The Bankler Report

December 1, 2010

INTRODUCTION

Several important tax law changes become effective January 1, 2011.

Flexible Spending Accounts, Medical Savings Accounts, Medical Reimbursement Accounts, etc.

Effective January 1, 2011, medical reimbursement plans can ONLY COVER prescription drugs (with the exception of insulin).

Effective January 1, 2013, the maximum allowed to be covered by these plans will decrease to $2,500.

Advanced Payment of Earned Income Tax Credit.

Prior to December 31, 2010, qualified employees could request an employer advance their Earned Income Tax Credit in their paychecks. Effective January 1, 2011, this credit is no longer available to be included in an employee's paycheck in advance of their tax filing.

Businesses Must Pay IRS Taxes Electronically.

Businesses must deposit all depository tax (such as employment tax, excise tax, and corporate income tax) electronically in 2011 using the Electronic Federal Tax Payment System (EFTPS). The Federal Tax Deposits Coupon, Forms 8109 or 8109-B, cannot be used after Dec. 31, 2010.

Tax Deferral on Roth IRA Conversions Ends.

In the Tax Increase Prevention and Reconciliation Act of 2005, Congress suspended normal Roth IRA rules so taxpayers earning more than $100,000 modified adjusted gross income, and with any tax-filing status, could roll over assets from a traditional IRA to a Roth IRA. In 2010 conversions only, however, taxpayers have a one-time option to spread the income equally between the 2011 and 2012 tax returns (at applicable tax rates). Effective January 1, 2011 the rule reverts back to where all the tax is owed in that year. Roth IRAs aren't subject to the same minimum distribution requirements that traditional IRAs are, so taxpayers do not have to begin withdrawals from their Roth IRA at age 70½. However, non-taxable distributions cannot be made within the five-year period beginning with the first tax year the contribution to the Roth was made. In addition, the 59½ age rule applies.

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