



Quarterly Review

Winter 2011

Important Update on New Tax Laws

The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (The Bill) was signed into law on December 17, 2010. This much anticipated tax bill essentially extends the Bush era tax cuts enacted under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) set to expire in 2011. Below are the updates of the new law and how they will affect your taxes for 2010, 2011 and 2012.

TAX CHANGES FOR INDIVIDUALS

Alternative Minimum Tax Relief. The Bill provides for a two year extension of the alternative minimum tax (AMT) relief. The extension increases the AMT exemption amounts to \$47,450 for single filers and \$72,450 for joint filers for 2010 and increases the relief in 2011 to \$48,450 and \$74,450 respectively.

Individual Income Tax Rate Relief. The Bill provides an extension of the marginal individual income tax rate reductions for all taxpayers originally established by EGTRRA. The bill extends the 10%, 15%, 25%, 28%, 33% and 35% rate brackets through December 31, 2012.

Capital Gains & Dividends Rates. The Bill extends through December 31, 2012, the reduced capital gains and qualified dividend tax rates, which is 15% for most taxpayers.

Payroll Tax Cut. The Bill provides for a 2% deduction on the employee's share of payroll taxes paid in 2011. For 2011, employees will pay 4.2% on wages up to \$106,800 instead of 6.2%. The employer's share will remain unchanged. Self-employed individuals will pay a reduced SE tax rate of 10.4% on net self-employment income up to \$106,800.

Making Work Pay Credit. The Making Work Pay Credit will expire at the end of 2010 and has been substituted with the Payroll Tax Cut.

Estate Tax Rate Relief. The estate tax in 2011 and 2012 will provide an exemption level of \$5 million for single taxpayers (\$10 million for married couples) and a top tax rate of 35%. This is relief from what would have been an exemption level of \$1 million and a top rate of 55%. Additionally, The Bill provides the option for a surviving spouse to elect to utilize the unused portion of the applicable estate tax exclusion amount of their predeceased spouse, which will provide the surviving spouse with a larger exclusion amount. This election is available for the estates of decedents dying after December 31, 2010 and before January 1, 2013.

Additional Estate Tax Relief. The Bill reinstates the "step up in basis" rule for beneficiaries of those who die in 2010, 2011 and 2012. The step up in basis rule is not in the law for 2010, but is enacted for 2011 and 2012. The Bill allows the estates of those who die in 2010 to make an election as to which estate tax rules to follow: either no estate tax with modified carry-over basis rules, or the new 35% top rate with \$5 million exclusion and stepped-up basis. Each one of these options has varying advantages and some thought should be given as to which rule to follow.

Gift Tax Relief. The Bill provides an exclusion of \$1 million and a top rate of 35% for 2010 and an exclusion of \$5 million and a top rate of 35% for 2011 and 2012.

Child Tax Credit. The Bill extends the child tax credit of \$1,000 per child through December 31, 2012.

Earned Income Tax Credit. The Bill extends through December 31, 2012, the legislation temporarily increasing the earned income tax credit.

Unemployment Extension. The unemployed get an additional 13 month extension to file for unemployment benefits.

Itemized Deductions Limitation Relief. The itemized deduction limitation (or "Pease" limitation) reduces the total amount of a higher-income individual's otherwise allowable itemized deductions. The Bill extends through December 31, 2012, the repeal of this limitation.

Personal Exemption Phase Out Relief. The personal exemption phase out (PEP) reduces the total amount of exemptions where a taxpayer's AGI exceeds the applicable threshold. The Bill extends the repeal of the PEP through December 31, 2012.

Marriage Penalty Relief. The Bill extends through December 31, 2012, relief created under EGTRRA. The relief increased the standard deduction and also increased the size of the 15% regular income tax bracket for married individuals to eliminate this penalty.

Adoption Credit. The Bill extends through December 31, 2012, increased dollar limitations and exclusion amounts created by EGTRRA and The Patient Protection and Affordable Care Act.

Dependent Care Credit. The Bill extends through December 31, 2012, a credit for expenses incurred to care for a child under the age of 13 or for an incapacitated dependent or spouse looking for work.

