

2011 Cost-of-Living Limits

IRA Contribution Limit \$5,000

IRA 50 & Over Catch-up

Contribution \$1,000

401(k) Deferral Limit \$16,500

401(k) 50 & Over Catch-up

Contribution \$5,500

SIMPLE Deferral limit \$11,500

SIMPLE 50 & Over Catch-up

Contribution \$2,500

Annual Compensation limit \$245,000

Defined Contribution IRC Sec 415

limit \$49,000

Compensation limit for SEP eligibility

\$550

IRC Section 179 \$500,000

Estate Tax Exclusion

\$5,000,000

Gift Tax Annual Exclusion

\$13,000

Social Security Wage Base \$106,800

[2010 & Prior Years' Limits](#)

2011 Standard Mileage Rates:

Business mileage rate **\$0.51**

Medical & Moving mileage rate **\$0.19**

Charitable mileage rate **\$0.14/mile**

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Client Newsletter

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Repeal of Burdensome 1099 Rules: Under the Health Care Reform Act and Jobs Act of 2010, the requirement to file 1099s would have been extended the reporting requirements to include gross payments of \$600 or more for every service provider, landlord, supplier of any type of property, etc. It would have also done away with the exception for corporations. So, thanks to the Health Care Act, starting in 2012, businesses were going to have to report all payments of \$600 or more for the purchase of property and services, even those made to corporations.

Under the Small Business Jobs Act of 2010 (SBA), any person receiving rental income from real estate (landlords) would be considered to be engaged in a trade or business and, thus, would be subject to the same 1099 reporting requirements that apply to businesses.

Accordingly, beginning for the year 2011, landlords would have generally been required to file Form 1099-MISC to report payments of \$600 or more made to noncorporate service providers (for things like yard care, painting, and accounting). And, for payments after 2011, they would be required to report payments made to corporations and payments made for the purchase of property just like other business.

Thankfully, these requirements were repealed on April 14, 2011.

Bottom Line: The Form 1099 reporting rules for businesses do not change after 2011. Thus, businesses will have to report payments of \$600 or more to service providers. However, payments to corporations will not need to be reported except for payments to law firms, nor will payments for property need to be reported.

Bottom Line: The 1099 reporting rules for landlords do not change after 2010. Thus, no 1099 reporting is required unless the landlord's rental activities rise to the level of a trade or business.

Payments to Stockholders were Taxable Dividends, not Tax-Free Loans:

In a recent decision, the Tax Court agreed with the IRS that withdrawals by shareholders from two closely held corporations were constructive corporate distributions rather than loan proceeds and repayments. As such, the withdrawals triggered taxable dividends and capital gains for the shareholders. [See *Knutsen-Rowell Inc.*, TC Memo 2011-65 (2011)]

For more details on this Tax Court decision, the negative tax consequences that can occur when purported loan payments are recast as corporate distributions, and advice on how to set up bona fide loan transactions between closely-held corporations and their shareholders, [click here](#).

Managing Your Tax Records: The IRS posted five tips on keeping good tax records, including: (1) the use of a three-year rule for keeping most records, (2) certain records that should be kept longer (e.g., settlement statements, stock transactions, IRA and business and rental property transactions), (3) general advice on keeping documents that impact the federal tax return, and (4) the kinds of records that should be kept (e.g., receipts, invoices, bills, credit card receipts and statements, proof of payment, canceled/imaged/substitute checks, mileage logs). (5) [IRS Pub. 552](#) (Recordkeeping for Individuals) contains additional information on what kinds of records to keep. [IRS Tax Tip 2011-71](#)

Charitable Contributions to Foreign Organizations: A charitable, etc., organization must be created or organized in or under the laws of the U.S., any state, the District of Columbia, or any possession of the U.S., except as otherwise provided by treaty [IRC Sec. 170(c)(2)(A)]. Therefore, contributions to foreign organizations generally are not deductible. In one case, the taxpayer couldn't deduct funds she wired to her cousin in a foreign country for transfer to local Catholic churches that had been damaged in a guerilla war from which taxpayer fled to the U.S. Taxpayer's argument that the local churches were arms of the Roman Catholic Church, a universal organization, and as such were qualified donees, was rejected [*Anonymous*, TC Memo 2010-87 (2010)]. Likewise, no deduction is allowed for contributions to an individual or earmarked for a specific individual, even if made through a qualified organization.

