



Your success is our business!

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Does your accounting system need a makeover?



We have experienced staff that can help guide you to a software solution to fit your needs.

Several of our accountants and bookkeepers are QuickBooks® Certified Pro Advisors.

If QuickBooks® isn't right for your business, we also work with other accounting packages. There are many options available depending on your size, industry, accounting experience, and budget. We can help you find the right system to run your business more efficiently and effectively.

IRS issues Form 1099-K for 2011

The IRS has issued Form 1099-K, Merchant Card and Third Party Network Payments. Credit card companies and other third party network payers (payment settlement entities or PSEs) must use this form to satisfy their requirement under Sec. 6050W to report payments to merchants.

Form 1099-K is required if amounts paid to a particular merchant exceed \$20,000 in gross total reportable payments AND if the total number of transactions exceeded 200 for the calendar year.

This is for all types of entities. **Please be sure to bring all forms received with you for your tax appointment.** The IRS will match these forms with the corresponding schedules as your income needs to be divided between cash sales and credit card sales for 2011 and future years.

Contact your tax accountant if you have any further questions.

10 Point QuickBooks® Checklist

1. Order W-2, W-3, 1099 and 1096 forms needed or prepare information for forms to be filed.
2. Review employee records to make sure addresses and social security numbers are correct. Review payroll items to make sure they are pointed to the right accounts, and/or payroll entries are entered accurately in the system. Review payroll liabilities for accuracy. Make sure all payroll tax quarterly reports have been filed and prepare to file Form 940 (Federal Unemployment). Be prepared to supply copies of 941's, SUTA, 940, W-2's, and W-3.
3. Check on 1099 vendors to make sure their vendor files are up to date and records are accurate. Remember 1099's need to be issued prior to January 31. Please note IRS has increased penalties for not filing 1099's timely.
4. Review the bank reconciliations for items over 3-6 months old and write them off if they have not cleared. Make sure bank reconciliations were completed for each month to date. **Remember:** do not do any entries back in any prior tax years.
5. Review the accounts receivable summary report and check all receivables over 60 days for collectability. Review receivables for credits that should have been applied to customers' accounts or deposits that were entered without closing out the Open Invoices.
6. Review the accounts payable summary report and check all payables over 60 days old and note why they haven't been paid. Review accounts payable for item receipts that should have had bills posted against them or checks that were written without closing out Unpaid Bills.
7. Review your excise, sales and use tax records to prepare for December filings and review of liability accounts. Be prepared to supply copies of December filings.
8. Review expense records to make sure major purchases are capitalized and not expensed. Note trades and whether the purchases are for new or used items. Review repair accounts for major improvements or overhauls that should be capitalized. Be sure to make sure purchases made with loans are properly recorded or reported. Review prior year depreciation schedule for sold or scrapped items.
9. Make certain that your prior year adjustments have been entered. Determine that Retained Earnings/Owner's Equity agrees with the prior year's trial balance provided by your CPA.
10. Make sure your QuickBooks file is current and send a copy of your file to your CPA for tax planning (if you haven't already done so). When providing a QuickBooks® backup please note the version and password.

Long Term Care – Who needs it?

This is a loaded question especially with all of our baby boomers aging. Statistics show that as we age 2 out of every 3 older American's need some level of care. Neither medical insurance, Medicare or Social Security are designed to pay for long term care (LTC). Did you know:

- LTC insurance can help pay for care
- LTC insurance can help retain assets
- LTC insurance can help retain independence

As with most insurance, LTC can help us manage risk. There are a large variety of policies available now. Many people believe that long-term care refers only to services provided in a nursing home. It's much more than that.. LTC can be provided by Nurses, Certified nursing assistants, physical, occupational and respiratory therapists and home health aides and homemaker services.

The following are a few ways you can pay for LTC (not meant to be an all inclusive list):

- Self-insure – make sure you have enough funds saved to pay for your care
- Medicaid/Title 19 – after you spent your assets down to \$2,000 (involves 5 year look back)
- Long Term Care Insurance
- Reallocation – Hybrid Products
- Annuity with LTC Benefits
- Life Insurance with LTC Benefits

Back to the question of “who needs it”, we tend to look the most at asset protection. The more assets you have to protect and would like to be carried down to the next generation, the more seriously you should consider LTC insurance. The more independent (perhaps picking your type of care) you'd like to be, the more important LTC insurance may be for you.

This isn't an issue for the elderly as the time to get LTC insurance (as with most insurance) is while you are younger and healthier to help control the cost of premiums.



Energy Credits



The American Recovery and Reinvestment Act of 2009 offers individual and business Energy Credit Incentives.

