JENNIFER A. JONES, CPA, LTD.

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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 thru 6/30/11**

$0.555 after 6/30/11

Medical & Moving mileage rate **$0.19**

Charitable mileage rate **$0.14/mile**

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Have a Topic or Question?
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Volunteers Out-of-Pocket Expenses: Although a charitable deduction is not allowed for a contribution of services, unreimbursed out-of-pocket expenses incurred while rendering volunteer services to a charity may be deductible. To be deductible the expenses must be properly documented and, if the expense exceeds $250, a proper acknowledgement is received from the charity. However, as the taxpayer in the recent *Van Dusen* [136 TC No. 25 (2011)] case discovered, it can be easier to herd cats than to substantiate those expenses. Still, this court decision was about as taxpayer-friendly as we could of hoped for, and it provides some welcome guidance on what taxpayers need to do to secure a tax deduction for unreimbursed volunteer expenses. The acknowledgement will likely need to be requested by the taxpayer. An example of a letter to a charity requesting written acknowledgment is attached. It's also important to volunteers and donors to preserve original documents until the statute of limitations expires. For details on what Van Dusen did right, what she did wrong, and a sample of the Acknowledgement letter to obtain from the charity, click here.

IRS Tax Liens: In February 2011, the IRS announced important changes in its lien filing practices that lessen the negative impact on taxpayers. For those taking advantage of the new policy, it will significantly impact their credit scores and enable them to qualify for mortgages and other loans previously unattainable because of low credit scores caused by IRS tax liens. Individuals with a tax lien need to know about the new policy, what they must do, and how they must pay in full or enter into a payment agreement via direct debit that ends in full payments. Liens will not be withdrawn automatically, and a request for the withdrawal of lien letter needs to be requested prior to entering into a direct debit installment agreement. For more details, click here and go to http://www.irs.gov/newsroom/article/0,,id=236540,00.html

Recovery of Erroneous Tax Refund: On their 2007 Form 1040, taxpayers reported taxable Social Security benefits of $20,441 on line 20b, but left line 20a for the gross amount of Social Security benefits blank. In processing the return, the IRS mistakenly concluded that taxpayers did not receive any Social Security benefits, had over-reported their income by $20,441, and issued a $3,077 refund check. In concluding that the "law is well settled that the making of an erroneous refund does not preclude the [IRS] from issuing a notice of deficiency to recover the refund," the Tax Court observed that the IRS, "confronted by millions of returns and an economy which repeatedly must be nourished by quick refunds, must first pay and then look." *Lawrence Willey* , TC Summ. Op. 2011-79 (Tax Ct.).

Independent Contractors: A top audit target of the IRS continues to be the proper classification of workers. An article in AIPB's August 2011 issue of *The General Ledger* and T*ax Notes Today* by Robert W. Wood, attorney, list the 10 most common mistakes businesses make when they classify workers as independent. Click here for the list of pitfalls.

Budgeting for Small Businesses: Budgeting simply means that you plan what you are going to spend, keep track of that expectation, keep track of what you actually spent, and then compare the expectations with the actuality. The process of comparing actual performance with budgeted amounts help managers stay in control by constantly measuring what should be against what is, revealing problems before the business suffers a big loss. It can also point out weaknesses in the bid-process or pricing that need attention. Budgeting can be done by the job, week, month, quarter, year or any combination of these. Budgets can also help a company improve money management, plan for the future and make better decisions. Many creditors will require a budget before approving a loan for just these reasons. If you are a QuickBooks user, the program includes a budgeting tool that is helpful in making this analysis. Another option is other budget software, e.g. You Need a Budget is a top personal finance budgeting tool that costs less than $60. Simple pen and paper can also do the job.

Doing Business in Another State? It's harder to tell than you may think. Most states don't offer companies clear guidance in this area. With state budgets strained, states are facing greater pressure to crack down as they struggle to close significant budget gaps. States are looking into businesses that have a presence in their state and are subject to state and local income and sales taxes. Companies have been found liable for state corporate tax "when the only connection to that state was that they had an employee telecommuting in that state."

In March 2010, for instance, the Tax Court of New Jersey ruled that a company whose main offices are in Maryland was "doing business" in New Jersey because an employee telecommutes from there.

The company, TeleBright Software Corp., is appealing the decision, arguing that having one employee in the state who develops software from home falls short of the statutory definition of "doing business." The company asserted that it doesn't solicit customers or make sales in New Jersey.

