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2011 YEAR-END BUSINESS TAX PLANNING LETTER

Dear Business Client:

December 2011

Here are a few year-end tax issues and planning strategies for you to consider. As always, if you have questions on this, or any other tax planning issues, please give us a call prior to year-end. **Please visit our website anytime to view our on-line 2011-2012 Tax Planning Guide (www.bollenback.com).**

- **Payroll Worksheets for Personal Auto Use** – Included are worksheets for calculating income from personal use of company vehicles. If we prepare your payroll, please complete and return to us no later than 12/15/11. If you use a payroll processing company, please forward the worksheets to them prior to your year-end payroll for inclusion in your 2011 W-2s. Also, provide health insurance information to your payroll processor for employees who are greater than 2% S-corporation shareholders.
- **Interest and Dividend Payments** – Businesses must report to the IRS all interest and dividend payments in excess of \$10 per payee during 2011 by January 31, 2012.
- **Year-end Purchase of Qualified Assets** – Businesses can achieve significant tax savings by purchasing, and placing in service, equipment and other qualified assets before year-end. Under the 2011 Small Business Act, Section 179 expense limits were increased to \$500,000 for tax years beginning in 2010 and 2011 on qualifying property with certain limitations. The Section 179 deduction takes the place of annual depreciation deductions. Current law drops this deduction to \$139,000 for qualified property purchased in 2012. In addition, 100% bonus first year depreciation is in effect for 2011 purchases of new qualified tangible personal property. This deduction is set to be reduced to 50% for property purchased in 2012.
- **Qualified Employer's general business credit on previously unemployed workers** – For any qualifying worker hired under the HIRE Act initiative that the employer keeps on payroll for a continuous 52 weeks, the employer is eligible for an additional non-refundable tax credit of up to \$1,000 after the 52-week threshold is achieved. A qualified employee would be one hired

between 2/3/10 and 1/1/11, that signed form W-11 certifying they have been unemployed or underemployed for 60 days prior to their hire date. The employee's pay in the second 26-week period must be at least 80% of the pay in the first 26-week period.

- **Business Vehicle Purchases** – First-year depreciation limits for new business vehicles placed in service in 2011 apply to automobiles, trucks and vans. For passenger cars, the limits are \$3,060 for the first tax year (\$11,060 for automobiles for which the special bonus depreciation allowance applies), \$4,900 for the second, \$2,950 for the third and \$1,775 for subsequent years. For trucks and vans, the limits are \$3,260 for the first tax year (\$11,260 if the special bonus depreciation allowance applies), \$5,200 for the second, \$3,150 for the third and \$1,875 for subsequent years.

New heavy SUVs put in service in 2011 are entitled to a huge tax break. 100% of the cost can be written off if no personal use, through bonus depreciation. They must have loaded gross vehicle weight over 6,000 pounds to qualify.

- **Retirement Plans** – Contact us immediately if you would like to start a retirement plan for your business. Most retirement plans **must be established by December 31, 2011** in order to deduct contributions for the 2011 tax year.
- **Social Security Wage Base** – Is \$106,800 for 2011 and increases to \$110,100 for 2012. After \$110,100, Medicare tax is still paid at 1.45% each for employee and employer.
- **Social Security Tax Rate** – Unless there is a change, for 2012 the social security tax rate on the employee's share increases to 6.2% (up from 4.2% during 2011) for Social Security and remains at 1.45% for Medicare. Thus, the employee and employer each pay 7.65%. Self employed individuals receive an increase in their self employment tax to 15.3% on the first \$110,100 of net earnings and 2.9% thereafter.
- **Qualified Research Expenses** – If you plan to claim a research credit, be aware that the credit ends at December 31, 2011, unless extended by Congress.
- **Domestic Manufacturing and Production Activities** – If your business qualifies under the IRS guidelines, you may be able to benefit from a tax credit or deduction. Some of the eligible business activities include manufacturing, production, growing, construction and engineering.
- **S Corporation Losses** – S corporation shareholders can deduct their share of corporate losses only to the extent of their basis in the corporation. For most S corporations, this basis

determination is made as of December 31, 2011. Please contact us immediately if you are an S corporation shareholder and expect the corporation to incur losses for the current year.

