

# July 1, 2011 Tax Rate Changes

## Federal Unemployment (FUTA)

**Summary.** Congress has announced that the 0.2% FUTA surcharge will expire on June 30, 2011. Employers have been required to pay a flat rate of 6.2% on the first \$7,000 of each employees' annual wages for FUTA. The 6.2% FUTA rate included a temporary 0.2% surcharge which was first added in 1970's. The FUTA rate will be reduced from 6.2% to 6.0% effective July 1, 2011. Employers will still receive the 5.4% credit for paying state unemployment on time, reducing the net FUTA Rate to 0.6% on wages paid up to the annual limit of \$7,000.

The net FUTA rate for the first six months wages will remain at 0.8% and effective July 1, 2011, the rate will be 0.6%.

The IRS is currently revising the annual Form 940 to accommodate the two different FUTA rates for the 2011 calendar year. The IRS advises you track separately January through June and July through December 2011 liabilities.



## Modified Business Tax

**Prior Rates.** In 2009, a tiered system was created for the Modified Business Tax. Under this system, taxable wages for the calendar quarter not exceeding \$62,500 were taxed at a rate of 0.5% and any taxable wages exceeding \$62,500 were taxed at a rate of 1.17%.

**Modified Business Tax Reduction.** Effective for wages paid beginning July 1, 2011, taxable wages for the calendar quarter not exceeding \$62,500 are no longer subject to Modified Business Tax. The tax rate for any wages exceeding \$62,500 after health care deductions will remain at 1.17%. This puts a floor on quarterly taxable wages before the tax is imposed.



A tax return will still need to be filed, even if taxable wages are less than \$62,500, and tax due is \$0. This change only applies to General Business returns. Any business classified as a Financial Institution continues at the old rates.

The first tax return under the new tax rates will be due October 31, 2011 covering the wage period July 1 through September 30, 2011.

## Mileage Rates

**Summary.** In response to recent increases in gasoline prices, the IRS announced on June 23, 2011 an increase in the optional standard mileage rates used by taxpayers to compute the deductible costs of using an automobile for business and other purposes.

**New Rates.** Effective July 1, 2011, the rate will increase from 51 cents to 55.5 cents a mile for all business miles driven for the rest of the year. The new rate for calculating deductible moving and medical costs will also increase from 19 cents to 23 cents per mile. However, the mileage rate for giving service to charitable organizations will remain at 14 cents a mile. Instead of using these standard mileage rates, you still have the option of calculating your actual vehicle costs. Remember that even if you use actual vehicle costs, you are still required to track business and total mileage.



**Record Keeping.** It is important to keep track of your business mileage throughout the year because the IRS requires the record to be contemporaneous. The gold standard – a log kept in your car and filled out each time you drive – is difficult to meet for most people. Find a system that works for you. Office supply stores sell mileage logs; there are smart-phone applications that use GPS; even a spiral notebook updated monthly would be miles ahead if you aren't doing anything now. By keeping track of your business miles you may be able to deduct them on your tax return. Also, in the case of an IRS audit, the log is used to document the business miles driven and support the deduction.

After documenting your vehicle mileage using one of the methods above you will be more prepared for tax time and have good records not only for your CPA, but for Uncle Sam if he comes knocking.

*Please give us a call if you have any questions.*

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