



January 2012 Issue

A monthly publication of J. P. Kane & Co., LLC

News YOU Can USE

WE HAVE MOVED

Yes, that is right. We made a strategic decision in an effort to better serve our clients. With this move, we will be easy to get to and we will have ample parking.

So, where is 7303 Quality Circle It is in the Flagship office park, just off of Exit 22; from Martin Luther King Blvd., turn west on 73rd Street to the second street, which is Quality Circle. Ours is the first building on the right, and you will see our name on the east end of the building. **(Please take note of the attached map for directions)**

PAYROLL TAX CUT

At the eleventh hour, Congress approved an extension of the employee-side payroll tax cut in the Temporary Payroll Tax Cut Continuation Act of 2011. The extension, for January and February 2012, is intended to give lawmakers additional time to negotiate a full-year extension of the payroll tax cut through the end of 2012. **(Continued on Page 2)**

2012 RETIREMENT CONTRIBUTION AND OTHER LIMITATIONS

The IRS recently announced cost-of-living adjustments affecting the dollar limitations for retirement plans, deductions, and other items. Some of the limitations will increase for 2012 because the increase in the cost-of-living index met the statutory threshold. However, many limitations did not meet that threshold and remain unchanged from 2011.

The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan increased from \$16,500 in 2011 to \$17,000 in 2012. The catch-up contribution limit for those aged 50 and over remains unchanged at \$5,500. **(Continued on Page 4)**

Disclaimer: Any tax advice contained in the body of this newsletter was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

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PAYROLL TAX CUT (Continued from Page 1)

OASDI tax rate. Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) program and Medicare's Hospital Insurance (HI) program are financed primarily by employment taxes. Prior to 2011, the OASDI tax rate was 6.2 percent for employees and employers, each; and the OASDI tax rate for self-employment income was 12.4 percent.

OASDI limits the amount of earnings subject to taxation for a given year. This limit changes each year with changes in the national average wage index. For 2011, the OASDI wage base was \$106,800. The OASDI wage base is \$110,100 for 2012. There is no limitation on HI-taxable earnings.

2011 temporary reduction. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reduced, for wages and salaries paid in 2011 and self-employment income in 2011, the OASDI tax by two percentage points, applied to the portion of the tax paid by the employee and the self-employed individual (4.2 percent and 10.4 percent, respectively). The employee-side payroll tax cut under the 2010 Tax Relief Act was scheduled to expire after December 31, 2011.

Two-month extension. On December 23, 2011, Congress approved and President Obama signed a two-month extension of the employee-side payroll tax cut. The Temporary Payroll Tax Cut Continuation Act of 2011 extends the two percentage point employee-side payroll tax cut through the end of February 2012.

Recapture. Shortly after President Obama signed the Temporary Payroll Tax Cut Continuation Act, the IRS explained that the new law includes a recapture provision, which applies to individuals who receive more than \$18,350 during the extension period. The OASDI wage base for 2012 is \$110,100, and \$18,350 represents two-months of the full-year amount. The recapture tax would be payable in 2013 when the employee files his or her income tax return for the 2012 tax year. The House Ways and Means Committee reported that the recapture provision will only apply if the payroll tax reduction is not extended for the remainder of 2012.

Implementation. The IRS instructed employers to implement the reduced payroll tax rate as soon as possible in 2012 but no later than January 31, 2012. For any Social Security tax over-withheld during January, employers should make an offsetting adjustment in employees' pay as soon as possible but no later than March 31, 2012, the IRS advised.

If you have any questions about the payroll tax cut, please feel free to contact our office.

HIGHER EDUCATION COSTS CONTINUE TO ESCALATE

The cost of attending college continues to increase. The College Board (www.collegeboard.com) recently reported that 2011–2012 tuition and fees have risen significantly. For example, the cost for tuition and fees at private nonprofit four-year colleges and universities is up 4.5% from 2010–2011 to an average of \$28,500. Similar published costs to attend for-profit institutions are up 3.2% from last year to \$14,487.

The College Board indicates the average cost to attend public four-year colleges and universities is up 8.3% from last year to \$8,244 for in-state tuition and fees. For out-of-state students, the cost is up 5.7% to an average of \$20,770. Tuition and fees costs at public two-year colleges are up 8.7% to an average of \$2,963.

On the bright side, the College Board indicates subsidies provided to students through the combination of education tax credits and deductions increased to an estimated \$14.8 billion in 2010–2011.