Energy Incentives. The Bill extends the energy credit through December 31, 2011,

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The maximum amount of the credit is limited to a lifetime amount of \$500 for all qualified energy improvements. The \$500 lifetime credit must be reduced by the energy credits previously utilized by the taxpayer in 2010, 2009, 2007, and 2006.

Other Individual Extensions. The Bill retroactively extends through December 31, 2011, other provisions of the law that had expired in 2009. The following can be claimed on the 2010 and 2011 tax returns:

- ❖ State and local sales tax deduction
- ❖ Higher education tuition deduction
- ❖ Teacher's classroom expense deduction
- ❖ Charitable contribution of IRA proceeds
- ❖ Charitable contributions of appreciated property for conservation purposes



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EDUCATION

The following education incentives have been extended through December 31, 2012:

Education Tax Credit. The Bill extends the \$2,500 American Opportunity Tax Credit available during the first four years of college.

Student Loan Interest Deduction. The Bill extends the deduction of up to \$2,500 of student loan interest.

Education Assistance Exclusion. The Bill extends a provision that allows employees to exclude up to \$5,250 in employer-provided education assistance annually from income and employment taxes.

Coverdell Education Savings Accounts (ESA). The Bill extends the maximum contribution to an ESA to \$2,000 and allows for elementary and secondary school expenses to be qualified expenses.

TAX CHANGES FOR BUSINESSES

100% Bonus Depreciation. The Bill provides for 100% bonus depreciation on qualified investments made between September 9, 2010 and December 31, 2011, and extends the 50% bonus depreciation on qualified investments made after December 31, 2011 and on or before December 31, 2012. Unlike other provisions of the Internal Revenue Code, the 100% is not limited by income amounts or qualified investment amounts.

Expensing Depreciable Assets. The Bill updates the Section 179 limitations to include a \$125,000 deduction limit and a \$500,000 investment limit for assets placed in service in 2012.

Work Opportunity Tax Credit (WOTC). The Bill extends the credit until December 31, 2011, which is equal to 40% of up to \$6,000 of the qualified employee's first-year wages.

Employer-Provided Child Care. The Bill extends, through December 31, 2012, a tax credit to employers who make child care available to employees.

Energy Incentives. The Bill extends various energy incentives for businesses:

- ❖ Credits for biodiesel and renewable diesel fuel

- ❖ Credit for refined coal facilities
- ❖ New energy efficient home credit
- ❖ Excise tax credits and outlay payments for alternative fuel and mixtures
- ❖ Sales of electric transmission property
- ❖ Percentage depletion for oil and gas from marginal wells
- ❖ Grants for certain energy property in lieu of tax credits
- ❖ Tax credits and outlay payments for ethanol and tariff on imported ethanol
- ❖ Energy efficient appliance credit

Other Business Extensions. The Bill retroactively extends through December 31, 2011 other provisions of the law that had expired at the end of 2009:

- ❖ Research Tax Credit
- ❖ New Markets Tax Credit
- ❖ Railroad track maintenance credit
- ❖ Mine rescue training credit and election to expense advance mine safety equipment
- ❖ Differential wage credit
- ❖ 15 year recover period for qualified leasehold improvements, restaurant improvements, and retail improvements
- ❖ 7 year motor sports entertainment costs recovery
- ❖ Film and television production costs
- ❖ Payments to controlling exempt organizations
- ❖ Tax treatment of certain dividends of RICs and certain investments of RICs
- ❖ Active financing exception/look through treatment for CFCs
- ❖ Five year write off of farm machinery/equipment
- ❖ Tax incentives for empowerment zones

The Bill illustrates a framework of certainty for taxpayers over the next two years. The Bill includes some new tax provisions but is primarily an extension of the many tax incentives originated under EGTRRA.