- **S Corporation/Partnership Late Filing Penalties** – For any S corporation or partnership late filed tax return, a penalty of \$195 per shareholder/partner will be charged for every month the tax return is late.
- **Service and Rent Payments** – Businesses must report by January 31, 2011 to each person to whom at least \$600 was paid in 2011 for services and/or rents. Any payments of at least \$600 to any attorney or law firm in connection with legal services, whether or not the services were performed (such as retainers or prepaid legal fees), must be reported. If you need assistance with, or have questions regarding the 1099 filing requirements, please contact us immediately.
- **Sales/Use Tax** – Businesses and individuals that collect rent on business property, or that sell, rent or lease personal property may be liable for sales taxes. Out-of-state purchases of tangible personal property may be subject to use tax.
- **New Hire Reporting** – All employers must timely report each new or rehired employee to the Florida Directory of New Hires.
- **Fringe Benefits** – Certain fringe benefits paid in 2011 must be reported on payroll tax returns and W-2's including:
 - **Personal Use of Business Automobile** – Employees and employee/owners are taxed on their personal use of the business vehicles. **Please complete the applicable enclosed worksheets to compute your personal use of automobile income.** Call us to discuss.
 - **S Corporation Fringe Benefits** – S corporation shareholders generally must include as additional compensation health, life and disability insurance premiums paid on their behalf by the corporation. Report these amounts to your payroll processor prior to year-end processing. Per IRS regulations, health insurance must be reported on a W-2 for greater than 2% shareholders to be deductible on page 1 of Form 1040.
 - **Group Life Insurance** – Your insurance agent can provide the amount to include for those whose coverage is in excess of \$50,000.
- **Tangible Personal Property Taxes** – Businesses that benefitted from the Tangible Personal Property Tax Exemption in 2011 should receive exemption renewal postcards in early 2012. As long as the value of your property remains at \$25,000 or less on January 1 of each year, you may not need to file a tangible personal property return. If the value of your property is more than \$25,000 on January 1, 2012, you must file a personal property tax return by April 1, 2012.

- **Corporate Reports and Records** – All Florida corporations and LLCs must file a 2012 annual report with the Florida Department of State by May 1, 2012. You should also update your internal records for ownership transfers, buy-sell agreement changes, corporate minute book updates, and other significant transactions. Contact your business attorney for more information on this.
- **Stock Ownership or Partnership Changes** – Please inform us of any 2011 changes.
- **Health Savings Accounts** – This type of fringe benefit, when added to your current Section 125 Cafeteria Plan, can be a low or no cost benefit for you and your employees.
- **C Corporations** – Consider paying dividends prior to 12/31/11 to lock-in the 15% personal capital gain tax rate.
- **Debt Cancellation Event** – Depending on your situation, you may want to defer a debt-cancellation event until 2012 so that you can defer the income until then.
- **Passive Activity Disposal** – You may want to dispose of a passive activity, which will allow you to take advantage of prior year suspended losses if your income is high in 2011.

These few year-end tax issues and strategies can significantly impact you and your business. To discuss these and other tax strategies, please call us. **Also, visit our website at www.bollenback.com for more information about the new 2011 tax laws and planning for 2012.**

IRS CIRCULAR 230 DISCLOSURE:

Any tax advice included in this written or electronic communication (and any attachments) was not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed on the taxpayer by any governmental taxing authority or agency.

We appreciate the opportunity to serve you.

BOLLENBACK & FORRET, P.A., CPAs

Enclosures

(ALL EMPLOYEES TO COMPLETE THIS FORM)

**EMPLOYEE REPRESENTATION REGARDING
USE OF COMPANY VEHICLE**

The IRS requires employers to provide certain information on their tax return with respect to the vehicles provided to employees. This information is also used to calculate the amount of the fringe benefit to be included in the employee's Form W-2 income.

The IRS generally requires that written records be maintained to document the business use of vehicles. Since the company policy requires employees to maintain the detailed records, please provide answers to the following questions. If you were provided more than one vehicle that was used during the year, you need to prepare a separate statement for each vehicle.