Individuals:

- May claim credit for 10 percent of cost up to lifetime credit of \$500, or specific dollar amount for certain items, for high energy efficient improvements such as insulating materials, windows, air conditioning systems, etc. in your existing, principal residence. Individuals generally are allowed to rely on manufacturers' certifications to determine eligibility for the credits. Expires 12-31-11. (Inclusion of installation costs may vary)
- May claim non-refundable credit for 30 percent of cost to install qualified solar energy systems, geothermal heat pumps, and wind turbines for existing or new construction principal residence or second homes. There is no dollar limit on this credit. Expires 12-31-16.
- May claim credit for 30 percent up to \$500 per .5kW of power capacity for fuel cells for existing or new construction principal residence. Expires 12-31-16.
- Vehicle tax credits are also available.
- Should maintain receipts and manufacturers' certificates for documentation. For more information on any of these credits, contact your accountant.

*There are also energy credits available for businesses that use alternative methods of producing energy.
Please contact us for further information.

Record Retention Guidelines

**For a complete list visit our website
www.elocpa.com/usefulinformation**



RECEIPTS!

If you plan to deduct an expense—keep your receipt.
The IRS can disallow expenses on an audit if you cannot produce the receipt!

Hobby Losses



The “Hobby Loss Rule” limits deductions that can be claimed when an activity is not engaged in for profit. Expenses related to such an activity can only be deducted to the extent of the activity's revenues. Not only are these deductions limited to the revenue, but they also must be claimed as miscellaneous itemized deductions on Schedule A, Form 1040. Miscellaneous itemized deductions must exceed 2% of a taxpayers Adjusted Gross Income (Line 38 of Form 1040) before they can be used, and in total, itemized deductions must exceed a taxpayers standard deduction before they can be used.

So, if your activity is determined to be an activity not engaged in for profit, there are several hurdles you will need to clear to be able to deduct any of the related expenses, and you will not be allowed to deduct more of the expenses from the activity than the revenue it produces.

There are both concrete and subjective rules to determining whether an activity is engaged in for profit. The general rule is that an activity is presumed to be for profit if it makes a profit in at least three of the last five years, including the current year. In addition the following factors may be useful in determining whether an activity is engaged in for profit –

- › Does the time and effort put into the activity indicate an intention to make a profit?
- › Do you depend on income from the activity?
- › If there are losses, are they due to circumstances beyond your control or did they occur in the start-up phase of the business?
- › Have you changed methods of operation to improve profitability?
- › Do you have the knowledge needed to carry on the activity as a successful business?
- › Have you made a profit in similar activities in the past?
- › Does the activity make a profit in some years?
- › Do you expect to make a profit in the future from the appreciation of assets used in the activity?

Ultimately, these factors have to be reviewed together to make a determination on whether your activity is engaged in for profit. The tax professionals at ELO would be happy to assist you in making this determination or providing further information on these rules.

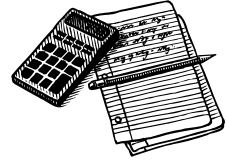
Documenting Shareholder and LLC Member Notes

Notes and loans made to the LLC or Corporation need documentation to ensure proper calculation of basis or allocation of debt if the entity ceases operations. There are many rules involved with making loans to entities, contact your accounting professional for the proper guidance.

Notes and loans made to shareholders and LLC members need to follow specific procedures and must be well documented. Failure to do so could result in the IRS taking the position that the notes/loans were made in an attempt to avoid paying income taxes on the funds.

Some questions that should be addressed and documented when making shareholder/member notes to or from the entity are:

- ◆ Extent of control or ownership of the entity?
- ◆ Was there intent to repay or receive payment of the loan/note?
- ◆ Was any security given or offered in exchange for the loan/note?
- ◆ Are there earnings or profits from which repayment can be made?
- ◆ Terms of the loan/note that include payment schedule, maturity date, interest rate?
- ◆ (care should be given to interest rates; there can be stiff penalties for rates higher than the maximum allowed by the state where incorporated or chartered)



Importance/conduct of Annual Meetings/Shareholder Meetings for Corporations and LLC's

Limited Liability Companies are required by law to hold at least one annual meeting of the managing members. Corporations are required to hold an annual shareholders meeting and a board of directors meeting. These meetings must be conducted and documented to ensure the organization is eligible to keep its limited liability or corporations status.

