Volume 8 – Spring 2011

vip Valuable Information for People

Quick tip$ FOR INDIVIDUALS

1 Beginning January 1, 2011, expenses incurred for over-the-counter medications (unless prescribed by a physician) are no longer qualified for reimbursement from a Flexible Spending Account (FSA), health savings accounts (HSA), health spending arrangement (HRA), or Archer medical-savings account (MSA). Insulin and all prescription drugs still qualify.

2 In the past, if you thought you would be eligible for the earned income credit (EIC) and you had at least one qualifying child, you could choose to get advanced EIC payments with your pay by completing Form W-5, Earned Income Credit Advance Payment Certificate, and giving it to your employer. Starting in 2011, the advanced earned income tax credit will be eliminated.

Tips continued on page 5

Tax Tips 2011

First-Time Homebuyer Credit

Benefit still available for certain members of the military

In general, the first-time homebuyer credit is no longer allowed for homes purchased after April 30, 2010 (September 30, 2010, if you entered into a written binding contract before May 1, 2010). However, if you or your spouse were on qualified official extended duty outside of the United States for at least 90 days after 2008 and before May 1, 2010, you have an extra year to buy a home and claim the credit. In other words, you must buy the home before May 1, 2011 (before October 1, 2011, if you enter into a written binding contract before May 1, 2011).

2010 Roth Conversions

Any distributions before 2012 may need to be included in income

If you did a Roth conversion in 2010, the conversion income is generally spread over two years (unless you elect out of the two-year period). Half of the income is reported in 2011 and the other half is reported in 2012. However, be careful if you take any distributions from the Roth IRA in 2010 or 2011, because the conversion income may be accelerated or included in income sooner.

Distributions from a Roth IRA are treated as having been distributed in the following order:

- Regular contributions to the Roth IRA and rollover contributions from other Roth IRAs and designated Roth accounts.
- Qualified rollover contributions from accounts other than Roth IRAs or designated Roth accounts.
- The remaining nontaxable portion of the qualified rollover contribution.
- Earnings on contributions.

If your Roth IRA has no regular contributions and only consists of amounts converted in 2010 plus earnings, any distributions before 2012 would be attributable to the conversion income and would have to be included in income in the year distributed.

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Dependents and Divorce

Who gets to claim the children?

In general, if you want to claim your child as a dependent, you must be the custodial parent (i.e., the parent with whom the child lived for the greater number of nights during the year). If you are the noncustodial parent, the custodial parent must sign a written declaration that he or she will not claim your child as a dependent, and you must attach this written declaration to your tax return.

Make sure you have the proper written declaration, or the IRS will deny your dependency exemption. To release the dependency exemption, the custodial parent may use either Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent,
or a similar statement containing the same information as the form.

If you have a divorce decree or separation agreement that went into effect after 1984 and before 2009, you may be able to attach certain pages from the decree or agreement in place of Form 8332. The decree or agreement must state all three of the following:

- The noncustodial parent can claim the child without regard to any condition, such as payment of support.
- The custodial parent will not claim the child as a dependent for the year.
- The years for which the noncustodial parent can claim the child as a dependent.

The option to attach pages from the decree or agreement is no longer available to noncustodial parents whose divorce or separation went into effect after 2008. These individuals must attach Form 8332 or a similar statement that was executed for the sole purpose of releasing the dependency exemption.

Nonbusiness Energy Credit

Qualifying home improvements in 2010 qualify for up to $1,500 tax credit

Taxpayers who made energy-efficient home improvements to their principal residence no later than December 31, 2010 are eligible to claim a nonbusiness energy credit of up to $1,500 in 2010.

The credit equals 30 percent of the amount paid for:

- Qualified energy efficiency improvements (i.e., insulation, windows, doors, etc.); and
- Residential energy property costs (i.e., central air conditioners, natural gas furnaces, tankless water heaters, biomass fuel stoves, etc.).

For purposes of this credit, costs are treated as being paid when the original installation of the item was completed. Thus, you cannot qualify for the credit by simply purchasing the item in 2010; it must have been installed on or before December 31, 2010.

The credit is limited to a total of $1,500 for tax years 2009 and 2010. Thus, if you already claimed a $1,500 credit in 2009, you are not eligible for a credit in 2010.

