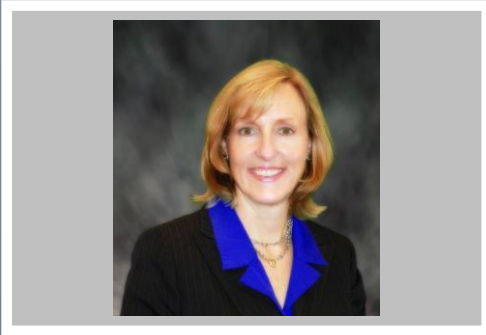


# It's a Matter of Tax



*Doris B. Cloud, CPA*

## QUICK TAX FACTS / PLANNING STRATEGIES:

### INDIVIDUALS:

- ✓ Smaller Tax Credit for 2011 Energy-efficient Home Improvements. The 2009 Stimulus Act provided that 30% of 2009 and 2010 expenditures for energy-efficient insulations, windows, doors, roofs, and heating and cooling equipment in U.S. residences could qualify for a credit, up to a maximum credit amount of \$1,500 over the two years combined. The new law extends the credit through 2011, but the credit percentage is scaled back to only 10% and the lifetime credit limit is only \$500. The \$500 credit cap is reduced by any credits claimed in 2009-2010.
- ✓ The 2% Payroll Tax holiday is in effect through 12/31/2011 which means that the Social Security withholding rate on employees' salaries for the year is 4.2% instead of 6.2% (up to \$106,800). This is applicable to only the employee portion and not the employer portion.

Dear Clients:

With 2010 tax returns completed for most of you, I want to take a few moments to reflect on the season, thank you for your support and look ahead to 2011 tax considerations and planning. First off, I am extremely thankful for all of your support during my first tax season with you. As many of you know, Jerry is moving towards retirement, and we want to transition carefully to ensure you, the client, will be well taken care of. While many of you did not see Jerry in the office, he was there behind the scenes answering my questions about your tax situation and history. It was invaluable to work with Jerry. Jerry did have a few health concerns, but I can report that he is feeling better now and appreciates all of your thoughts and prayers.

Thank you for your patience this year as we implemented the electronic filing of your tax return (as mandated by the U.S. government). I am pleased to report that 87% of your tax returns were e-filed. All of you saved postage in not having to mail your return to the IRS or worry about whether the IRS received your package. Most importantly, if you had a refund, it was processed more quickly.

In 2010, there were four sweeping tax acts, with the last piece of legislation dealing with numerous expiring tax provisions finally passing in late December, just in the nick of time. This year, we are likely to see less legislative activity, as there are fewer pressing tax matters for our legislature to tackle. However, nothing is certain. Further, the IRS has already been busy issuing guidance for all of last year's changes. Thus, as always, the complexity of tax law continues to increase with no end in sight.



*Jerry and Doris*



## DORIS B. CLOUD, CPA

1610 Woodstead Court, Suite 194  
The Woodlands, TX 77380  
Local (281) 292-4858 | Fax (281) 292-5810  
Toll Free (855) 369-4887  
Doris@DCloudCPA.com | www.DCloudCPA.com

I am honored you have trusted me to handle your tax matters. As potentially major developments and opportunities emerge, I am available to discuss the impact on your personal or business situation. I've included some of the more popular tax facts along with a more in-depth discussion on Health Savings Accounts and Qualified Charitable Distributions.

Finally, I am interested in identifying ways to improve the quality of my service and explore options for new services. To help in this process, please take a few moments to participate in the brief online survey: <http://www.surveymonkey.com/s/WKK6L7J>. All responses are confidential and can be anonymous. Thank you in advance for your feedback.

Please contact me with your tax planning or general tax questions. It's better to ask up front than get an unpleasant tax surprise during tax season. Enjoy your first newsletter ....

## Focus on Health Savings Accounts

Health Savings Accounts (HSAs) have become increasingly popular over the last few years. Opening one is the clear expression of taking responsibility for your own healthcare costs instead of relying on an employer or the government.

Plus, HSAs have tax advantages. For 2011, you can make a deductible HSA contribution of up to \$3,050 if you have qualifying self-only high-deductible health coverage or up to \$6,150 if you have qualifying family high-deductible coverage. The contribution ceiling is increased by \$1,000 if you are age 55 or older as of year-end. However, no contribution is allowed after you reach the Medicare eligibility age – currently age 65.

