take a deduction if his modified AGI is less than $161,000-$179,000.

IRA contributions may be claimed in 2011 for contributions made in 2011, or up to April 15, 2012.

REMINDER

If you have plans to marry, and both of you own homes that may be sold in order to buy one new home, you should do some tax planning prior to the marriage.

MEDICARE TAX ON WAGES

After 12-31-2012, wages will be subject to an additional Medicare tax of .9% for those earning over $250,000 (married) and $200,000 (single).

ESTATE TAX

The present exemption of $5,000,000 and reduced rates are set to expire 12-31-2012. Absent any action by Congress, the exemption amount will drop to $1,000,000, rates will go up, and the portability feature between spouses will no longer apply. We remain ready to help get you prepared for your attorney as you think through consideration of trusts and other long-range plans.

SELF-EMPLOYMENT TAX

The 2010 provision allowing health insurance to be deducted in computing self-employment tax has expired.

WHAT ELSE

Congress continues to debate way too many things, and people keep coming up with ideas which would drastically change the system. Most of the ideas will die from lack of support, but here are a few to watch. Targeted taxes for the oil and gas industry, higher taxes on capital gains and/or dividends, elimination of the interest deduction on second homes, elimination of deductions for state and local taxes, a "chained" consumer price index which will produce a lower result when calculating inflation-adjusted items in the tax code, some compromise on the estate tax.

1099S

In April 2011, the President signed into law the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011. This act repealed the expanded Form 1099 reporting requirements for payments of $600 or more in a trade or business to corporations and of gross proceeds paid for any type of property. This act also repealed the 1099 reporting requirements for rental property owners when the rental is not part of a trade or business.

UNEMPLOYMENT

The .2% federal unemployment surtax expired at the end of June 30, 2011. As of that date, the rate dropped from 6.2% to 6.0%. These rates apply to the first $7,000 paid to an employee during the year. Employers who timely pay their state unemployment taxes receive a tax rate offset credit, which effectively lowers the tax rates to .8% through June 30 and .6% thereafter.

TAX CREDIT FOR HIRING JOBLESS VETERANS

A new law has been passed that provides tax credits for hiring unemployed veterans. The law also repeals the requirement that governments begin withholding 3% of payments to contractors in 2013. Companies can claim a credit against taxes owed of as much as $5,600 (40% of the first $14,000 of wages) for hiring veterans, and as much as $9,600 (40% of the first $24,000 of wages) for hiring veterans with service connected disabilities if the vet has been looking for work for six months or longer. The new law provides a credit for as much as $2,400 (40% of the first $6,000 of wages) for hiring a veteran who has been looking for work for one to six months. To claim these credits, you must pre-certify the applicant veteran with your state workforce agency. Please contact our office for more information if you are considering hiring a veteran.

KANSAS CHANGES

The Business Machinery and Equipment Tax Credit for Property Taxes paid is repealed and will no longer be available starting in Tax Year 2012.

The Business & Job Development Credit has been effectively repealed. No new credits will be allowed for metropolitan counties as of 01/01/2011. No new credits for non-metropolitan counties will be allowed after 01/01/2012. Unused credit carry-forwards may be utilized.

Kansas Franchise Tax has been repealed and does not apply to any tax year commencing after December 31, 2010.

PROVISIONS THAT EXPIRE AT THE END OF 2011

- **Deduction for Teachers' Expenses.**
- **Deduction for State & Local Sales Taxes.**
- **Deduction for Qualified Tuition and Related Expenses.**
- **IRA Distributions direct to Charities.**
- **Deduction for Mortgage Insurance Premiums.**
- **Research Credit.**