



Barn Report

A Dairy Keeper Resource

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A Laundry List of 2011 Tax Law Changes

This page was last updated **January 10, 2011**. Please check back regularly as the tax laws will change throughout the next two years.

Our **Brackets & Details** page covers the highlights of the tax changes coming in 2011, based on the tax law signed by President Obama. Depending on your situation, these provisions may affect your tax bill come January 1.

No Changes to Tax Rates

The new tax law averted an increase in the tax brackets. Low income taxpayers still benefit from the 10% bracket. High-income tax payers will remain in the 35% bracket. The marriage tax penalty, where married couples pay more than they would if each person filed a single return, will NOT return until 2013. Since most families require two incomes, this would have penalized a large number of American families.

Payroll Tax Cut

The temporary tax rate extension passed in December 2010 included a new provision for 2011. All wage earners will see a temporary reduction in the payroll tax from 6.2% to 4.2%. This applies on up to the first \$106,800 of W-2 or Self Employment income earned by each individual. For example, if you earn \$106,800 per year this translates into a \$2,136 savings. If you earn \$50,000 per year, this translates into a \$1,000 savings.

Personal Exemption Phase-out's Delayed

According to the tax law each person covered by a return entitles the tax payer to reduce his or her taxable income by \$3,750. This remains the case for 2011 and 2012. However, starting in 2013, the personal exemption phase-out returns. Under this rule, the amount you can claim starts decreasing around \$166,000 and goes to zero by \$291,000. This effectively serves as a stealth tax hike on middle and higher income taxpayers.

Itemized Deduction Limits Delayed

The so-called "Pease" limits on itemized deductions have been repealed for 2011 and 2012. If you itemize your deductions, the amount you can deduct would have been phased out above a certain income amount (\$169,750 for all returns). The reduction in the value of the itemized deduction can be up to 80% depending on your income level. This tax hike tends to punish people who pay large amounts of state taxes, live in high cost-of-living areas, and even people who donate large sums to charity. Fortunately, this scheme will not return until 2013.

The Return of the Estate Tax

In 2010 the estate tax was repealed entirely, meaning any wealth you accumulated during your life could be passed tax-free to your heirs. But that goes away in 2011, when the 35% tax on assets returns, with a \$5,000,000 exemption (\$10,000,000 for married couples). This insidious tax, often called the "Death Tax" is the most unfair and unjust tax on the books.

It taxes people on wealth that they accumulated through their lifetime and on money they paid taxes on already. The Heritage Foundation assembled an excellent article on the Estate Tax and its implications called **The Economic Case against the Death Tax**. Estate taxes will rise again in 2013.

Stable Investment Taxes

The capital gains tax rate will remain 0% for earners in the 15% income tax bracket or lower. Capital gains taxes on other earners remains 15%. Income from dividends is taxed at capital gains rates.

Tax Credits

- ***Child Tax Credit***

The child tax credit was going to drop from \$1,000 per child to \$500; however, that drop is delayed until 2013. The credit is still refundable for certain filers.

- ***Payroll Tax Credit (Making Work Pay)***

The partial credit of 6.2% for payroll taxes that low income earners pay is eliminated. This will increase the tax liability of low-income single payers by \$400, and joint filers by \$800. The payroll tax cut mentioned above will take the place of this credit.

- ***Earned Income Tax Credit (EITC)***

The economic stimulus act provided for a 45% increase of the EITC credit for families with three or more children, and higher income limits for qualifying for the credit. This provision is extended for 2011 and 2012. It is set to expire in 2013.

- ***College Tuition Tax Credit***

The economic stimulus act ("American Recovery and Reinvestment Act of 2009") tax credit is renewed and now expires in 2013.

- ***Energy Savings Credit***

The 2011 credit of 30% (up to \$1,500) for energy efficiency improvements to principal residences expires. In its place is a 10% credit (up to \$500). There are additional limitations specific items such as furnaces, water heaters, and windows.

College Savings Plans

With the expiration of the Bush tax cuts, in 2011, 529 Plans can no longer be used to pay for a computer or broadband access.

Section 179 Expenses

One of the main tax breaks for small businesses is the Section 179 expense deduction. Currently \$250,000, it increases to \$500,000 in 2011. This will allow businesses to expense a much larger amount of equipment and avoid needing to depreciate their expenses over many years, causing the tax bill to be much lower in the nearer term. Please visit **Section179.org** for more information. The section 179 limit will return to \$125,000 in 2012.

Bonus Depreciation

For 2011 only, bonus depreciation is increased to 100% for purchases of certain qualifying property. Bonus depreciation will return to 50% in 2012.

1099 Reporting Requirements

Starting in 2011, any business that does more than \$600 in business with any vendor will be required to submit a 1099 form. This massive increase in paperwork will increase the cost of every small and large business and will likely increase prices on the goods and services that these businesses provide. For example, if a business purchases a \$1,000 computer from Amazon, that business will be required to file a 1099 with the IRS, something not previously required for vendors organized as corporations.

Mortgage Insurance Premiums

As of January 1, 2012, taxpayers will no longer be allowed to deduct mortgage insurance premiums from their tax returns. In 2010, homeowners making less than \$100,000 who were paying insurance premiums on mortgages established after December 31, 2006 were able to take this deduction. This provision was set to expire in 2011, but the temporary tax cut law extended it to 2013.

Student Loan Interest Deduction

The Student Loan Interest Deduction has been extended for two more years. Starting in 2013, income limits for individuals or married couples drop and taxpayers can only deduct interest from the first 5 years of their student loans.

Medicine Cabinet Taxes

The recent Healthcare law imposes a new rule in 2011 that Health Savings Accounts (HSAs), Health Reimbursement Accounts (HRAs), and Flexible Spending Accounts (FSAs) cannot be used for non-prescription medicine. This is in effect a tax increase on anyone with such an account. In addition, an annual tax on brand name pharmaceutical manufactures will increase the cost of brand name drugs (even though this tax isn't paid directly by individuals).

Tanning Tax (a.k.a "The Snooki Tax")

The Tanning Tax of 10% that just began in July continues next year.

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