Deductions are not phased out for those with high incomes, and you don't have to itemize to benefit. However, you must have a

## QUICK TAX FACTS / PLANNING STRATEGIES:

### INDIVIDUALS (CONTINUED):

- ✓ Property taxes paid on your home are deductible in the year they are paid. For example, 2011 property taxes will be due by January 31, 2012, but they must be paid by December 31, 2011 to be deductible in 2011.
- ✓ \$250 Deduction for K-12 Educators is extended through 2011. For the last few years, teachers and other eligible personnel at K-12 schools could deduct up to \$250 of school-related expenses paid out of their own pockets.
- ✓ Option to Deduct State and Local Sales Taxes Extended through 2011. For Texas residents who itemize, this is good news!
- ✓ Child and Dependent Care Expenses. With school almost out for the summer, the cost of day camps may qualify for a tax credit. Here's a partial list of qualifications:
  - ✓ Children must be under 13 years of age.
  - ✓ Both parents must be working.
  - ✓ The credit is not for the full cost of the camp care, but 20 to 35% of the cost depending on your income.
  - ✓ Maximum annual credit is \$3,000 for one child or \$6,000 for two or more children.
  - ✓ Only day camps qualify not overnight camps.
  - ✓ You must identify the care provider including name, address and taxpayer identification number.

## DORIS B. CLOUD, CPA

1610 Woodstead Court, Suite 194  
The Woodlands, TX 77380  
Local (281) 292-4858 | Fax (281) 292-5810  
Toll Free (855) 369-4887  
Doris@DCloudCPA.com | www.DCloudCPA.com

## Focus on Health Savings Accounts (continued)

qualifying high-deductible health insurance policy (and no other general health coverage) to be eligible for the tax-saving HSA contribution privilege. For 2011, a high-deductible policy is defined as one with a deductible of at least \$1,200 for self-only coverage or \$2,400 for family coverage. For 2011, qualifying policies can have out-of-pocket limits of up to \$5,950 for self-only coverage or \$11,900 for family coverage.

The HSA earnings are allowed to build up federal-income-tax-free. You can then take federal-income-tax-free HSA withdrawals to cover most out-of-pocket medical costs, even after you reach the Medicare eligibility age. However, if you can afford it, it is better to leave the HSA balance untouched. That way, you can build up a substantial tax-free reserve for future medical expenses. If you take money out of your HSA for any reason other than to cover qualified medical expenses, you will generally owe federal income tax plus a 20% nonqualified withdrawal penalty tax.

## Focus on Qualified Charitable Distributions

The Pension Protection Act of 2006 included a change that allows individuals who have reached 70 ½ to make cash donations to tax-exempt public charities directly out of their IRAs. These so-called qualified charitable distributions, or QCDs, are federal-income-tax-free for donors. While a QCD won't result in any Schedule A itemized write-off for the donor, the tax-free treatment equates to an immediate 100% federal income tax deduction without any worries about limitations that can delay itemized deductions for "normal" charitable cash donations.

The QCD privilege had expired at the end of 2009, but recent tax legislation extended it through 2011. There is a \$100,000 annual limit. There are a few other points to mention:

- ✓ A husband and wife who both own IRAs are entitled to two separate \$100,000 contributions.
- ✓ Must be made from a traditional IRA or Roth IRA account.
- ✓ Must be paid directly by the IRA trustee to a public charity.
- ✓ QCDs count as pay-outs for purposes of Required Minimum Distributions.

### QUICK TAX FACTS / PLANNING STRATEGIES:

#### BUSINESSES:

- ✓ Standard Mileage rate for 2011 is currently \$0.51 per mile. Because of significant gas price increases in 2011, a bipartisan group from Congress has requested the IRS to consider making a mid-year adjustment. As of now, the IRS has not decided to make a change.
- ✓ First-year Bonus Depreciation Allowed for Assets placed in Service through December 31, 2011. Now is the time to maximize current year write-offs to reduce taxable income. There are limitations and an option to utilize 50% bonus depreciation instead of 100%.
- ✓ Self-employed Health Insurance Deduction is allowable for both income tax purposes AND self-employment tax purposes. Previously, the health insurance deduction had only been allowable for the income tax computation. This provision was in place for only 2010. Advocacy groups for the self-employed are seeking an extension and a bill was introduced in March, 2011 to do so.

## DORIS B. CLOUD, CPA

1610 Woodstead Court, Suite 194  
The Woodlands, TX 77380  
Local (281) 292-4858 | Fax (281) 292-5810  
Toll Free (855) 369-4887  
[Doris@DCloudCPA.com](mailto:Doris@DCloudCPA.com) | [www.DCloudCPA.com](http://www.DCloudCPA.com)