

Congress Approves A Host of Tax Breaks

On December 17 President Obama signed into law an \$858 billion tax package that extends Bush-era tax cuts for two years and provides significant estate tax relief.

It also contains a trove of other tax breaks for businesses and individuals, including enhanced first-year depreciation deductions for businesses, a payroll tax cut of two percentage points for 2011 for employees and self-employed individuals, and a two-year alternative minimum tax (AMT) "patch."

The measure also continues unemployment benefits for 13 months. Highlights of the legislation include:

■ **Extension of EGTRRA Tax-Cut Rules.** The following favorable tax rules (among others) will remain in place through 2012:

- The income tax rates for individuals stay at 10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent (instead of moving to 15 percent, 28 percent, 31 percent, 36 percent and 39.6 percent).
- The size of the 15 percent tax bracket for



joint filers and qualified surviving spouses remains at 200 percent (instead of dropping to 167 percent) of the 15 percent tax bracket for individual filers.

- The standard deduction for married taxpayers filing jointly (and qualified surviving spouses) remains at 200 percent (rather than 167 percent) of the standard deduction for single taxpayers. (The standard deduction for married filing separately is half the joint filer amount.)
 - Itemized deductions of higher-income taxpayers are not reduced (after 2010 they would have been reduced by 3 percent of AGI above an inflation-adjusted figure, but reduction couldn't exceed 80 percent).
 - A higher-income taxpayer's personal exemptions are not phased out when AGI exceeds an inflation-adjusted threshold (they would have been after 2010).
- **Capital Gains and Qualified Dividends.** Through Dec. 31, 2012, long-term capital gain

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New Rules Require Rental Property Owners to Issue 1099s

Owners of property who receive rental income will be required to issue Forms 1099 to service providers for payments of \$600 or more during the year as a result of the Small Business Jobs Act enacted last fall. (See related story in Client Line.)

The act subjects recipients of rental income from real estate to the same information-reporting requirements as taxpayers engaged in a trade or business.

Thus, rental income recipients making payments of \$600 or more to a service provider in the course of earning rental income are required to provide an information return (typically, Form 1099-MISC, *Miscellaneous Income*) to the IRS and to the service provider.

This provision applies to payments made after December 31, 2010, and will cover, for example, payments made to plumbers, painters or landscapers in the course of earning the rental income.

While rental property owners will not

actually issue the required 1099s until early 2012, they need to start keeping adequate records of payments starting January 1, 2011, so they will be prepared to issue correct 1099s.

They will also need to obtain the name, address and taxpayer identification number of the service provider, using Form W-9 or a similar form.

The law provides exceptions for individuals who can show that the requirement will create a hardship for them and for individuals who receive rental income of "not more than a minimal amount." The IRS is directed to issue regulations on these, but the agency had not done so by late December.

Consequently, all individuals who receive rental income should start keeping records of payments to service providers so they are prepared to issue 1099s in 2012.

In addition to creating a new reporting requirement, the act increases the penalties for failure to file a correct information return. 🐾

Changes Go into Effect for Compilations and Reviews

The American Institute of CPAs has revised its standards for compilation and review of financial statements for periods on or after December 15, 2010. For most of our clients, these changes affected their December statements.



Joanne
VanDeLinder

This column addresses changes in regard to compilation statements. The February Insight will feature a column on the impact of the standards on financial statement reviews.

For more than 30 years, accountants have been required to disclose in the compilation report if they are not independent, but have been precluded for disclosing the reasons.

With the increasing complexity of new accounting standards, many smaller companies have been seeking our assistance with preparing and posting payroll and the related payroll reports, maintaining their general ledgers and preparing and recording journal entries, which may cause accountants to impair their independence.

With the new standards, the accountant has the option, but is not required, to disclose the reasons for independence impairment in the compilation report. However, if the accountant does decide to disclose the reasons for the impairment, all reasons must be disclosed.

Although the revised standards do not change the accountant's requirement to establish an understanding with the client's management regarding the services to be performed, it now requires the understanding be in writing.

As a result, all of our firm's compilation clients have received or will be receiving engagement letters documenting the

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Client and Firm Happenings

Allison Strainic has joined the firm as tax department manager. She will work with Associate Director Patrick McClary and Karen Botti, staff tax manager, in managing the nine-member tax team.



Allison has nearly 12 years of experience in public accounting with expertise in partnerships, S-Corps, C-Corps, individuals and complex tax law. She has skills in entity formation, business accounting, software selection, transaction consulting and extensive technical tax compliance knowledge. She also has extensive FAS 109 experience.

The newest member of the tax department team has worked with a variety of clients, ranging

from small, family-owned businesses to large, publicly held companies, in diverse areas, including financial institutions, service, healthcare, retail and real estate.

Allison has a bachelor's degree in business administration from The Ohio State University, where she majored in accounting. She is a licensed CPA in Ohio.

Tax Season Hours Begin in February

To serve clients as effectively as possible, the firm will extend its office hours during the tax season.

