

THIS MONTH:

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Payroll Tax Cut Temporarily Extended into 2012

The Temporary Payroll tax cut Continuation Act of 2011 temporarily extends the two % payroll tax cut for employees, continuing the reduction of their Social Security tax withholding rate from 6.2 % to 4.2 % of wages paid *through February 29, 2012*. This reduced Social Security withholding will have no effect on employees' future Social Security benefits. Employers should implement the new payroll tax rate as soon as possible in 2012 but not later than January 31, 2012. For any Social Security tax over-withheld during January, employers should make an offsetting adjustment in workers' pay as soon as possible but not later than March 31, 2012.



Nondeductible Expenses

As a small business owner, you have the opportunity to deduct certain expenses from your taxes. Don't let yourself get carried away though; there are some expenses that are not deductible, regardless of the situation. Just as a reminder, below are some common expenses that CANNOT be deducted as a business expense.

Clothing—Unless it is protective gear, or a uniform not to be worn during non-working hours, clothing cannot be deducted.

Commuting Expenses—The cost of transportation from your home to your main/regular place of work.

Life Insurance Premiums—If the business or the business owner is a direct or indirect beneficiary, the expense cannot be deducted.

Lunches with Co-workers—Meals with co-workers are nondeductible, unless traveling away from home on business.

Personal Legal Expenses—For example, legal fees relating to custody of children, divorce, preparation of a will, and personal injury claims are nondeductible.

Political Contributions—Political donations and lobbying expenses to influence voters are not deductible.

Residential Telephone Service—The first telephone line to your residence is non deductible even if used in a trade or business.

Health Club, Social Club or Country Club Dues—In general, club fees and weight loss programs are nondeductible, even if your job requires you to stay in shape. (Note: If certain conditions are met, the expense may qualify as a medical expense.)

Fines and Penalties—Traffic tickets, tax penalty payments, and violations of law are not deductible expenses.

2011 Filing Season Announcements

Two Extra Days to File and Pay

Taxpayers across the nation will have until Tuesday, April 17, 2012, to file their 2011 income tax returns and pay any taxes due. Taxpayers have extra time because April 15 falls on Sunday, and Emancipation Day, a holiday in the District of Columbia, is observed the following day on Monday, April 16. By law, filing deadlines that fall on D.C. holidays are extended to the next day that is not a Saturday, Sunday, or holiday. The April 17th deadline applies to any return or payment normally due on April 15. It also applies to the deadline for requesting a tax-filing extension and for making 2011 IRA contributions.

New Way to Report Capital Gains and Losses

In most cases, taxpayers now use new Form 8949, *Sales and Other Dispositions of Capital Assets*, to report capital gain and loss transactions. Schedule D, *Capital Gains and Losses*, the form traditionally used to show individual transactions, is now used as a summary sheet for figuring tax. For securities both bought and sold in 2011, the Form 1099-B, issued by the broker, normally shows the taxpayer's basis. The information on this form will help taxpayers correctly fill out Form 8949.

Reporting Roth Conversions

As in 2010, income limits no longer apply to rollovers or conversions to Roth IRAs from other retirement plans. However, unlike 2010 conversions, *all of the income resulting from a 2011 conversion must be included on the taxpayer's 2011 return*. For 2010 conversions, only half of the income must be included in income in tax-year 2011 and the other half is reported in 2012, unless the taxpayer chose to include all of it in income for 2010. For those who did not make this choice, report the taxable amount on either Line 15b or Line 16b of Form 1040 for 2011.

Health Insurance Deduction for the Self-Employed

In 2011, eligible self-employed individuals and S corporation shareholders can use the self-employed health insurance deduction to reduce their income tax liability. Eligible taxpayers still claim this deduction on Form 1040 Line 29. Premiums paid for health insurance covering the taxpayer, spouse and dependents generally qualify for this deduction. In addition, premiums paid to cover an adult child under age 27 at the end of the year, also qualify, even if the child is not the taxpayer's dependent. However, the deduction from self-employment income for determining self-employment tax, which was available only in tax-year 2010, no longer applies.

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PADGETT BUSINESS SERVICES® is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.

PENALTY NOTICE: As required by U.S. Treasury regulations, you are advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.