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CPS in the News

Events this month

CPS First Thursdays:

Maintain Your Brain: Age Related Changes vs. Dementia

CPS Investment Advisors

1509 S Florida Ave

Lakeland, FL 33803

Date: 07/07/2011

11:30 am—Lunch Provided

Contact us for more information

Time to Refinance and Mid-Summer Tax Update

Well, here we are in the middle of the rainy season and after that torturously hot May and June, I for one am thankful for the recent rain and cloud cover. While the temperature outside is constantly changing one thing seems to remain the same.....Congress continues to prefer inaction to a proactive approach to expiring tax provisions. This time, the FUTA surtax that has been around since 1976 has expired as of June 30, 2011 and as of the date of this publication, no action has been taken to renew the surtax nor does there seem to be any movement in Congress to fix the problem.

But first things first:

Time to Refinance.....

To many of us, the mention of QE2 instantly brings us to daydream about an exotic cruise around the world. However, in November of 2010, 'QE2', or quantitative easing 2, was also the Federal Reserve's decision to pump \$600 billion (yes, that's U.S. Dollars) into the economy through its purchase of long-term Treasuries. Without getting into a political or technical discussion, what this meant was that the Treasury has kept interest rates artificially low over the past 6 to 7 months. All indications are for interest rates to start creeping back up soon. And for those that like to bottom fish, according to Freddie Mac's Weekly Mortgage Market Survey®, rates currently sit at 3.69% for 15 year fixed and 4.51 for 30 year fixed. This is literally a once in our lifetime opportunity to have access to rates this low. Lowering the rate on your mortgage can save you thousands of dollars over the long run and possibly free up immediate cash flow.

Like every financial decision, there are reasons for and against refinancing so this is an ideal opportunity to meet with your financial advisor to discuss whether or not this opportunity makes sense for you.

FUTA surtax no longer in effect

Beginning July 1, the 0.2% federal unemployment tax (FUTA) surtax is no longer in effect. The surtax was part of the 6.2% gross unemployment tax rate that employers pay on the first \$7,000 of wages paid annually to each employee (6% permanent tax rate, 0.2% temporary surtax).

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The surtax had been in effect in every year since 1976, when it was enacted by Congress on a temporary basis. The FUTA tax rate, before consideration of state unemployment tax credits, is 6.0%, *effective July 1, 2011.*

So what does this mean for employers?

Employers need to separately track FUTA taxable wages paid before July 1, and FUTA taxable wages paid after June 30, since the FUTA tax rates are different during those two periods. Employers whose FUTA tax is more than \$500 for the calendar year need to make quarterly FUTA deposits. The next quarterly payment is due on July 31, but that payment is based on taxable wages earned through June 30, so it will be computed using the 6.2% FUTA tax rate. However, the payment after that is due on Oct. 31, 2011, and it may be computed using the 6.0% FUTA tax rate if legislation is not enacted to retroactively reinstate the FUTA surtax beginning July 1, 2011.

The IRS is working on revising Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, to take into account the elimination of the surtax. That return must be filed in January 2012.

There have been mixed signals from Washington on whether legislation will be introduced to retroactively reinstate the surtax.

IRS Raises Standard Mileage Rate for 2nd half of 2011

In response to rising gasoline prices, the IRS has raised the standard mileage rate for business use of an automobile from 51 cents per mile to 55½ per mile, effective July 1, 2011. The medical and moving standard mileage rate is increasing to 23½ per mile, also on July 1, 2011.

The new optional standard mileage rates will apply until superseded by future guidance and can be used by taxpayers to calculate the deductible costs of operating an automobile. Alternatively, taxpayers can instead use their actual costs, but must maintain adequate records. Under either method, the taxpayer must be able to substantiate their expenses.

The standard mileage rate for services to charitable organizations is set by statute at 14 cents per mile and remains unchanged.

Don't forget to save for retirement!

As we pass the midway point in the year, now is a great time to make sure you are on track to maximize your 401(k) deferral or IRA contributions for 2011. The contribution rates for 2011 are the same as they were for 2010. For 401(k) deferrals, the limit is \$16,500 (plus an additional \$5,500 if you're 50 and over) and for traditional IRA contributions the limit remains at \$5,000 (plus an additional \$1,000 if you're 50 and over). A mid year raise or cost of living adjustment is the perfect opportunity to increase your contribution amount without decreasing your take-home cash flow.

Obtain Professional Advice

A CPA tax professional understands the business of taxes and finances and can provide trusted advice and services during the tax season and throughout the calendar year. Should you have any questions or need further clarification on any of the new changes, please contact a member of the CPS Group CPA's team to help you.

Sources: *Journal of Accountancy*; RIA—Checkpoint; Freddie Mac® website