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CLIENT NEWSLETTER

FALL-2011

If you've been following the news lately, you know that because of the political stalemate in Washington, there is almost no tax news of significance to report. Who knows what may happen later in the year. (Remember that in 2010 Congress enacted a huge tax bill on December 22.) While President Obama's recent tax proposals are interesting and controversial, we're not going to write about them if and until, they are close to becoming reality. As is normal when a President puts forth a tax proposal, this one will undergo numerous changes before it passes, if it passes at all.

Auto Mileage Rates:

Because of the high price of gasoline and diesel fuel, the IRS increased the flat mileage rates for business, medical, and moving use of a vehicle. Usage between January 1 and June 30 will be at 51¢ per mile for business use and 19¢ for medical and moving expenses. From July 1 to December 31 the rates are 55.5¢ and 23.5¢ respectively. (The charitable mileage remains fixed by Congress at 14¢.)

Social Security is Taxed in Connecticut on the same basis as for Federal purposes, except for joint returns with income under $60,000 and single returns with income under $50,000 which remain exempt from tax on Social Security benefits. This is effective for 2011.

Medicare Annual Enrollment for 2012 is earlier, running from **October 15 to December 7, 2011**. In previous years the Enrollment period ran from November 15 to December 31. This is the annual opportunity for Medicare recipients to change their Part B coverage (Medical/Hospital Supplement) and Part D (Drug) coverage. If you are already covered, you will receive mail from your present insurance company and others. For questions about enrollment call 800-633-4227 or go to www.medicare.gov.

Medical Flexible Benefits Account can now cover non-prescription drugs. Check with your employer to see if your plan covers this, and the requirements for submitting claims.

"Business" Credit Cards:

Have you received offers in the mail to "upgrade" your personal credit card to a "business" card? There's a good reason why banks are pushing these cards. "Business" credit cards are exempt from many of the new laws protecting consumers from various predatory banking practices, such as increasing your interest rate to exorbitant levels, and making those changes apply to already existing balances. So resist the urge to accept, and stick with your non-business card. By the way, merchants are forced to pay about twice the normal processing fees when they accept "business" cards on the (dubious) grounds that these cards have higher levels of fraud.

IRS 2011 Statistics on Income (based on 2008 returns)**:**

- For 2008, **individuals filed** 142.5 million tax returns. Of those returns, 90.7 million (or 63.6 percent) were taxable, which means that the taxpayer reported total income tax greater than zero. Adjusted gross income (AGI) reported on taxable returns was almost $7.6 trillion, while total income tax was $1 trillion.
- For tax year 2008, 23 million individual taxpayers who itemized deductions reported $40.4 billion in deductions for **non-cash charitable contributions**.
- More than 24,000 **tax-exempt government** bonds and more than 3,400 tax-exempt private activity bonds were issued in 2008, raising more than $469 billion for state and local governmental units.
- For tax year 2006, **foreign corporations** controlled by U.S. multinational corporations held $11.7 trillion in assets and reported receipts of $4.8 trillion. The income of these foreign subsidiaries is usually untaxed by the U.S. until the earnings are brought back ("repatriated") to the U.S. There has been intense lobbying by U.S. multi-nationals to allow these overseas profits to be repatriated tax-free.
- The IRS expects that individual and business taxpayers will file **236.6 million tax returns** during calendar year 2011.
- You can download the full Statistical Report at www.gov/taxstats.

Basic Documents Everyone Should Have:

Regardless of age, anyone can become critically ill or injured, or die. Do you have these documents:

1. **Living Will** states that you do not want extraordinary or heroic efforts to be used to save your life if you are in a vegetative (or similar) state, and there is little or no hope of resuming a near-normal life.
2. **Health Care Power of Attorney** authorizes one or more people to make medical decisions for you if you are unable to do so.

   Note: In New York State, the above two documents are combined into a "Health Care Proxy".

3. **Durable Power of Attorney** authorizes one or more people to make financial, legal, and other decisions for you if you are unable to do so.

4. **Last Will and Testament** determines who gets your property when you die.

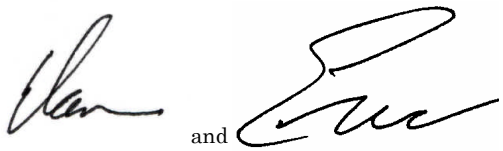
We strongly recommend that everyone, regardless of age, have these documents prepared by a competent attorney, and reviewed and updated periodically as circumstances change.

As We Went to Press:

An article entitled "A Tax Plan that Might Not Be So Painful" appeared in the September 24 Business Section of The New York Times. For the full article go to http://www.nytimes.com/2011/09/24/your-money/taxes/obama-tax-plan-could-be-a-wash-for-some-high-earners.html?_r=1&scp=1&sq=A%20tax%20plan%20that%20might%20not%20be%20so%20painful&st=cse.

To summarize: The article (with computations by the large New York City CPA firm Berdon, LLC) concludes that a couple earning $350,000 per year with deductions that are fairly typical for people living in large metropolitan areas such as New York, Chicago, Los Angeles, etc. would pay almost the same tax under President Obama's proposals as they do under existing law ($66,981 under the Obama *proposals* versus $65,604 under *current law*, a difference of $1,377 or 2.1%). The primary reason is the Alternative Minimum Tax ("AMT") to which the couple is subject under *current law*. Under the *proposed law*, their higher normal income tax would take them out of the AMT because normal income taxes are a deduction in computing AMT. Very interesting; only time will tell.

Watch for more tax changes in 2011. Our News Flashes and Newsletters are posted on our website www.famtax.com.

Please feel free to call or write if you have any questions.

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