

# 2011 TAX LAW UPDATE

Provision	Provision Defined	Eligibility	Potential Impact on Taxpayer at Tax Time	When to Claim/Taxpayer Responsibility	Tips and Other Info
<b>INDIVIDUAL PROVISIONS</b>					
Adoption Credit	For 2011 only, a fully refundable credit of \$13,360 is available to those who adopt a child. The carryforward from prior years is also refundable.	Taxpayers who complete the adoption process in 2011 are eligible to receive this credit.	While the credit is refundable for adoptions completed in 2011, the credit becomes nonrefundable in 2012 and the amount decreases to \$12,170 and adjusted for inflation.	2011; Taxpayers must finalize the adoption by the end of 2011 to receive the refundable credit.	Note: The credit is nonrefundable for adoptions that take place in 2012. The carryforward from prior years also returns to a nonrefundable status.
American Opportunity Credit (AOC)	Taxpayers are eligible to receive a credit of up to \$2,500 for the first four years of college. Of that amount, up to \$1,000 is refundable.	College students or parents claiming students as dependents are eligible for this credit.	The credit is allowed for AMT purposes. However, after the credit expires in 2012, fewer tax benefits may be available for education expenses.	Expires 12/31/2012	
Nonbusiness Energy Property Credit	For taxpayers investing in qualifying home improvements for heating and cooling efficiency, such as windows, doors, and HVAC, a nonrefundable credit of 10% of the cost is available. The credit is extended for 2011, but it reverts to a maximum of \$500 (\$200 for windows).	Taxpayers who invest in qualifying improvements to their home are eligible.		Improvements must be installed by 12/31/2011 in order for taxpayers to claim the credit.	Note: This credit will not be available to taxpayers beginning in 2012.
Estate and Gift Taxes	The basis of assets is set to the fair market value on the date of death. The estate can receive an exemption amount of \$5 million. The top estate tax rate will be 35%.	These taxes may apply to beneficiaries of individuals who passed away during 2011 and/or 2012.	Estates over \$5 million must pay the estate tax.	2011 and 2012	
Alternative Motor Vehicle Credits	Credits are available for qualified fuel cell motor vehicles for 2011 through 2014. For 2011 only, credits are available for vehicles converted into qualified plug-in electric drive motor vehicles.	Taxpayers must purchase qualifying vehicles within the applicable timeframe to be eligible for these credits.	No credit is available for purchasing hybrid, advanced lean-burn technology, or alternative fuel motor vehicles beginning in 2011.	Taxpayers should convert a vehicle into a qualified plug-in vehicle in 2011 and/or purchase a qualified fuel cell vehicle between 2011 and 2014.	
Designated Roth Contributions for Governmental 457(b) Plan Participants	State and local governments can sponsor retirement plans that allow contributions to Roth accounts. These contributions are elective deferrals that are not excluded from income.	Taxpayers must participate in 457(b) plans if they would like to make contributions to designated Roth accounts.	Participants in 457(b) plans have the option of creating Roth retirement assets.	2011; Taxpayers should determine if their plan allows this treatment and then they can elect to treat after-tax deferrals as Roth contributions.	
Partial Annuitization of Nonqualified Annuity	This provision allows taxpayers to elect to receive a portion of their nonqualified annuities as annuity payments while allowing the remainder to accumulate as tax-deferred income.	Taxpayers who hold life insurance contracts and other nonqualified annuities may be eligible.	Taxpayers holding annuities can defer the tax on a portion of the annuity.	2011	
Payroll Tax Holiday	Employees will pay 4.2% instead of 6.2% in social security taxes in 2011 on earned wages up to \$106,800. Also for 2011, the self-employment tax rate for self-employed individuals is 13.3% instead of 15.3%.	All taxpayers who earn income subject to social security tax are affected.	This provision does not affect the income tax return. However, taxpayers have various options for using social security tax savings.	2011	Note: This is not an income tax provision.
<b>BUSINESS PROVISIONS</b>					
Increase and Expansion of Section 179 Deduction	Taxpayers may expense up to \$250,000 of the cost of qualified real property expenditures. Additionally, taxpayers may expense up to \$500,000 of the cost of qualified tangible personal property expenditures.	Businesses are eligible for this deduction if they purchase tangible personal property, qualified leasehold improvement property, qualified restaurant property, and/or qualified retail improvement property.	Taxpayers can expense a greater portion of their capital expenditures, resulting in lower tax liability.	2011 only; Taxpayers may purchase property that qualifies and place it in service in 2011.	Note: The deduction amount drops to \$125,000 in 2012. The dollar-for-dollar phaseout will begin at \$500,000.
Bonus Depreciation	Qualified property placed in service in 2011 can be expensed at 100%. In 2012, 50% bonus depreciation will be allowed.	Businesses who place qualified property in service in 2011 are eligible.	If taxpayers expense all of their qualifying capital expenditures in 2011, they may have a lower tax liability as a result.	Taxpayers may purchase property that qualifies and place it in service in 2011.	Note: The deduction amount drops to 50% in 2012.
Reduction of Built-in Gain Period of S Corporation	The holding period of assets that are subject to the built-in gains tax is reduced to five years IF the fifth taxable year in the holding period is before the taxable year beginning in 2011.	Taxpayers are affected by this provision if they converted a C corporation to an S corporation in 2005 or earlier and sell appreciated assets held at the time of conversion.	Taxpayers may be able to avoid paying the built-in gains tax.	Tax years beginning in 2011 only; Taxpayers could consider selling qualifying appreciated assets to avoid the built-in gains tax.	
Higher Penalties for Failure to File and Late Filing of Information Returns	The \$6721 and \$6722 penalties for failure to file and furnish the correct information returns to payees have increased from \$50 to \$100 per return. The maximum total amount of penalties that can be assessed has increased as well.	Taxpayers failing to file or furnish information returns, either timely or at all, are affected.	Penalties will greatly increase for taxpayers who are late to file information returns or who do not file at all.	2011; Taxpayers should timely file and furnish information returns to avoid penalties.	