

THE PILLERI ROMANO REPORT 2011

Zero Governors Avenue, Suite 29
Medford, MA 02155

Telephone (781) 350-4833
www.pilleriromano.com



Occupy Taxes:

With all the "Occupy Wall Street" goings on this year, have you figured out if you are in the 1% or 99%? To be in the top 1% of all American income earners you would have had to earn about \$344K per year. That 1% group of about 1.4 million Americans paid 37% of all the taxes collected by the IRS.

If you earned over \$32K, you are in the top 50% of earners. All these people paid a combined 98% of all the taxes collected by the IRS.

The 70 million people in the bottom half of earners (making less than \$32K) paid 2% of all the taxes collected by the IRS.

Who knew the middle class gets tax breaks?

Individual Retirement Accounts: If you are enrolled in a workplace retirement plan (such as a 401k), you can only take advantage of a deductible traditional IRA contribution if you are single and make less than \$66K, or if you are married and make combined incomes of less than \$110K. There is a special phase-out provision for spousal IRAs for incomes between \$169K and \$179K. The phase-out ranges for Roth-IRA contributions are \$107K to \$122K for singles, and \$169K to \$179K for those that are married.

Child Tax Credit: You receive a tax credit (unlike a deduction, a tax credit is a dollar-for-dollar reduction of your tax liability) for your dependent child until he or she reaches age 17. The nice thing about this credit is that whether your baby is born on January 1 or December 31, you qualify for the full \$1,000 tax credit. This credit completely phases out if you are single or head-of-household with over \$75K of income or married filing joint with income above \$110K. This credit is refundable, so even if the credit is larger than your tax liability, you will receive a check from the IRS for the difference.

Savers Tax Credit: Never heard of it? Most people haven't. Only single people making under \$28,250 and married couples making under \$56,500 combined qualify for this credit. This credit is from 10% to 50% of the amount contributed to an IRA or 401k, up to a maximum credit of \$1,000 for singles and \$2,000 for married couples. Taxpayers under age 18, full-time students, and those claimed as dependents on their parents' tax returns are not eligible for this credit.

Earned Income Tax Credit: Since your earnings need to be very low to qualify, this tax credit is for people trying to

We can help with your taxes

enter the middle class, but it is significant. The credit ranges from \$464 to \$5,751, depending on how many children you have. When we prepare your tax return, we will calculate this credit for you if you qualify. Like the child tax credit previously discussed, this credit is refundable. You could receive this money after you file your income tax return. Unfortunately, many people who qualify never get this money because they never file a tax

return.

Zero Tax on Long-term Capital Gains and Qualified Dividends: For singles, if your taxable income is \$34,500 or lower, and for married couples with taxable income at \$69,000 or below, you will pay no capital gains tax on long-term capital gains or qualified dividend income. For those in the 25% tax bracket and above, the top capital gains tax and qualified dividend rate is 15%, still a bargain.

New for 2011:

Cost Basis: For 2011, brokers must begin tracking the purchases of stock, real estate investment trusts and foreign securities for their clients and also report the cost basis to them and to the IRS when each asset is sold. The rules for investments in mutual funds, bonds, options and many exchange-traded funds will take effect after 2011.

Flexible Spending Accounts (FSAs): For 2011, FSAs may no longer be used to pay for many over-the-counter medicines (except for insulin), unless you get a prescription. FSAs may still be used for other medical items such as crutches, contact-lens solution, or a wig if you undergo chemotherapy, if your FSA plan allows those uses.

Weird Taxes:

- In New Jersey, you can buy a pumpkin sales-tax free, but if it is carved into a Jack-O-Lantern the standard state sales tax applies.
- In Chicago, if you buy a soft drink in a glass or cup, you pay a 9% soda fountain tax. However, if it's in the bottle, the tax is 3%.
- In Ohio, if you have your makeup put on at a salon, you will be charged a "makeup tax." But there is no makeup tax when it is applied in a funeral home on a cadaver. People are dying for tax-free makeup!!!

*Season's Greetings and Best Wishes
for the New Year!*