The completed form must be returned no later than _____ or 100% of the value of the use of the vehicle will be included in your Form W-2 income. (date)

Description of vehicle _____

Reporting period from _____ to _____

Odometer reading: Beginning _____ Ending _____

Employee Representation

(1) Was the vehicle available for your personal use during off-duty hours? YES NO

(2) Did you have another vehicle available for your personal use (this includes a vehicle you own personally)? YES NO

(3) Are you an officer or 1% or more owner of the business? YES NO

(4) How many commuting round trips did you make in this vehicle? _____

(5) For the reporting period specified above, please provide the number of miles for each of the following categories:

Total commuting miles _____

Total other personal (non-commuting) miles _____

Total personal miles _____

Total business miles _____

(6) Did the employer pay the cost of fuel consumed by this vehicle? YES NO

(EMPLOYEE SIGNATURE)

(DATE)

(EMPLOYER CALCULATION WORKSHEETS I, II & III)

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE
FOR CALENDAR YEAR 2011

EMPLOYEE: _____

DESCRIPTION OF VEHICLE: _____

DATE VEHICLE FIRST MADE AVAILABLE TO ANY EMPLOYEE: _____

DATE VEHICLE FIRST MADE AVAILABLE TO THIS EMPLOYEE: _____

Select one method (note limitations on methods II and III)

METHOD I - ANNUAL LEASE VALUE METHOD (For Vehicles Available 30 Days or More)

Fair market value of vehicle (to be redetermined at the beginning of the fifth year and every four years thereafter)	\$	_____
Annual lease value, per attached chart	\$	_____
Enter number of days during the year that the vehicle was available	x	_____
Divide by number of days in tax year	÷	_____
Prorated annual lease value	=	_____
Personal use % (personal/total miles, per statement from employee)	x	_____ %
Personal annual lease value	= \$	_____
If fuel is provided by employer, enter personal miles _____ x .055	+	_____ +
Personal use taxable income	= \$	_____

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE FOR
CALENDAR YEAR 2011

METHOD II - STANDARD MILEAGE RATE METHOD

Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) be expected to be regularly used in the employer's business throughout the calendar year, or (2) be driven at least 10,000 miles per year, and (3) have a fair market value of \$15,300 or less (\$16,200 for trucks or vans). Once this method is adopted for a particular vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles (1/1 – 6/30/11) _____	x \$0.51=	\$ _____
Enter personal miles (7/1 – 12/31/11) _____	x \$0.555=	_____
If fuel is NOT provided by the Employer enter personal miles _____	x \$0.055 =	(_____)
Personal use taxable income		\$ _____

METHOD III - SPECIAL COMMUTING METHOD

This method may only be used for vehicles covered by a written policy that allows commuting but no other personal use. DO NOT USE if employee is a 1% or more owner, an officer with compensation of \$95,000 or more, or an individual with compensation equaling or exceeding \$195,000.

Number of commuting round trips made	_____
Value per round trip	x _____ \$ 3.00
Personal use taxable income	\$ _____

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

ANNUAL LEASE VALUE TABLE

<u>AUTOMOBILE FAIR MARKET VALUE</u>	<u>ANNUAL LEASE VALUE</u>	<u>AUTOMOBILE FAIR MARKET VALUE</u>	<u>ANNUAL LEASE VALUE</u>
\$ 0- 999	\$ 600	22,000-22,999	6,100
1,000- 1,999	850	23,000-23,999	6,350
2,000- 2,999	1,100	24,000-24,999	6,600
3,000- 3,999	1,350	25,000-25,999	6,850
4,000- 4,999	1,600	26,000-27,999	7,250
5,000- 5,999	1,850	28,000-29,999	7,750
6,000- 6,999	2,100	30,000-31,999	8,250
7,000- 7,999	2,350	32,000-33,999	8,750
8,000- 8,999	2,600	34,000-35,999	9,250
9,000- 9,999	2,850	36,000-37,999	9,750
10,000-10,999	3,100	38,000-39,999	10,250
11,000-11,999	3,350	40,000-41,999	10,750
12,000-12,999	3,600	42,000-43,999	11,250
13,000-13,999	3,850	44,000-45,999	11,750
14,000-14,999	4,100	46,000-47,999	12,250
15,000-15,999	4,350	48,000-49,999	12,750
16,000-16,999	4,600	50,000-51,999	13,250
17,000-17,999	4,850	52,000-53,999	13,750
18,000-18,999	5,100	54,000-55,999	14,250
19,000-19,999	5,350	56,000-57,999	14,750
20,000-20,999	5,600	58,000-59,999	15,250
21,000-21,999	5,850		

For vehicles having a fair market value in excess of \$59,999, the Annual Lease Value is equal to:
 (.25 x automobile fair market value) + \$500.