If you would like to discuss in detail how this new legislation affects you individually or your business, please contact your local SEK&Co office for further discussion. ♦

2010 INDIVIDUAL TAX RATE SCHEDULES

MARRIED TAXPAYERS - JOINT OR SURVIVING SPOUSE		
TAXABLE INCOME	BUT NOT OVER	YOUR TAX IS
\$ 0	\$ 16,750	0
16,750	68,000	+10%
68,000	137,300	+15%
137,300	209,250	+25%
209,250	373,650	+28%
373,650	—	+33%
—	—	+35%

SINGLE TAXPAYERS		
TAXABLE INCOME	BUT NOT OVER	YOUR TAX IS
\$ 0	\$ 8,375	0
8,375	34,000	+10%
34,000	82,400	+15%
82,400	171,850	+25%
171,850	373,650	+28%
373,650	—	+33%
—	—	+35%

2011 INDIVIDUAL TAX RATE SCHEDULES

MARRIED TAXPAYERS - JOINT OR SURVIVING SPOUSE		
TAXABLE INCOME	BUT NOT OVER	YOUR TAX IS
\$ 0	\$ 17,000	0
17,000	69,000	+10%
69,000	139,350	+15%
139,350	212,300	+25%
212,300	379,150	+28%
379,150	—	+33%
—	—	+35%

SINGLE TAXPAYERS		
TAXABLE INCOME	BUT NOT OVER	YOUR TAX IS
\$ 0	\$ 8,500	0
8,500	34,500	+10%
34,500	83,600	+15%
83,600	174,400	+25%
174,400	379,150	+28%
379,150	—	+33%
—	—	+35%

ESTIMATED TAX PAYMENTS - 2011

To avoid possible underpayment penalties, you are required to pay through withholding or estimated tax payments, the lesser of:

- 90% of the tax shown on your 2011 tax return
- 100% of prior year tax liability. If your adjusted gross income for 2010 was more than \$150,000, estimated tax payment is 110% of prior year tax liability

Estimated tax payments for individuals are due by:

April 18, 2011	September 15, 2011
June 15, 2011	January 16, 2012

INDIVIDUALS

STANDARD DEDUCTION* - 2010

Joint Return.....	\$11,400
Single.....	\$5,700
Head of Household.....	\$8,400

*You may deduct the greater of your standard deduction or your itemized deductions.

PERSONAL EXEMPTIONS

Deduction for each taxpayer, spouse and dependent for 2010 is \$3,650.

INDIVIDUAL RETIREMENT ACCOUNTS - 2010 & 2011

Not in another plan & with earnings - \$1,000 more if at least 50 years old (same limits for a non-working spouse). AGI limits are gradually being increased. To help with tax planning, these limits are for active participants in another plan during the tax year.

MARRIED AGI	DEDUCTION	SINGLE AGI
\$ 0 - \$ 89,000	\$5,000/\$6,000 max.	\$ 0 - \$56,000
\$89,001 - \$109,000	Partial	\$56,001 - \$66,000
≥ \$109,000	None	≥ \$66,000

ROTH RETIREMENT ACCOUNTS

Contributions are not deductible and are reduced by the amount of contributions made to all other IRAs. Allowable contribution phases out ratably as follows:

	2010	2011
Married - Joint - AGI	\$167,000 - \$177,000	\$167,000 - \$177,000
Married - Separate - AGI	\$0 - \$ 10,000	\$0 - \$ 10,000
All others - AGI	\$105,000 - \$120,000	\$105,000 - \$120,000

SOCIAL SECURITY TAXES

	WAGE BASE	FICA TAX RATE	SELF-EMPLOYMENT TAX RATE
2010	\$106,800	6.20%	12.40%
	Unlimited	1.45%	2.90%
2011	\$106,800	4.20%	10.40%
	Unlimited	1.45%	2.90%

Self-employed can deduct 1/2 of their Social Security taxes as an adjustment on their 1040.