Starting on Saturday, February 5, office hours will be 8 a.m. to 5 p.m., Monday through Friday, and 9 a.m. to 3 p.m. on Saturdays. Saturday hours will be in effect through Saturday, April 9.

Four members of the firm are celebrating anniversaries in January: **Karen Botti**, CPA, staff manager of tax services, 16 years; Tax Specialist **Patti Carey**, five years; **Kumar Patel**, CPA, CFP, senior lead accountant, first year; and Partner **Laura Wojciechowski**, CPA, EA, 21 years. 🦋

Client **DesignGroup's** Grange Insurance Audubon Center received a design award from the Columbus Chapter of the American Institute of Architects. The building anchors the rehabilitated Whittier Peninsula south of downtown Columbus and serves as a catalyst to reinvigorate this former brown field site into a vital component of the fabric of Columbus. The 18,000 square foot building includes classrooms, a multi-purpose space, a library and bird-viewing area, retail store and administrative offices. 🦋

Compilation Standards—continued

services to be performed. Since it is recommended the understanding be obtained at least annually, a new engagement letter will be forthcoming each year.

We are also now required to document issues or questions raised during our compilation procedures and management's response.

Joanne VanDeLinder is an auditor. Her audit experience includes nursing homes and long-term care facilities, educational institutions, medical associations, foundations and other non-profit organizations.

IRS Releases 2011 Withholding Tables

The IRS delayed its release of withholding tables for employers to use in 2011 until mid-December because of uncertainty over whether the 2010 tax rates would be extended or would expire.

As a result, the IRS has directed employers to implement the new withholding tables as soon as possible and no later than January 31, 2011.

The 2011 withholding tables reflect the continuation of the lower tax rates and the lower Social Security tax rate for employees. (See related story.)

Employers are instructed to implement the new lower 4.2 percent Social Security tax rate as soon as possible, and not later than January 31, 2011.

They are also instructed to make an offsetting adjustment in a later pay period - but not later than March 31 - to correct for any over withholding of Social Security tax that may result from a failure to adjust for the 4.2 percent rate at the start of the year.

For Whalen's payroll clients, the adjustments in the new federal tax tables and the Social Security tax rate cut will automatically be made in processing January payrolls.

City/ School Income Tax Rates

For a complete list of cities and school districts and their income tax rates for 2011, go to Web Resources on our firm's Web site, www.whalencpa.com. 🦋

Tax Breaks—continued

will continue to be taxed at a maximum rate of 15 percent (instead of 20 percent; 18 percent for assets held more than five years). Qualified dividends paid to individuals will be taxed at the same rates as long-term capital gains (instead of being taxed at the same rates that apply to ordinary income).

■ **Alternative Minimum Tax (AMT) "Patched."** The AMT exemption amounts for 2010 will be \$47,450 for individuals and \$72,450 for married taxpayers filing jointly; for 2011, they will be \$48,450 for individuals and \$74,450 for married taxpayers filing jointly. The exemption amount for married filing separately is half the amount for joint filers. Also for 2010 and 2011, many nonrefundable personal credits will be allowed against the AMT. The patch sunsets at the end of 2011.

■ **Estate Tax Relief.** The estate tax returns after 2010 and before 2012, but with these changes:

- A \$5 million unified and indexed exemption amount (\$10 million for couples).

- The top tax rate will be 35 percent for estate, gift, and generation skipping transfer taxes.

- Reunification of estate and gift taxes, effective for gifts made after December 31, 2010.

- ◆ An election will allow the choice of no estate tax and modified carryover basis for estates arising on or after Jan. 1, 2010, and before January 1, 2011. There will be a \$5 million generation-skipping transfer tax exemption and zero percent rate for the 2010 year.

- ◆ Effective for estates of decedents dying after December 31, 2010, the executor of a deceased spouse's estate will be able to transfer any unused exemption to the surviving spouse.

■ **New Machinery and Equipment Investment Incentives.** The bill provides the following:

- A 100 percent bonus first-year depreciation allowance for property acquired and placed in service after September 8, 2010, and before January 1, 2012.

- A 50 percent bonus first-year depreciation allowance for

property placed in service after December 31, 2011, and before Jan. 1, 2013.

- Extension through December 31, 2012, of the election to accelerate the AMT credit instead of claiming additional first-year depreciation.

- For tax years beginning after December 31, 2011, setting the maximum expensing amount under Sec. 179 at \$125,000 and the investment-based phaseout amount at \$500,000 (under current law, the expensing figures drop from \$500,000/\$2 million for 2010 and 2011 to \$25,000/\$200,000 after 2011).

■ **Temporary Employee Payroll Cut for 2011.** Under current law employees pay a 6.2 percent Social Security tax on all wages earned up to \$106,800 (in 2011) and self-employed individuals pay a 12.4 percent Social Security self-employment taxes on all their self-employment income up to the same threshold. The bill provides a payroll/self-employment tax holiday of 2 percentage points in 2011.

For more details of the bill's provisions, go to: <http://tax.cchgroup.com/downloads/files/pdfs/legislation/bush-taxcuts.pdf>. 🦋