The nonbusiness energy credit has been extended to include property placed in service in 2011. However, the amount of the credit for improvements made in 2011 is limited to $500 and is further reduced by the total of any NBEP credits claimed in 2006 thru 2010. The total credit allowed for windows is $200 and is reduced by any credits claimed for windows from 2006 thru 2010.

IRA Rollovers

Be mindful of the one-year waiting period

If you don't like how your IRA is being managed, you can transfer it to another IRA with a different trustee. To make this a nontaxable transfer, you can either do a direct trustee-to-trustee transfer, or you can receive a distribution and roll it over within 60 days.

You can do an unlimited amount of trustee-to-trustee transfers during the year. However, there is a one-year waiting period between rollovers from one IRA into another. This means that no further rollovers can be made in the same year from either (1) the IRA from which the rollover was made; or (2) the IRA into which the rollover was made. Watch out! If another rollover has been made during this one-year period, the second IRA distribution is subject to tax, and may also be subject to the 10-percent early distribution penalty and the 6-percent excess contribution tax.

Deductible IRAs

Reduce your taxable income while saving for retirement

If you are employed and an active participant in an employer sponsored retirement plan [i.e., §401(k), SEP, or SIMPLE IRA], you can still make a contribution to a traditional IRA. You can contribute up to $5,000 ($6,000 if 50 or older), but not more than your compensation for the year. If you file a joint return, your spouse can also make an IRA contribution based on your compensation (even if he or she has little or no compensation).

Whether or not the contribution is deductible depends on your filing status and your modified adjusted gross income (MAGI). If you are single and your MAGI is more than $66,000, you cannot deduct your contribution. If you are married filing jointly and your MAGI is more than $109,000, you cannot deduct the contribution made for yourself. However, if your spouse is not covered by an employer sponsored retirement plan and your MAGI is less than $177,000, part or all of your spouse's IRA contribution may be deducted.

Contributions for the year must be made by the unextended due date of your return. Thus, contributions for 2010 must be made by April 18, 2011. You can even file your return and claim an IRA deduction before the actual IRA contribution has been made as long as it is made on or before April 18, 2011.

Payroll Tax Cut to Boost Take-Home Pay for Most Workers

You may see a rise in your take-home pay during 2011. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act Of 2010 provides a two percentage point payroll tax cut for many employees, reducing their Social Security tax withholding rate from 6.2 percent to 4.2 percent of wages paid. This reduced Social Security withholding will have no effect on the employee's future Social Security benefits.

The new law also maintains the income-tax rates that have been in effect in recent years. Employers should comply no later than Jan. 31, 2011.

Employers and payroll companies will handle the withholding changes, so workers typically won't need to take any additional action, such as filling out a new W-4 withholding form.

Note: It's a good idea to review your withholding every year and, if necessary, fill out a new W-4 and give it to your employer.

Quick tip$
FOR SMALL BUSINESSES

1 Beginning in 2011, employers will be required to report the cost of employer-provided health insurance coverage on the employee's W-2 as an information item.

2 For tax years beginning 2010, the failure-to-file penalty for S-corporation returns has increased to $195 per shareholder, per month; for partnerships returns it has increased to $195 per partner, per month.

3 For 2010 only, self-insured health insurance premiums can be used to reduce net earnings from self-employment purposes of calculating the self-employment tax.

4 The depreciation limit for an automobile used in business and placed in service in 2010 is $3,060.

5 The 50-percent bonus depreciation has been extended to qualified assets placed in service before January 1, 2011.

6 Under the *Small Business Jobs Act of 2010*, the 2010 depreciation limit for automobiles ($3,060) and light trucks ($3,160) that are "qualified property" under the bonus depreciation rules is increased by $8,000.

7 Under the *Small Business Jobs Act of 2010*, businesses are allowed to deduct up to $10,000 of start-up costs if business begins in 2010. The deduction is phased out for expenses in excess of $60,000.

8 Cellular phones have been removed from the "listed property" category of assets beginning in 2010, providing more favorable depreciation rules and reduced substantiation of the expense.

