



Subject: Hit Your Tax Targets for 2011!

Now is the time for both employees and employers to make sure they will reach their payroll, tax and financial objectives for calendar year 2011. The following items should be reviewed for possible action steps before December 31, 2011.

Are your tax withholdings on track?

Now is the time for every employee to review their 2011 payroll income tax withholdings to prevent April 15, 2012 “tax surprises”. This is particularly important for business owners and households in which both spouses are employed. The IRS has an excellent “withholding calculator” employees can use at www.accumypay.com. AccuPay would be pleased to adjust your remaining 2011 tax withholdings upon your instruction.

On track to meet your retirement funding objective?

An employee can contribute up to \$16,500 this year from payroll as “elective deferrals” to their 401(k) and 403(b) retirement accounts. If an employee is at least age 50 by 12/31/11, an additional \$5,500 can be contributed as a “catch-up” contribution. If you are participating in a SIMPLE-IRA plan through your employer, the maximum 2011 employee contribution amount is \$11,500, plus \$2,500 as an additional “catch-up” for those at least age 50.

Review your year-to-date payroll details to determine if you will “hit” your retirement plan targets for 2011.

HSA targets on track for 2011?

Maximum permitted funding for 2011 to health savings accounts is \$3,050 for a “self-only” HSA and \$6,150 for a “family” HSA. For those employees at least age 55 this year, you can add an additional \$1,000 to your maximum allowable 2011 HSA funding.

These HSA funding limits are the total combined amounts which can be contributed by an employee plus any employer matching contributions.

Flexible spending accounts (FSA’s)

Those employees who are enrolled in employer “flexible spending account” programs should review their 2011 FSA contributions, how much they have spent, and how much remains to be spent by year-end (or a later “grace period date” early 2012 if the employer plan includes a grace period). Your objective should be to spend all payroll funding to your FSA accounts for your 2011 year.

College Choice 529 plan funding

For employees whose employers are sponsoring Indiana College Choice 529 plan payroll deduction plans, the State of Indiana provides an Indiana resident with an income tax credit in the amount of 20% of up to \$5,000 of Indiana 529 education plan funding, per household. Essentially, if a household contributes \$5,000 into an Indiana 529 education plan, the State of Indiana gives you \$1,000 back in the form of a tax credit on your 2011 personal tax return.

AccuPay can help an employer set-up a payroll deduction 529 plan as a no-cost employer – sponsored fringe benefit plan for employees. Contact AccuPay for program details.

Family members on the payroll?

If a business owner has children or parents who provide services to their business, putting them “on the payroll” saves income taxes if the children or parents are in a lower income tax bracket than the business owner. The business should pay wages which are consistent with the value of the services, based on time spent and job complexity. For 2011, a child can earn up to \$5,800 in wages without paying any Federal income tax. If the business sponsors a 401(k) or SIMPLE-IRA plan, consider paying your spouse “on the payroll” so that he/she can also participate in your business retirement plan for 2011.

Reimburse employee business expenses

Now is the time for employees to identify if you have unreimbursed job expenses which are reimbursable by your employer. If your employer uses the “cash basis” of tax accounting, they generally should reimburse you by 12/31/11 for a year 2011 business tax deduction.

“S” Corporation payroll tax planning

Based on IRS announcements and positions they have taken within the last few years, it is essential that “S” corporation owner - employees have their medical insurance premiums either paid directly by the “S” corporation or personal health insurance premiums reimbursed by the “S” corporation. Health insurance premiums paid personally by the “S” corporation owner-employee and not reimbursed will not be eligible for the “self-employed health insurance deduction”. **Make sure all employed owners of a “S” corporation have been reimbursed for their premiums by 12/31/11 (if not directly paid by the “S” corporation).**

“S” corporation “reasonable compensation”

“S” corporations which are profitable are required to pay “reasonable compensation” to their owner-employees. If you own a profitable “S” corporation and have taken little or no wages to date in 2011, consult with your tax advisor as to “catching up” your compensation to a “reasonable level” by 12/31/11.

In conclusion

Call one of AccuPay’s “CPP/CPA advisor service teams” at 885-7600 to discuss any questions or comments you have about payroll tax planning adjustments we can implement for you before year-end 2011.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.