

## THIS MONTH:

- Last Chance to Deduct General Sales and Use Taxes?
- Employer Provided Cell Phones
- Expiring Tax Breaks For Individuals
- What Happens to the Alternative Minimum Tax in 2012?

### LAST CHANCE TO DEDUCT GENERAL SALES AND USE TAXES?

This year may be the last chance for taxpayers who itemize deductions to deduct state and local sales taxes in lieu of state and local income taxes, since the option to deduct sales taxes is set to expire at the end of 2011. While it *may be extended*, individuals who are considering the purchase of a big-ticket item may want to accelerate the purchase into this year to achieve a higher itemized deduction for sales taxes. Taxpayers who make this election may either deduct actual sales and use taxes, or use the IRS-published tables plus the actual amount of the sales tax for certain “big-ticket” items (vehicles, boats). This provision primarily benefits taxpayers who live in states without an income tax.

### EMPLOYER PROVIDED CELL PHONES

When an employer provides an employee with a cell phone primarily for non-compensatory business reasons, the business and personal use of the cell phone is generally nontaxable to the employee. The IRS will not require recordkeeping of business use in order to receive this tax-free treatment. The IRS announced a similar administrative approach that applies to small businesses that provide cash allowances and reimbursements for work-related use of personally-owned cell phones. Under this approach, employers that require employees, primarily for non-compensatory business reasons, to use their personal cell phones for business purposes may treat reimbursements of the employees' expenses for reasonable cell phone coverage as nontaxable.

However this treatment does not apply to reimbursements of unusual or excessive expenses or to reimbursements made as a substitute for a portion of the employee's regular wages.



## EXPIRING TAX BREAKS FOR INDIVIDUALS

Thanks to legislation enacted at the end of 2010, tax rates are stable for 2011 & 2012. These include ordinary income tax rates for individuals which are 10, 15, 25, 28, 33 and 35 percent; capital gains rates are zero and 15 percent. Unfortunately, not all is quiet on the tax front despite no dramatic rate changes until 2013.

Unfortunately, there are some specific tax provisions that will terminate at the end of 2011 unless Congress and the President agree to extend them 1) above-the-line deduction for higher education expenses, up to \$4,000; 2) the provision to deduction mortgage insurance premiums; 3) the election to deduct state and local sales tax deductions in lieu of state and local income taxes; 4) the \$250 classroom expense deduction for teachers; 5) non-business energy credits; 6) the exclusion for distributions of up to \$100,000 from an IRA to charity; 7) a higher deduction limit for charitable contributions of appreciated property for conservation purposes.

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## WHAT HAPPENS TO THE ALTERNATIVE MINIMUM TAX IN 2012?

The AMT has been “patched” for 2011. The exemptions have been temporarily increased from the normal statutory levels to the “patched” levels. (*From \$33,750 to \$48,450 for single individuals, from \$45,000 to \$74,450 for married couples filing jointly and surviving spouses and from \$22,500 to \$37,335 for married couples filing separately*).

The amounts return to the “normal levels” of \$33,750/\$45,000/\$22,500, respectively, in 2012 unless Congress takes action to maintain the patch. Elimination of the AMT is a goal of long-term tax reform, but the loss of revenue has been considered too high in the past. Without the “patch,” the Congressional Budget Office estimates that an additional 20 million middle-class taxpayers would suddenly become subject to an AMT once designed only for millionaires. While planning for the AMT is difficult, taxpayers may want to consider realizing AMT income, such as capital gains, in 2011, when the patch is higher, rather than in 2012. Call your local Padgett office to discuss your options.

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