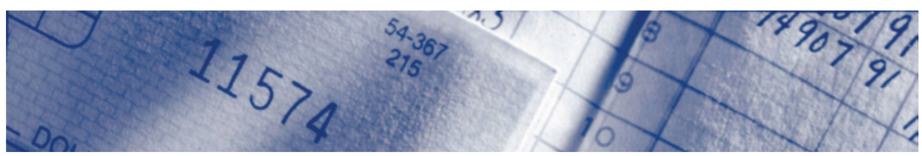
Small Business Corner
New Credit Available in 2011
Hiring in 2010 could pay off

The HIRE Act of 2010 provides incentives to employers who are contemplating adding staff to their workforce. If a business hires a qualified employee and retains that employee for 52 consecutive weeks, the business will be entitled to a general business credit of up to $1,000 per qualified employee.

Qualified employees must meet the following requirements:

- The employee must have been hired after February 3, 2010, and before January 1, 2011.
- The employee must certify on Form W-11 that he/she has not been employed for more than 40 hours in the last 60 days.
- The employee is not a replacement for another employee unless that other employee voluntarily separated from employment or was terminated for just cause.
- The individual is not related to the employer, including family and in-laws.

To be considered "retained," the employee must be employed by the employer for 52 consecutive weeks, and wages paid to that employee for the last 26 weeks of the period must be at least 80 percent of the wages paid during the first 26 weeks of the period. The credit is equal to 6.2 percent of the wages paid during the 52-week period, with a maximum of $1,000. If the employee is paid more than $16,129.03, the employer will receive the full $1,000 credit. The earliest the employee would meet the requirements for this credit would be February 4, 2011, so keeping good records of all wages earned and hours worked is very important.



Day Care Providers Allowed Per Diem
New rates for 2010

Taxpayers who provide day care services in their home may find it difficult to track the meals they provide to the children. The IRS allows day care providers to deduct a standard meal allowance, per child, in lieu of actual expenses. Following are the standard rates for 2010:

Meal	Alaska	Hawaii	All Other States
Breakfast	$1.89	$1.38	$1.19
Lunch/Dinner	$3.59	$2.59	$2.21
Snack (limit 2/child)	$1.07	$0.77	$0.66

Small Business Health Care Credit

Complex rules may provide up to a 35 percent credit for premiums paid

Currently, one of the largest costs for small businesses is health insurance. Whether the insurance is offered in full or the employee pays for a portion, the cost is continually increasing. This deters many small businesses from offering health insurance.

In an effort to assist employers with this ever increasing cost, the IRS is allowing a credit of up to 35 percent of the premiums paid by eligible small businesses (25 percent for tax-exempt employers) beginning in 2010. Several terms must be defined to determine if the credit is available for your business.

Eligible Small Employer (ESE). An eligible small employer has no more than 25 full-time equivalent employees (FTE) for the tax year. The average annual wages must be less than $50,000. Eligible small businesses must pay at least 50 percent of the premium for those employees enrolled in the health insurance plan.

Full-time Equivalent Employees (FTE). FTEs are determined by dividing the total hours of service worked by employees by 2,080. This number is rounded down to the nearest whole number (i.e., 14.9 would be 14 FTEs).

If an individual employee works more than 2,080 hours in the year, the hours in excess are not included in the calculation. The hours worked by seasonal workers (employees who work less than 120 days during the tax year) are not included in the calculation. Leased employee hours are included.

Certain employees are specifically excluded from the FTE definition. Sole proprietors, partners, and 2-percent shareholders in an S corporation are excluded. Employees considered 5-percent owners under the key-employee provisions for retirement plans are also excluded. Family members of the self-employed business owner are not considered FTEs, regardless of whether they have a valid employee relationship.

Average Annual Wages. Average annual wages are the total wages paid by the ESE to its FTEs for the year divided by the number of FTEs. The wages paid to individuals excluded from the definition of FTEs are not included in the wages number. For example, if a sole proprietor pays his spouse $50,000 in total wages for the year, those wages are excluded from the total wages paid to FTEs for the year.

The average annual wages determined by the formula are rounded down to the nearest $1,000. So, if the average annual wages are $26,789 under the calculation, the average annual wages for purposes of the credit would equal $26,000.

Phase-out. The credit is phased out based on both the number of FTEs and the average annual wages. If there are more than 10 but fewer than 25 FTEs, the credit is phased out. If the employer pays average annual wages in excess of $25,000, but less than $50,000, the credit is phased out. In other words, if the employer has fewer than 10 FTEs and pays less than $25,000 in average annual wages, the full credit is available. If the employer has either 25 or more FTEs or pays more than $50,000 in average annual wages, no credit is available.