OPERATING A BUSINESS AS AN LLC

Entrepreneurs have many questions and concerns when starting a business, not the least of which is related to minimizing their legal liability. In many cases, operating a business as a Limited Liability Company, more commonly known as an LLC, may be the best way to limit the liability for both the business and owner(s) and provide tax benefits as well. (Some other entity choices include a proprietorship, partnership, or corporation.)

An LLC combines the limited liability of a corporation with the flexibility of a partnership, while avoiding the limitations on ownership and single class of stock rules applicable to S Corporations. An LLC with more than one member is taxed as a partnership for federal income tax purposes, unless it elects to be taxed as a corporation. This allows the members to allocate income and loss in any manner that has substantial economic effect. While enjoying this flexibility is normally available only to partnerships, LLCs also offer their members limited liability with respect to almost all LLC debts. However, a member in a professional LLC is still liable for his or her own misconduct and for the misconduct of anyone he or she supervises.

A single-member LLC is disregarded as an entity separate from its owner for tax purposes, or it can elect to be taxed as a corporation. A business conducted in a disregarded entity (DE) owned by an individual is taxed as a sole proprietorship. A business conducted in a DE owned by a corporation, partnership, or another LLC is treated as a branch or division of the owner. Once again, there is no separate entity taxation.

In most states, LLCs offer limited liability similar to that provided by corporations. This means members of an LLC generally are not liable for its debts or liabilities. By way of comparison, at least one partner must be a general partner who is liable without limitations for the debts of a limited partnership. As with a corporate shareholder or limited partner, the LLC member's liability to the LLC itself is generally limited to any required but unpaid capital contributions.

LLCs have an important asset protection advantage over corporations. A member's creditors generally cannot gain full ownership of the member's LLC interest. Instead, a creditor may be able to obtain a charging order, which conveys the right to receive distributions. But other ownership attributes, such as right to vote or sell the LLC interest to satisfy the creditor's claims, normally are not available to the creditor. In contrast, creditors of a shareholder can generally obtain full ownership of the stock, usually without any restrictions on the ability to vote or sell the stock.

We would encourage consultation with an attorney in any business formation issue.

QuickBooks® Corner QuickBooks® is a registered trademark and/or registered service mark of Intuit, Inc.

New Local Tax Reports – Indiana local tax has been a problem for employers using QuickBooks who need subtotals by county for reporting purposes. Intuit has added a new option on the employee card to set up the specific county, which will enable a new Excel report to summarize by county. On the employee card, go to the *Payroll & Compensation Info* tab, click on *Taxes*, and then click *Other*. Select *IN – Counties Tax* in the Item Name field, and select the county in the drop-down list at the bottom of the screen. To generate the report, go to *Reports > Employees & Payroll > More Payroll Reports in Excel > Local Tax Summary*.

If you would like to purchase the newest version of QuickBooks at a 20% discount, simply visit our website (www.jpkanecpa.com) and click the "QuickBooks Resources" link in the Resources section at the bottom of our homepage.

We always appreciate your comments on our work, these newsletters, the web site, or anything else concerning our services. Please email us at Shelly@jpkanecpa.com to let us know your feelings and comments.

2012 RETIREMENT CONTRIBUTION AND OTHER LIMITATIONS (Continued from Page 1)

You can contribute up to \$5,000 (\$6,000 if you are age 50 or older by year-end) to your IRA in 2012 if certain conditions are met (i.e., sufficient earned income). The IRA contribution limit is unchanged from 2011. For married couples, the combined contribution limits are \$10,000 (\$5,000 each) and \$12,000 (\$6,000 each if both are age 50 by year-end) when a joint return is filed, provided one or both spouses had at least that much earned income. Keep in mind that contributions to traditional IRAs may be tax-deductible, subject to specific limitations that increase for 2012.

When you establish and contribute to a Roth IRA, contributions are not deductible, but withdrawals are tax-free when specific requirements are satisfied. In addition, there are no mandatory distribution rules at age 70½ with a Roth IRA, and you can continue to make contributions past age 70½ if you meet the earned income requirement.

The 2012 limitation for SIMPLE retirement accounts remains unchanged at \$11,500. Likewise, the SIMPLE catch-up contribution for those age 50 by year-end is unchanged from 2011 at \$2,500.

The 2012 contribution limit for profit-sharing, SEP, and money purchase plans is the lesser of (1) 25% of the employee's compensation—limited to \$250,000, an increase of \$5,000 from 2011 or (2) \$50,000, an increase of \$1,000 from 2011.

The social security wage base for computing the social security tax (OASDI) increases to \$110,100 in 2012, up from the \$106,800 wage base for 2011. The additional \$3,300 for 2012 represents an increase of about 3% in the wage base.