Just how much of a tax hit companies face depends on state rules. Some impose income tax based on an out-of-state company's sales in the jurisdiction. Others also take into account the company's payroll and property in the state. However they figure the bill, lots of states seem to be on the same page as New Jersey. In a survey issued in April, 35 states, the District of Columbia and New York City said an employee who telecommutes from a home in the state would create "nexus"—a connection that warrants imposing income tax on an out-of-state employer.

A potential solution has been offered by advisors: Have the telecommuting employee resign, form a C or S corporation and invoice the ex-employer for work. The former employer would have to pay the former employee more to cover new expenses and lost benefits. And, although it would be a challenge, states could still make a case for taxing the former employer.

Social Security Administration Suspends Earnings and Benefits Statements *By Catherine Gordon, Toolkit Staff Writer*

If your birthday falls in July or a later month, don't expect to see that familiar Earnings and Benefits Estimate Statement from the Social Security Administration in the mail this year. Due to the current budget situation, the SSA will no longer mail statements to workers annually.

The cost-cutting suspension applies to requests for the Earnings and Benefits Estimate Statement as well. Previously, there were two options for workers to request the statement. There were: to request the statement in writing using Form SSA-7004, *Request for Social Security Statement*, or online at the SSA's website.

Earnings and Benefits Estimate Statements

Starting in October 1999, the SSA began mailing *Earnings and Benefits Estimate Statements* to workers age 25 and older every year about three months before their birth month. The statement showed the amount of annual wages and self-employment income credited to a person's account through their lifetime.

Perhaps even more important for various planning purposes, workers also received an estimate of their Social Security retirement benefits. Estimated payment amounts were provided based on retirement at various ages, (for example, age 62 and 70). Also included was the approximate monthly payment one would receive if they became disabled, and how much an individual's family would receive if the person died.

Retirement Estimator

So, what information is available from the SSA regarding your retirement benefits? The website now provides only that you may be able to estimate your retirement benefit using the online Retirement Estimator.

While this option sounds promising, the estimator requires you to know how much you earned in covered employment during prior years. If you've kept the statement from the preceding SSA mailing, you have that information. However, even more troubling, the estimator doesn't show the amount of income that has actually been credited to your account. Therefore, it's no longer possible to check your earnings record for correctness.

What If You Need Your Earnings and Benefit Information?

Is there any way to get your earnings and benefit information from the SSA? The answer is a qualified "yes." Under a provision in the SSA's internal operating manual, an individual who has an "urgent need" for the information can visit a Social Security field office, state that they urgently need the information, and the office should provide the information by using online resources. And, while there's no exact definition of what constitutes an "urgent need," the good news is that the field office is instructed to accept an individual's statement that he or she urgently needs the information.

The SSA is working to eventually offer online access to the statements, but no exact date has been set. The agency also plans to begin mailing statements to workers age 60 and over later in 2011

Signature Authority by Agent: An agent has authority to sign a tax return or claim a refund on a taxpayer's behalf under Reg. 1.6012-1(a)(5) when disease or injury prevent the taxpayer from signing, when the taxpayer is absent from the U.S. at least 60 days prior to the due date of the return, and upon written request to the district director for the internal revenue district where the taxpayer lives (or where principal place of business is located), if good cause exists. **This chief counsel advice notes that a return or refund claim signed and filed by an agent must be accompanied by a power of attorney authorizing the specific acts**. CCA 201129038 .

Mid-Year Tax Planning: As a result of the December 2010 tax legislation, 2011 tax planning takes place in an environment characterized by something that was missing last year--a relative degree of certainty. That being said, here are some things to keep in mind as you consider your current tax situation. Click here.

Remote Access Savings: Check out Intuit's Special offer for QuickBooks Pro, Premier or Enterprise users. Access your PC from any other PC with an Internet connection. Get started in minutes; no IT help needed. It's powered by leading Cisco WebEx web conferencing technology-and as secure as online banking!

Connect to your QuickBooks data easily-from work, home, or the road.
Work on your documents and applications remotely as if you were at your PC.
Transfer files and folders easily from one computer to another.
Print files from your remote PC to a local printer.
Transmit data with complete confidence–it's as secure as online banking.

For just $3.95 a month, access all your QuickBooks data from wherever you are. Or access your entire computer (all files and software programs) for just $7.95 per month-no long-term contract required!

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(Internet access required. Valid for customers who purchase and install QuickBooks Pro 2011, QuickBooks Premier 2011 or Enterprise Solutions 11.0 software before 12/31/10. QuickBooks Remote Access does not work with QuickBooks Pro for Mac or QuickBooks Online Edition. Offer does not apply to QuickBooks Pro Plus or QuickBooks Premier Plus.)