The health care credit will be part of the non-refundable general business credits. However, tax-exempt employers are allowed a refund of the credit up to the amount of payroll taxes withheld from the employees

Quick tip$

FOR INDIVIDUALS

continued from page 1

3 Don't forget to take your required minimum distribution (RMD) for 2010. RMDs were waived for 2009 only.

4 If you moved recently, you should notify the IRS of the change of address by filing Form 8822.

5 The 2010 Tax Relief Act retained the 2009 income tax rates for 2010 and 2011. The maximum tax rate on ordinary income is 35% and the maximum for qualified dividends and long-term capital gains is 15%. Short-term capital gains are taxed at the taxpayer's ordinary income rate.

6 In 2010, the adjusted gross income (AGI) limit on Roth conversions is gone. However, a modified AGI limit continues to apply to regular Roth IRA contributions. To avoid this, you can make contributions to a nondeductible traditional IRA and convert them to a Roth IRA in the following year (only paying tax on any earnings).

7 Beginning on Jan. 1, 2011, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 51 cents per mile for business miles driven
- 19 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

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  *See page 7 for full details...

VIP Gold Card Benefits:

- FREE ELECTRONIC FILING (with paid tax preparation)
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9 CONVENIENT OFFICE LOCATIONS

EAST END

Fairfield Commons (in Mall) – 236-0704

WEST END

5711 W. Broad Street (Libbie Place) – 282-1040

GLEN ALLEN / INNSBROOK

Innsbrook (Cox & Broad Streets) – 934-9700
Virginia Center Commons Mall (near food court) – 266-3926

CHESTERFIELD COUNTY

Chesterfield Towne Center Mall (near JCPenney) – 794-8729
Meadowbrook Plaza (Hopkins & Chippenham) – 743-3861
Commonwealth Centre (across from Brandermill) – 763-0667

PETERSBURG / COLONIAL HEIGHTS

The Crossings Shopping Center, 5288 Oaklawn Blvd. – 452-1311

BUSINESS, FINANCIAL AND EXECUTIVE OFFICES

- 1801 Libbie Avenue, Suite 100 (Libbie Square) – 204-1040
- Commonwealth Centre (across from Brandermill) – 763-0667
- Innsbrook (Cox & Broad Streets) – 934-9700

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Refer a new client to Peoples and get a $20 check. Your friend will also get a $20 discount on their tax prep fee with Peoples!

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1. Simply ask your Peoples Tax Preparer for some $20/$20 Refer-a-Friend Cards.
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3. If the person you referred brings the $20/$20 Refer-a-Friend Card in and has their tax return prepared by Peoples as a new client this year, they'll save $20, and you'll receive a $20 check from Peoples Income Tax in the mail!

It's that simple!

...and it works every time you refer a new client to Peoples. It's just one small way for us to thank you for your referral and your business!

Numbers that May Affect Your 2010 Tax Return

- **Personal Exemption amounts remain at $3,650.** Taxpayers will not lose any portion of the personal exemptions regardless of their adjusted gross income.
- **Standard deduction amounts are**: MFJ-$11,400, Single & MFS-$5,700, HH-$8,400
- **Itemized deductions are not reduced or phased out at any income level.**
- **American Opportunity Credit (formerly Hope Credit) phase outs start at $80,000 ($160,000 for MFJ).** The maximum amount of AOTC (American Opportunity Tax Credit) is $2,500 per student and can now be claimed for the first four (4) years of post-secondary education. 40% of this credit is now refundable and the "qualified" expenses have been expanded to include expenditures for "course materials." Course materials now includes books, supplies and equipment needed for a course whether or not they are purchased from the educational institution as a condition of enrollment.
- **The Lifetime Learning Credit is phased out if a taxpayer's AGI is between $50,000 and $60,000. ($120,000 MFJ)**
- **EIC maximum AGI/earned income** for MFJ $40,545 (S-HH $35,535) for one child, $45,373 (S-HH $40,363) for two, $48,362 (S-HH $43,352) for more than two and $18,470 (S-HH $13,460) for no children. Excessive investment income level for EIC is $3,100.
- **Adoption Credit** - $13,170 is the maximum for the credit or assistance amounts. Income phase outs apply at income levels between $182,500 and $222,520. The adoption credit is now a refundable credit.
- **The Small Business Jobs Act enhanced and extended the small business §179 expensing deduction** to enable business to write off up to $500,000 of capital expenditures during 2010 and 2011. The deduction is reduced if the total cost of eligible property placed in service during the tax year exceeds $2,000,000.
- **IRA contribution phase out ranges for taxpayers covered by a retirement plan at work** – MFJ phase out starts at $89,000. Single and Head of Household = $55,000. MFS taxpayers are allowed a partial deduction if AGI is below $10,000.
- **Roth IRA AGI phase out limits increase** to beginning levels of $166,000 for MFJ, $0 for MFS, and $105,000 for other taxpayers.
- **Retirement Savers Credit** – The indexed ceilings for 2010 are: MFJ - $55,500, HH - $41,625, Other - $27,750.
- **Student loan interest maximum** is $2,500, with a phase out starting at $75,000 ($150,000 for MFJ).
- **Long-term care premiums are limited to**: Age 40 or less = $330, Age 41-50 = $620, Age 51-60 = $1,230, Age 61-70 = $3,290, Age 71 and over = $4,110
- **Long-term care contract benefit amount** is $290 per day.

