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Newsletter

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New law signed by President Obama on November 21, 2011

On November 21, 2011, President Obama signed the *Three Percent Withholding Repeal and Job Creation Act* into law. This new law repeals three percent withholding on certain payments to government contractors. The law, H.R. 674, was amended to include the *Vow to Hire Heroes Act* which provides tax credits to employers who hire unemployed veterans.

The law creates the “Returning Heroes Tax Credit” and the “Wounded Warriors Tax Credit.” Employers may qualify for a credit of up to \$5,600 for hiring a veteran who has been looking for employment for more than six months. A credit of up to \$2,400 applies for veterans who have been unemployed for more than four weeks but less than six months. Employers who hire an unemployed veteran with service-connected disabilities who has been looking for work for more than six months may be eligible for a tax credit of up to \$9,600.

The credits apply to new hires after November 21, 2011, through December 31, 2012. For more information about the new law, contact our office.

New worker classification program offered by the IRS

Companies that have had worker classification issues are being offered a settlement program by the IRS. The program, labeled the “Voluntary Worker Classification Settlement Program,” will let employers who previously misclassified employees as independent contractors make a minimal payment to settle the tax dispute.

The program will give eligible employers substantial relief from federal payroll taxes they may have owed for past periods. Employers must agree to pay just over 1% of wages paid to reclassified workers for the past year and to treat these workers as employees going forward.

Tax tips for year-end charitable giving

As the year draws to a close, you may decide to donate cash or property to one or more worthy causes. Besides the satisfaction of helping others, there’s another reward for your benevolence: a tax deduction on your 2011 return. But keep the following points in mind:

- For starters, you may only deduct contributions made to a legitimate tax-exempt charitable organization. Note that a qualified charity cannot be established to benefit a specific individual or family.

- Generally, your deduction is limited to 50% of adjusted gross income (AGI) for the year (30% of AGI for contributions to certain charities and private foundations). Any excess may be carried over for up to five years. The deduction for gifts of property have other AGI limits.
- The tax law imposes strict substantiation requirements. No deduction is allowed for monetary gifts unless you maintain a bank record or written communication from the charity indicating your name and the amount and date of donation. For contributions of \$250 or more, you must obtain a contemporaneous written acknowledgement from the charity. If you donate property valued above \$500, you must provide a written description with your return. Independent appraisals are required for property donations above \$5,000.
- Typically, you may deduct the fair market value of gifts of property owned longer than one year. Any appreciation in value remains untaxed. For instance, if you donate property valued at \$5,000 that you acquired five years ago for \$1,000, you can deduct \$5,000. But the property must be used by the charity to further its tax-exempt purpose.
- For 2011, individuals age 70½ or older can transfer up to \$100,000 from an IRA directly to a charity without paying any tax on the distribution. The downside is that the transfer doesn't qualify for the charitable deduction.
- Finally, you can secure deductions late in the year by donating to charity by credit card. As long as the charge is posted in December, you can deduct it on your 2011 return, even if you don't pay the credit card until 2012.

If you have any questions concerning year-end charitable donations, contact our office.

Face the alternative minimum tax (AMT) head-on

The alternative minimum tax (AMT) – often called a “stealth tax” – snares unsuspecting or uninformed taxpayers each year. With a better understanding of the rules, you may be able to avoid or reduce adverse tax consequences.

Overview: The AMT is a separate tax system that runs parallel to the regular income tax system. This complex calculation includes additions for “tax preference items” and reductions for personal exemptions and certain tax deductions. There are five basic steps to computing the AMT.

1. Determine your taxable income for regular income tax purposes.
2. Make the technical AMT adjustments required by law.
3. Subtract a special “exemption amount” based on tax filing status (\$48,450 for single filers, \$74,450 for joint filers, and \$37,225 for marrieds filing separately). These exemption amounts are reduced for high-income taxpayers.
4. Apply the AMT rate to the result. The rate is 26% on the first \$175,000 of AMT income and 28% for amounts above \$175,000.
5. Compare your AMT liability to your regular tax liability. You pay whichever tax is greater.

Best approach: Estimate your AMT exposure before year-end. Depending on your situation, it may make sense to avoid tax preference items or postpone certain deductions. Caution: This is a complex area of the tax law, so contact our office if you need more information or planning guidance.

Happy Holidays

Thank you for the opportunity to serve you this past year. Your business is appreciated, and your referrals are welcome. Please mention our name to friends and business associates who may need our services.

Warmest wishes for a happy holiday season and a prosperous 2012.