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Now that the mid-term elections are over, taxes are one of the areas Congress is likely to address as there are numerous areas where current tax laws are expiring. I will be sure to update you on those as they are announced but in the meantime, I wanted to share some tidbits that may be of interest to you.

Changes to Flexible Spending Accounts:

The health care reform legislation (Patient Protection and Affordable Care Act), has specific impact on health care flexible spending accounts, in particular, over-the-counter drugs and medication. **For purchases beginning January 1, 2011, money from the health care flexible spending account will no longer be available to pay for most over-the-counter drugs and medication *without a doctor's prescription*.** Please take this into careful consideration when making your plan elections for the 2011 plan year.

Special Rule for Self-Employed Taxpayers for 2010 Only

Self-employed persons will be able to deduct their health insurance premiums as a business expense that reduces their self-employment tax and their income tax for the year 2010 only. Accordingly, the health insurance deduction may show up as a line item on the 2010 versions of Schedule C instead of as an adjustment on Form 1040.

For 2009 and earlier years, health insurance reduced income tax only; it did not reduce the self-employment tax. For 2011 and later years, the health insurance deduction will revert back to being deducted only against the income tax, unless Congress decides to extend this particular tax break.

New Information Reporting for Rental Property Expense Payments starting January 1, 2011

Starting January 1, 2011, if you receive rental income from real property, you will be required to file information returns (1099-MISC) to the IRS and to service providers reporting payments of \$600 or more during the year for rental property expenses.

In general, there is an exception for individuals renting their principal residences from the reporting requirements.

What does this mean to you? If you have rental property and use contract labor to provide services to your property, you will need to start tracking the total amount paid to each contractor during the year so 1099-MISCs can be issued in early 2012. You will also need to secure the address and social security number of each contractor.

New Basis Reporting Requirement starting January 1, 2011

Most stock purchased in 2011 and all stock purchased in 2012 and later years will require reporting of basis and other information by stock brokers and mutual fund companies at the time of sale. The reporting will be to investors and the IRS. This additional reporting will be optional for stock purchased prior to these dates.

Form 1099-B, *Proceeds from Broker and Barter Exchange Transactions*, used to report sales prices, will be expanded in 2011 to include the cost or other basis of stock and mutual fund shares sold or exchanged during the year. The expanded form will also be used to report whether gain or loss realized on these transactions is long-term or short-term. The expanded form, to be first used for calendar-year 2011 sales, must be filed with the IRS and furnished to investors in early 2012.

What does this mean to you? Starting in 2011, when you sell stock purchased in that year or later you will be required to tell your broker or mutual fund company which shares to sell as those will be the shares reported on the 1099-B. Most companies will use a first-in, first-out methodology if specific shares are not indicated.

2011 Social Security Wage Base

The Social Security Administration announced that the wage base for computing the social security tax (OASDI) in 2011 remains unchanged at \$106,800. The Social Security Administration has also announced that there will be no cost of living adjustment (COLA) for recipients of social security benefits in 2011.

2011 Pension Limits

The IRS announced cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2011. In general, these limits will either remain unchanged, or the inflation adjustments for 2011 will be small. Highlights include:

- The elective deferral limit for employees who participate in section 401(k), 403(b), 457(b) plans, or the federal government's Thrift Savings Plan remains unchanged at \$16,500.
- The catch-up contribution limit under those plans for those age 50 and over remains unchanged at \$5,500.
- The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are active participants in an employer-sponsored retirement plan and have modified adjusted gross incomes between \$56,000 and \$66,000, unchanged from 2010.

For married couples filing jointly, in which the spouse who makes the IRA contribution is an active participant in an employer-sponsored retirement plan, the income phase-out range increases to \$90,000 to \$110,000. For an IRA contributor who is not an active participant in an employer-sponsored retirement plan and is married to someone who is an active participant, the deduction is phased out if the couple's income is between \$169,000 and \$179,000.

- The AGI phase-out range for taxpayers making contributions to a Roth IRA increases to \$169,000 to \$179,000 for married couples filing jointly. For singles and heads of household, the income phase-out range increases to \$107,000 to \$122,000. For a married individual filing a

separate return who is an active participant in an employer-sponsored retirement plan, the phase-out range remains \$0 to \$10,000.

As always, please call or email with any questions. And as Thanksgiving is just a few weeks away, please know that I am thankful for the opportunity to help you with your taxes and financial decision making. I truly appreciate your business.

Best regards,
Lisa