
2011 Tax Update

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2011 Enacted Legislation

- Temporary Payroll Tax Cut Continuation Act of 2011
- Public Law 112-9
- Form changes and other concerns
- Michigan Income Tax Act amendments



Temporary Payroll Cut Act

- Extends the 2% payroll tax cut for employees, through Feb. 29, 2012
- “Recapture” provision (more than \$18,350 in wages through 2/29/12)



Public Law

- REPEALED
- Information reporting for corporation payments for property over \$600 and rental owners after December 31, 2010



Form Changes

- Schedule D detailed information on Form 8949 for brokers that provide basis information on 1099-B.
- Basis reporting by brokers is required for covered securities (purchased after 2010)
- Making work pay credit is no longer available
- Compliance questions regarding filing of Forms 1099 added to many forms



Were not extended into 2012

- Sales tax deduction
- \$250 teacher deduction
- Qualified charitable distribution of up to \$100k per year from IRA



Were not extended into 2012

- 1st year 100% bonus depreciation
 - 100% of cost of purchase for 2011, 50% for 2012
- Section 179 expensing election
 - For 2011, maximum expensing is \$500,000
 - Falls back to \$139,000 in 2012



What If

- Individual tax rates remain at 10, 15, 25, 28, 33, and 35% thru end of 2012.
 - After 2012 if no other legislation rates return to 15, 28, 31, 36, and 39.6%
- 0% (for taxpayer in the 10 or 15% bracket) or 15% capital gain & qualified dividend income
 - After 2012 if no other legislation rates return to 18% (if held over 5 yrs)/ 20%
- Reduction to itemized deduction and personal exemptions for higher-income earners returns
- AMT amounts to \$74,450 MFJ and \$48,450 S for individuals in 2011 scheduled to fall to \$45,000 MFJ and \$33,750 S



What if...

- Child tax credit \$1,000 scheduled to revert to \$500 after 2012
- Phase out over a lower AGI range for Earned income credit, dependent care credit and student loan interest deduction
- Estate Tax
 - 2011/2012 Maximum rate at 35%
 - Exemption amount is \$5,120,000 million per individual in 2012 (indexed by inflation for following years)
 - If no further legislation max rate 55%, no portability, and exemption of \$1 million



Personal Income Taxes

- 4.35% tax rate in 2011 & 2012
- Rate drops to 4.25% after 2012
- Changes due to May 2011 legislation are effective 1/1/2012
- Personal exemption: up \$100 to \$3,700 for 2011 and 2012
- No special exemption for seniors or unemployment compensation after 2011 (\$2400 for 2011).



Changes to Personal Income Tax

- For 2011 public retirement benefits are exempt and private retirement income is exempt up to \$45,120 S/\$90,240 MFJ
- After 2011 phase out of certain pension and retirement income subtractions based on date of birth
 - Required to withhold unless you direct otherwise
 - Based on year of birth of oldest spouse
- Social security and Military income are still exempt after 2011



**MICHIGAN STATE INCOME TAX CHANGES FOR RETIREMENT BENEFITS
EFFECTIVE FOR TAX YEAR 2012 (FOR RETURNS FILED IN 2013)**

Taxpayers born before 1946	Taxpayers born 1946 to 1952	Taxpayers born after 1952
<p style="text-align: center;">No change in current law</p> <ul style="list-style-type: none"> • Social Security is exempt. • Senior citizen subtraction for interest, dividends and capital gains is unchanged. • Public pensions exempt. • Private pensions subtract up to \$45,120 for single filers and \$90,240 for joint filers (based on 2010 but indexed for inflation). 	<p style="text-align: center;">Before the taxpayer reaches age 67</p> <ul style="list-style-type: none"> • Social Security is exempt. • Railroad pension is exempt • Military pension is exempt • Not eligible for the senior citizen exemption for interest, dividends and capital gains. • Public and private pension limited subtraction of \$20,000 for single filers or \$40,000 for joint filers. • Not eligible for pension subtraction when total household resources exceed \$75,000 for single filers or \$150,000 for joint filers. <p style="text-align: center;">After the taxpayer reaches age 67</p> <ul style="list-style-type: none"> • Social Security is exempt. • Not eligible for senior citizen subtraction for interest, dividends and capital gains. • Subtraction against all income of \$20,000 for single filers and \$40,000 for joint filers. • Not eligible for income exemption when total household resources exceed \$75,000 for single filers or \$150,000 for joint filers. • Not eligible for income exemption if claiming a military or railroad pension exemption. 	<p style="text-align: center;">Before the taxpayer reaches age 67</p> <ul style="list-style-type: none"> • Social Security is exempt. • Railroad pension is exempt • Military pension is exempt • Not eligible for the senior citizen subtraction for interest, dividends and capital gains. • Not eligible for public or private pension subtraction. <p style="text-align: center;">After the taxpayer reaches age 67</p> <ul style="list-style-type: none"> • Not eligible for senior citizen exemption for interest, dividends and capital gains. • Not eligible for public or private pension subtraction. <p style="text-align: center;">Income exemption election</p> <ul style="list-style-type: none"> • ELECT exemption against all income of \$20,000 for single filers or \$40,000 for joint filers. • No exemption for Social Security, military or railroad retirement • No personal exemptions. • Not eligible for income exemption when total household resources exceed \$75,000 for single filers or \$150,000 for joint filers. • *OR* • ELECT to exempt Social Security, military and railroad pension. May claim personal exemptions. • Personal exemptions are subject to phase-out for total household resources between \$75,000-100,000 for single filers and \$150,000-200,000 for joint filers.

NOTE: For joint returns, the age of the oldest spouse determines the age category that will apply to the pension and retirement benefits of both spouses regardless of the age of the younger spouse.

Items boxed were deemed Unconstitutional by the Michigan Supreme Court

Changes to Personal Income Tax

- **Michigan Subtractions Repealed:**
 - Miscellaneous deductions (political donations, prizes won in bingo, raffle or charity games)
 - Oil and gas production income and expenses if income was subject to a severance tax
 - \$600 child 18 and under
 - Renaissance Zone deduction



Changes to Individual Income Tax

- **Non-refundable Credits Repealed:**
 - City Income Taxes
 - Public Contributions
 - Contributions to Homeless Shelters, Food Banks and Community Foundations
 - College Tuition & Fees
- **Refundable Credits Repealed:**
 - Excess Adoption Expense
 - Stillbirth Credit



Changes to Individual Income Tax

- Changes to Refundable Credits
 - Earned Income Tax: rate reduced from 20% to 6%
 - Homestead Property Tax:
 - Only available for homes with taxable value less than \$135,000
 - Further limitation based on household resources (replaces household income limitation)
 - Only seniors are eligible for 100% credit if HR is under \$21,000
 - All others are eligible for 60% of the credit if they qualify and phase-out between \$41,000 and \$50,000 of HR



Changes to Personal Income Tax

- Definition of Total Household Resources
 - All income received by all persons of a household in a tax year while members of a household, plus any net business loss after netting all business income and loss, plus any net rental or royalty loss, plus any deduction from federal adjusted gross income for a carryback or carryforward of a net operating loss as defined in section 172(b)(2) of the Internal Revenue Code.



Pass-through Withholding

- Flow Through Entities (FTE) may be required to withhold quarterly are S-Corporations, Partnerships and Trusts.
- They are required to withhold on:
 - Out of state member/shareholder
 - Upper tier corporation or FTE (does not apply to publically traded partnerships) if business income after apportionment is greater than \$200,000
- We have been told they will look through to the ultimate owner and not require withholding if that “person” does not have a tax liability (such as non-profit)



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QUESTIONS?

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