Finally, the annual exclusion for gifts remains unchanged at \$13,000 in 2012.

TAX CALENDAR

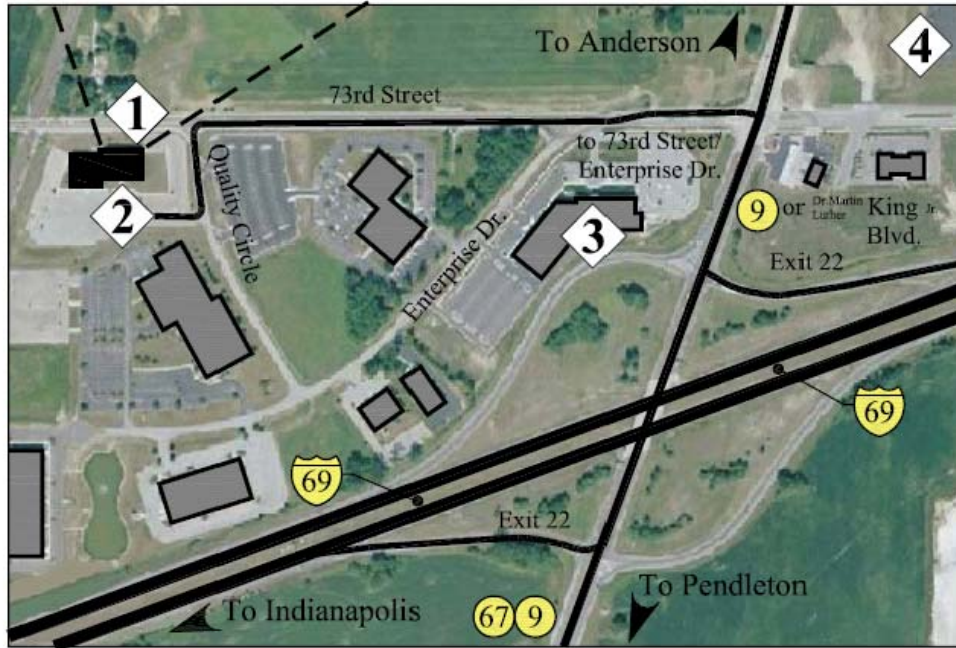
- January 17—Individual taxpayers' final 2011 estimated tax payment is due unless Form 1040 is filed by January 31, 2012, and any tax due is paid with the return.
- January 31—Give your employees their copies of Form W-2 for 2011. If an employee agreed to receive Form W-2 electronically, have it posted on the website and notify the employee.
 - Give annual information statements to recipients of certain payments you made during 2011. You can use the appropriate version of Form 1099 or other information return. Form 1099 can be filed electronically with the consent of the recipient.
- February 28—The government's copy of Form 1099 series returns (along with the appropriate transmittal form) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to April 2.
- February 29—The government's copy of Form W-2 series returns (along with the appropriate transmittal form) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to April 2.
 - File Form W-3 (Transmittal of Wage and Tax Statements) along with Copy A of all the Forms W-2 you issued for 2011. If you file Forms W-2 electronically, your due date will be extended to April
- March 15—2011 income tax returns must be filed or extended for calendar-year corporations. If the return is not extended, this is also the last day for calendar-year corporations to make 2011 contributions to pension and profit-sharing plans.



Introducing the new office location for the
 Certified Public Accounting firms:
J.P. Kane & Co., LLC
 and
Winegardner & Associates

7303 Quality Circle

Anderson, IN 46013



- 1** *New location for:*
J.P. Kane & Co., LLC
 (765) 640-1211
 info@jpkane CPA.com
- 2** *Parking*
- 3** *Flagship Enterprise Center*
- 4** *Central Indiana Orthopedics Center*

Winegardner & Associates
 (765) 644-9248
 davidw@winegardnercpa.com



From Anderson:

- Head South on Martin Luther King Blvd/Highway 9 to The Flagship office park , 73rd Street/Enterprise Drive
- Turn right on 73rd Street/Enterprise Drive
- Keep in the right lane on 73rd Street
- Turn left on Quality Circle
- You will see our building on your right side, with the name J. P. Kane & Co., LLC on the building

From Muncie/Indianapolis:

- Take I-69 to Exit 22
- Turn north off on to Highway 9 (Martin Luther King Blvd) toward Anderson to the first stop light, which is The Flagship office park, 73rd Street/Enterprise Drive
- Turn left on 73rd Street/Enterprise Drive
- Keep in the right lane on 73rd Street
- Turn left on Quality Circle
- You will see our building on your right side, with the name J. P. Kane & Co., LLC on the building