Vol. 70 (August 2011)

Tax Letter
Reminder: Some Tax Items for 2011

Dear Clients and Friends:

The following is a reminder of certain selected topics among the numerous tax changes made in 2009 and 2010. These topics which may or may not affect your 2011 Federal income tax as an individual or a small business person.

(1) Social Security Tax (FICA)

For 2011 only, the employee portion of FICA tax is reduced to 4.2%, but the Employer portion remain at the same level of 6.2%. This may or may not be extended to future years. Enjoy it while you can.

(2) Federal Unemployment Tax (FUTA)

The FUTA surtax of 0.2% expired as of 7/1/2011. Unless an extension passed congress and signed by the President, beginning 7/1/2011 FUTA tax rate will be 6.0%. The complication for 2011 is: employers have to calculate their FUTA liabilities by half & half, half at 6.2% and half at 6.0%.

(3) Business Mileage Deductable Amount

From 7/1/2011 to 12/31/2011, the qualified business mileage deduction will be increased from 51 cents to 55.5 cents per mile. The complication for 2011 is: business persons have to calculate their Business Mileage deduction by half & half.

(4) Heavy SUV and Pick-Up Truck

A 100% bonus write-off is allowed for new SUV and Pick-Up trucks having 6,000 lbs (pounds) or heavier loaded gross vehicle weight purchased and used 100% for business in 2011. (For 2012 Bonus & IRC 179 expenses, see our December 2010 Tax Letter).

(5) Real Property Title Changes

Beginning in 2011 and future years, IRS will actively enforce a specific Gift Tax noncompliance issue. At the time of this writing, 15 States already agreed to co-operate and to provide the IRS with all Real Property title changes records and information. Currently, the IRS went to the Federal Court to force California to comply with their request.

Any Real Property title changes, either by adding or deleting someone for insufficient consideration is a Gift which a Gift Tax report (Form 709) must be filed and gift tax may be due, unless the change qualify for annual Gift exclusion ($13,000 or less).

(6) Income phase-out for Itemized Deduction & Personal Exemption

For many years, the total allowable itemized deduction (including but not limited to home mortgage interest, state and local income and property taxes, charitable donations, etc.) is subject to an income phase-out scheme. At the same time, personal exemption is subject to another set of income limitation. For 2010, both itemized deduction and personal exemption phase-outs are completely repealed by the Bush-era tax cut. Better yet, the 2010 Tax Relief Act further repealed both phase-outs for two more years, 2011 and 2012.

(7) Estate, Gift and Generation Skipping

For 2011 and 2012 only, the Tax Relief Act of 2011 re-instated the Step-up basis for all Estates. The Act also increased the life time exemption for Estate, Gift and Generation Skipping to $5,000,000. For decedent die in 2010, the Estate has a choice. Either follow the Bush-era of no estate tax and no step-up basis or elect to follow the newly enacted Tax Relief Act of 2011. Further, there was no Generation Skipping Tax (GST) in 2010. (For discussion regarding “Modified Basis” of decedents die in 2010, see our August 2010 tax letter).

(8) Foreign Assets Reporting

The Foreign Account Tax Compliance Act (FATCA) which was a part of the HIRE Act of 2010. Prior to FATCA, only foreign bank accounts and investment portfolio accounts are required to submit an annual report to the US Treasury. FATCA redefined the meaning of Foreign Accounts to be Foreign Financial Assets. Foreign Financial Assets include, but not limit to, foreign bank & portfolio investment accounts, foreign direct/indirectly investment (outside portfolio account) in foreign companies and partnerships, foreign financial instruments, foreign tangible properties, foreign income producing real properties, etc. In addition to the US Treasury reporting form (TD F90-22.1), a new IRS Form (Form 8939) will be used to make this annual reporting to the IRS, effective for taxable year beginning after March 18, 2010. For individual, this means effective 1/1/2011. Thus, Form 8939 must be file in 2012 for foreign financial assets own and/or held in 2011.   (For more discussion in this matter, see our June 2010 Tax Letter).

Any questions, please contact us at 415-381-0681 or 415-381-0683.

Sincerely,

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