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Tax Tips and Highlights for 2010-2011

Payroll Tax Issues

In November 2010, you should receive "Your Year 2011 Federal Tax Deposit Requirements" from the IRS, your annual Unemployment Compensation Tax Rate Notice for 2011, and notification from the state if you are required to file unemployment forms and taxes electronically. These notices should be forwarded to your payroll preparer, and a copy to us.

On July 24, 2009, the Federal minimum wage increased from \$6.55 to \$7.25 with certain states increasing their minimum wage even more, i.e. Florida minimum wage increased to \$7.25 on July 24, 2009 for hourly employees and tipped employees increased from \$3.77 to \$4.23, even though the Federal minimum wage for tipped employees is \$2.13 per hour. As of January 1, 2011 these rates will remain the same.

The taxable wage base for Social Security in 2010 was \$106,800 and will remain the same in 2011, making the maximum social security tax \$6,621.60 (6.2%). Medicare wages are taxed at 1.45% with no limit. Wages paid to a son or daughter under the age of 18 are exempt from social security and FUTA taxes. **Bonus checks** are considered earned income and are subject to payroll taxes, as well as **per diem** expense reimbursements. The IRS requires employers to track expense reimbursements in excess of federal per diem rates.

IRS maintains a zero tolerance for incorrect W-2s and 1099s. A \$50 penalty per incorrect form could be assessed against employers whose forms have mismatched names and social security numbers. You can verify up to five names and numbers by calling the SSA at 1-800-772-6270 or visiting their website at www.ssa.gov/employer for larger groups.

Employee versus Independent Contractor

Under common-law rules, an individual generally is an employee if the company he works for has the right to control and direct him regarding the job he is to do and how he is to do it. Otherwise, he is an independent contractor. Any individual independent contractor receiving compensation over \$600 for the year must be issued a 1099-MISC. In addition, ALL attorneys who received ANY amount of payment must be issued a 1099-MISC. In 2012 for 2011, all business purchases over \$600 will also be issued 1099s.

Increased Code Section 179 expensing

For 2010 and 2011, the maximum annual expensing amount is \$500,000, for purchases not exceeding \$2,000,000.

Company Provided Vehicles

Employees should be taxed for the personal use of any employer provided vehicle. Specifically, the employee's gross income on Form W-2 is increased to the extent the fair market value of this benefit exceeds the amount paid, if any, by the employee. This fringe benefit is subject to payroll taxes and should be withheld from the employee's salary by year-end.

2011 Standard Mileage Rates

For the business use of a car, van or truck use 51 cents per mile. When computing deductible medical or moving expenses, use 19 cents per mile. You may also deduct 14 cents per mile when providing services to a charitable organization.

Qualified Pension Plan Contribution Limits for 2010 and 2011

There are several employer-sponsored tax-deferred retirement plans that were affected by 2001 legislation, all of which have increased contribution limits. The most common is the 401(k) having a contribution limit of \$16,500 for 2010 and will remain the same for 2011. Many of the plans also have "catch-up" contributions for employees age 50 or older, remaining at \$5,500.

AGI Limits waived for Roth IRA Conversions

During 2010, IRA's and other pension accounts may be rolled over to a Roth and defer paying tax until 2012 and 2013.

Personal dependency exemption (Pde) and annual gift exclusion

The Pde for 2010 is \$3,650 and is estimated to increase to \$3,750 in 2011. The annual gift exclusion for 2010 is \$13,000.

Please keep in mind that we've described only highlights and some of the changes in the tax rules. There are many more questions and opportunities for proper tax planning. Please give us a call on how you may be affected by these important tax issues.

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December 2010