

The Rudolph Report

www.rudolphcpa.com year end 2011

To our clients:

Canned green bean casserole? Ahem, am I the only one who is delighted to put Thanksgiving behind us? Originally, that dish was designed to protect your home during a nuclear fallout. NASA invented it, along with Velcro which I think is an actual ingredient in the dish.

Now I promised my mother in law that I wouldn't pick on her cooking. So let's stick to the topic of taxes; after some small whining about our north side ballclub.

The Cardinals? Ugh! C'mon.... Now I have to deal with this all winter. That's like having to eat shoes for breakfast. But at least Theo is going to save us... just like Dusty did, and Lou, and Ernie Broglio, and Todd Hundley, and the goat witch doctor, and Andy MacPhail, and Mel Rojas. I still can't accept, ugh... The Cardinals.

Taxes. In this newsletter we explain how some of the 2011 tax changes may affect you. We also discuss the taxation of canceled debt, explain very important news for S corporation owners, and suggest some year-end tax tips like don't be afraid to move to Paraguay. If you need year-end tax planning assistance, please feel free to email or call the office. We're always glad to help.

We hope you enjoy the holidays. May Santa bring your husband a Menudo poster and then deliver Zambrano to the Mets.

Chris Rudolph CPA

NEW TAX REGULATION

Depreciation up to 100% can be accelerated for qualified business purchases. The qualifying parameters are quite specific, and I discourage you from making purchases with the expectation that you will be able to write them off in their entirety. The rules are peculiar, so please call us ahead of time so that we can advise you properly.

Marginal tax rates remain the same. After numerous committees, discussions, focus groups, and more meetings, Congress voted to do nothing (then treated themselves to a large pancake breakfast).

The **estate tax** exemption is \$5 million per person. If a descendant was worth less than \$5 million, a federal estate tax will not be assessed. Keep in mind that Illinois estate taxes are still assessed on estates exceeding \$2 million. Please feel free to contact us if you have questions pertaining to an estate.

Investment firms have begun to report your **basis** in securities 2011.

Foreign bank accounts that exceed a \$10,000 value must be reported on a separate form or you may potentially face a hefty penalty.

Although the significant **energy credits** expired at the end of 2010, Congress did reinstate the energy credits from 2006-2007. The aggregate credit is \$500 per tax return. The legislation provides for a 10% credit for the purchase of qualified (energy star rated) property. This credit is limited to a specified

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amount per category. For example, only \$200 of credit can be attributed to windows, \$150 for water heaters, and \$300 for certain HVAC units. So, if you purchase \$18,000 of new windows and a water heater for \$960, you qualify for only \$296 of credit (\$200 for the windows and \$96 for the water heater). If your husband purchases an energy efficient DVD set of the 7th season of the Golden Girls, then he qualifies for an IRS Bozo button.

Self employed individuals can no longer deduct their health insurance premiums on schedule C which reduced social security taxes. Wait, there's more rotten news:

The \$400 making work pay credit expired in 2010. And even more rotten news:

Your paycheck may shrink. In January of 2011 your **social security** withholding dropped from 6.2% to 4.2%. That payroll tax savings is now set to expire at the end of 2011 unless Congress can work together (pause for laughter) to extend it.

NOT SO NEW TAX REGULATION

Remember how J. Wellington "Wimpy" would gladly pay you on Tuesday for a hamburger today? Well, for some of you, it's Tuesday. Starting in 2010 traditional IRA's can be converted to **Roth IRAs** without regard to your income. The conversions are still allowable. Last year some taxpayers elected to postpone the recognition of income from their 2010 Roth conversion until 2011 and 2012. Bon Appetit.

S corporation owners have become a stronger target for an audit, specifically if your S corporation has operated at a loss. When the IRS audits S corporations, they look for substantiation of your basis. Huh? The IRS wants you to be able to prove that you funded your losses. To validate your losses, you have to have contributed the money directly *to the company* rather than having paid an expenditure directly. So the next time, you need to fund your S corporation, please deposit the money to the company account and have the company remit payment. We have learned that if you paid the company expenses directly from your personal account, the IRS may deny the deduction. Logically, it doesn't make much sense, but those are the rules.

Canceled debt is reportable income. This includes canceled credit card debt, canceled car loan debt, and foreclosures. In many cases, the debt income is reportable but not taxable. Canceled debt related to primary residences is not taxable. Additionally, canceled debt in cases where the taxpayer is insolvent may not be taxable.

YEAR END TAX TIPS

- Track all of your receipts from holiday donations such as Toys for Tots.
- Pay outstanding tuition and medical bills by year end if those expenses are better utilized in this current year.
- Consider converting part of your traditional IRA to a Roth IRA if you find yourself in a lower tax bracket this year (let's talk first, however).