IRS Brochure Assists Displaced Workers: IRS Pub. 4128 (Tax Impact of Job Loss), explains in Q&A format many of the issues faced by workers who have lost their jobs. The four major category headings address questions regarding: (1) what income is taxable, (2) pensions/IRAs, (3) starting your own business, and (4) miscellaneous tax information. The publication reviews the taxability of such items as severance pay, unemployment compensation, gifts from family and friends and food stamps, discusses the consequences of withdrawing money from retirement plans or IRAs, and provides information and additional resources on allowable deductions such as job hunting, interviewing, and health insurance costs. [Publication 4128](#) is available at www.irs.gov

Mixing Business and Pleasure with Travel: Although business is business and pleasure is pleasure, the world rarely adheres to absolutes. Thus, this time of year you may want to mix some vacation days with your business travel. With a little planning, you can get Uncle Sam to subsidize your downtime. [Here are the strategies for doing just that.](#)

Estate Tax Exemption Is Portable (For Now): Recent legislation introduced a new, but perhaps temporary, estate planning concept--exemption "portability." In short, the estate of a deceased spouse can transfer to the surviving spouse any portion of the federal estate tax exemption that it does not use. The surviving spouse's estate can then add that amount to the exemption it is entitled to, increasing the total amount that can be passed on to heirs tax free. This new feature makes it easier for married couples to minimize the potential impact of estate taxes.

Even with portability, there are still tax and non-tax considerations that may lead you to use a credit shelter trust, such as:

- The portability feature is in effect for only two years and will expire after 2012, unless Congress enacts further legislation.
- The trust can help protect assets against creditors of the surviving spouse or future beneficiaries (typically children and grandchildren).
- The trust gives the first spouse to die control over the ultimate distribution of his or her assets. For example, in a second marriage situation, one spouse may wish to ensure that any assets remaining after his or her spouse's death pass to his or her children from a previous marriage.
- Appreciation of assets placed in the trust will escape estate taxation in the survivor's estate.
- The portability feature applies only to estate tax; it does not apply to the generation-skipping transfer (GST) tax. Without a trust, any unused GST tax exemption of the first spouse to die will be lost.

For more info: [click here](#).

What the New Cost-Basis Legislation Means for You: Question: I've heard that my broker is going to have to start tracking my cost basis and reporting the information to the Internal Revenue Service. Does that mean I can get rid of my cost-basis spreadsheets? **Short Answer:** No, just because financial intermediaries are now required to keep tabs on your cost-basis calculations doesn't mean that you can tune out the topic.

For starters, the new cost-basis legislation does not cover stocks purchased prior to 2011, mutual funds purchased before 2012, and bonds purchased before 2013. So if you own securities that you purchased before those years, you're still on the hook for maintaining cost-basis records. (Don't panic: Many fund companies and brokerage firms have been maintaining these records for their clients all along.) For more information, [click here](#).

The Investment Tax Landscape: Countdown to 2013: In December 2010, Congress extended the so-called Bush-era tax cuts by passing the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. However, for investors, the legislation may represent not a pardon but a stay of execution. While it's true that federal tax rates on income, qualifying dividends, and capital gains have been extended through the end of the 2012 tax year, many of the issues that influenced the debate over tax rate extensions will continue to be the subject of heated discussion. As a result, investors have been granted a reprieve while Congress wrestles with those issues. That's time you can use to think about how best to position your portfolio.

There are several categories of investors who should be paying particular attention to the planning process in the coming years. They include people with investments that have appreciated substantially in value; people who rely on dividends and bonds to provide them with ordinary living expenses; and people who are considering investing in the newly issued stock of a small business.

For more details and planning ideas, [click here](#).