Giving Gifts - What's Taxable?

When you give cash or property to an individual, the gift is not taxable to that individual. However, if you give away too much, you may have to report the gift and pay gift tax.

The IRS allows you to give each individual up to $13,000 during the year without requiring you to report the gift or file a gift tax return. In addition, certain gifts do not count toward the $13,000 annual exclusion, such as amounts paid directly to qualifying educational institutions for tuition or medical expenses (including health insurance) paid directly to the person or the medical organization.

If you give more than $13,000 to one individual during the year, you must file a gift tax return to report the taxable gift. Your gift will be taxable to the extent the amount given exceeds $13,000. However, you can give up to $1 million in taxable gifts during your lifetime before you are required to pay any gift tax.

PEOPLES' TRIPLE GUARANTEE

Assistance. We are available all year-round to answer any tax questions you may have. Should your return be audited, we will go with you to the IRS and explain how your return was prepared (not as a legal representative.) There is no additional charge for these services. Should you request that we represent you, we will be glad to do so for an additional charge.

Accuracy. Employee training and double checking of every return safeguards the accuracy of your return. However, if we make an error, we will correct our error and reimburse you for any penalties and actual interest damages you incur. You will still be responsible for any additional taxes due had the error not been made.

Satisfaction. If you are not pleased with the service you receive in the preparation of your tax return(s), and you choose not to file them or to allow us to redo them, we will refund your fee in full.

IRS Preparer Regulation

All tax preparers (except attorneys, CPAs & EAs) must now be registered with the IRS or they cannot legally prepare tax returns for a fee.

Starting summer 2011, a competency exam will be phased in. Registered Tax Return Preparers (RTRPs) will have until December 2013 to pass the exam. Unregistered tax preparers must pass the exam before they can begin preparing taxes for the public. Beginning in 2012 all RTRPs will be required to complete 15 hours of annual Continuing Education (CE) in Federal tax law and ethics.

All Peoples' Tax Professionals are registered with the IRS. Our tax preparers have always been expected to complete annual CE through our sister company, The Income Tax School, the national standard for tax preparer education, and a provider of CE approved by the IRS Office of Professional Responsibility.

Coverdell Education Savings Account (ESA)

Coverdell ESA or Section 529 plan?

Coverdell ESAs may be used to pay for qualified higher education expenses or qualified elementary and secondary education expenses (K-12). Contributions to a Coverdell ESA are not deductible. However, all earnings in a Coverdell ESA can accumulate tax free. A distribution from a Coverdell ESA that is used for qualified education expenses is nontaxable. The annual contribution limit for Coverdell ESAs is currently $2,000/year per beneficiary.

Section 529 plans(QTP's) may only be used to pay for qualified higher education (post-secondary) expenses. Unlike Coverdell ESAs, Section 529 plans have no annual contribution limits* or income phase-outs. Contributions to a Section 529 plan are not deductible for federal tax purposes, but the earnings can accumulate tax free. In addition, you can often deduct contributions to 529 plans on your state income tax return. Also, it is generally easier to change beneficiaries for 529 plans and there is no requirement to distribute the entire account.

*** Contributions over $13,000 require a gift tax return to report the taxable gift.**

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