SOCIAL SECURITY ALLOWABLE EARNINGS

Definition of Full Retirement Age (FRA)

Year of Birth	BELOW FRA	YEAR OF FRA	AFTER FRA
1943-1954	\$14,160	\$37,680	Unlimited
66	\$14,160	\$37,680	Unlimited

Social Security is reduced based on earnings in excess of limitation above.
Earnings Reduction \$2 \$3 n/a
\$1 \$1 n/a

BUSINESSES

PAYROLL TAX DEPOSIT DUE DATES EFFECTIVE JANUARY 1, 2011

CLASSIFICATION	DAY INCURRED	DUE DATE
Monthly Depositors (\$50,000 or less reported over 12 months ending 6/30/10)**	All during month	15th of following month*
Semi-Weekly Depositors (over \$50,000 but less than \$100,000 over 12 months ending 6/30/10)**	Wed, Thurs or Fri Sat, Sun, Mon or Tues	Following Wed* Following Fri*
One Day Depositors (\$100,000 cumulative during month or semi-weekly period)	Any day of month	Next banking day

* Extended for Banking Holidays
** Automatic move to semi-monthly if \$100,000+ cumulative rule applies

CORPORATE INCOME TAX RATES

TAXABLE INCOME	YOUR TAX IS	OF AMT OVER
\$ 0 - 50,000	0 + 15%	\$ 0
50,001 - 75,000	7,500 + 25%	50,000
75,001 - 100,000	13,750 + 34%	75,000
100,001 - 335,000	22,250 + 39%	100,000
335,001 - 10,000,000	113,900 + 34%	335,000
10,000,001 - 15,000,000	3,400,000 + 35%	10,000,000
15,000,001 - 18,333,333	5,150,000 + 38%	15,000,000
18,333,334	--- a flat 35%	---

PERSONAL SERVICE CORPORATIONS

35% flat tax rate

DEPRECIATION

Under the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, a 100% bonus depreciation deduction is allowed for qualified investments made after September 8, 2010 and before January 1, 2012. The 100% bonus depreciation is not limited by income amounts or qualified investment amounts.

	2010	2011
Expensing election on qualified assets subject to limitations based on income and assets purchased	\$500,000	\$500,000
SUVs limitation	\$ 25,000	\$ 25,000

LUXURY VEHICLES ACQUIRED 2010 (Maximum Depreciation Deduction)

	AUTOS	TRUCK & VANS	BONUS
1st year	\$3,060	\$3,160	\$8,000
2nd year	\$4,900	\$5,100	
3rd year	\$2,950	\$3,050	
Each succeeding year	\$1,775	\$1,875	



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The Better Way

Hi Bracket was very relieved that Congress had extended the tax cuts for another two years. Of course the deficit will have to be dealt with but, in fact, this fit right into his philosophy of "Never pay a tax until you have to." And, as he gathered his information for his 2010 return, he noted that he had done better with his investments than he thought since his mutual funds had passed out a lot of capital gains which made more of his social security taxable and had reduced his medical deduction. Oh well, he would pay the tax with his refund, at the last minute.

But wait, could this be a problem? You bet! There is a charge for underpayment which is about equal to 4% interest. Since in today's times Hi could earn about 0% on

short term money, he was losing ground. So much for paying at the last minute.

The better way would be to make estimated payments. There are several considerations to be made in establishing estimated payments depending on whether you are trying to be penalty free no matter how much you owe or just do enough to not be penalized. Afraid you might forget to make the payments?

We send reminder notices to many clients. Also, if you can arrange withholding of tax from any source including wages or IRA withdrawals, this may avoid penalties even if done late in the year. We work with clients to plan for adequate tax payments in many different circumstances.

Hey, we don't want you to pay a tax too early but also don't want you to pay too much. Let's start planning now. ♦

2011 Standard Mileage Rates Set

The standard mileage rate for business use of autos during 2011 has increased from 50 cents to 51 cents per mile. Taxpayers may base their deduction on either the standard mileage rate (plus business-associated parking fees, tolls, and, to the extent allowable, interest and taxes) or deduct their actual expenses incurred for business use of an auto.

Employers may use the standard mileage rate when computing payments for employees' auto expenses incurred under a

Standard Mileage Rates

Type of Expense	2011 rate (per mile)
Business	51 cents
Charitable	14 cents
Medical/Moving	19 cents

reimbursement or expense allowance arrangement and thereby substantiate the amount of such expenses, if the accountable plan requirements are satisfied. ♦