Attendees should be given written notification of meeting topics and location. Detailed minutes need to outline the date/time of the meeting, each topic of discus-

Small Business Health Care Credit

Qualifications:

- **Providing health care coverage** - A qualifying employer must cover at least 50 percent of the cost of health care coverage for some of its workers based on the single rate.
- **Firm size** - A qualifying employer must have less than the equivalent of 25 full-time workers (for example, an employer with fewer than 50 half-time workers may be eligible).
- **Average annual wage.** A qualifying employer must pay average annual wages below \$50,000.
- **Both taxable (for profit) and tax-exempt firms qualify.**

Credit is 35% of small business premium costs for 2011-2013 and 50% thereafter.

Ten Need to Know Items About 1099's

1. If you pay anyone \$600 or more during the year for any of the following items you should be providing them with a 1099: rent, interest, commissions, machine hire, services, contract labor, attorney's fees, etc.
2. 1099's should be provided to all individuals and entities, with the exception of corporations.
3. You should send a 1099 to all attorneys whether they are incorporated or not.
4. The dollar amount to report on the 1099 should be ONLY for services, not parts and materials, unless amounts cannot be separated.
5. 1099's need to be sent to all recipients by January 31, 2012.
6. The penalties for failing to issue a 1099 have increased substantially over the last couple of years.
7. If you have debt forgiven or cancelled it will be reported on a 1099 and is taxable income to you, unless you are insolvent.
8. If you win a prize or a trip it will be reported on a 1099 and is taxable income to you.
9. Taxpayers must report all income received whether they receive a 1099 or not
10. *If you are having ELO prepare your 1099's we request that all information be accurate, legible and to us by January 21, 2012.*

Tips: Help us help you at tax time

Before coming to your tax appointment, please locate all government forms, including W-2s, 1099s, and K-1s from partnerships and S-corporations in which you are a partner or shareholder. Other items needed may include real estate taxes, charitable contributions, records of estimated-tax payments, medical expenses (with insurance), and dependent-care expenses (including provider name, address, and Social Security Number). *Please bring all these documents with you when you come to your tax appointment.*

If you are using QuickBooks®, please bring a backup to your appointment and check out our checklist on page 1.

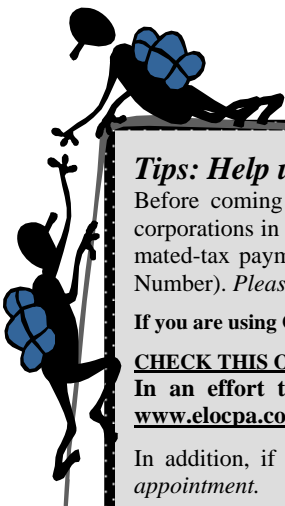
CHECK THIS OUT:

In an effort to centralize information and be environment friendly we have all our informational sheets posted on our website www.elocpa.com/taxforms.html

In addition, if you receive a Farm Summary or other Tax Summary form from us, *please complete it and bring it with you to your tax appointment.*

If you would prefer to drop off your information rather than schedule an appointment, the in-charge accountant can review and draft a preliminary return and then contact you with questions or comments.

If you have a scheduled appointment, we would suggest dropping off your information several days before your appointment. By so doing, the in charge accountant can review the information and let you know if there might be something missing. If you are dropping off a backup of QuickBooks®, please provide the version and password.



Social Security – What should you do at Age 62

We're not trying to kid anyone. This topic and decision is much larger than this article can be but we want to give you some things to consider in making your decision.

If you decide to start collecting benefits before your full retirement age, there is a major drawback to consider: your monthly retirement benefit will be permanently reduced. The exact amount of your Social Security retirement benefit is based on the number of years you've been working and the amount you've earned. Your benefit is calculated using a formula that takes into account your 35 highest earning years. Each year you receive a Social Security Statement from Social Security Administration (SSA) that summarizes your earnings history and estimates the benefits you may receive based on those earnings.

Even though your monthly benefit will be 20-30% less if you begin collecting retirement benefits at age 62, you might receive the same or more total lifetime Social Security benefits as you would have had if you waited until full retirement age to start collecting benefits simply because you may receive more benefit checks. Your "break even age" is generally about 12 years from your full retirement age. For example, if your full retirement age is 66, you should reach your break-even age at 78. If we all knew how long we were going to live, this would be an easy decision.

Things to consider are your thoughts on longevity (family history, your own health), your personal situation (what are your spouse's plans), how much income will you need (what type of lifestyle do you wish to live in retirement and other funds you have available) and do you plan on working after age 62. Keep in mind also that even if you start collecting Social Security benefits at age 62, you still won't be eligible for Medicare until you reach age 65.

Your work plans are a key factor in your decision because of the earned income limitations, this one quite frequently is the decision maker. Income you earn before your full retirement age may reduce your Social Security retirement benefit. Specifically, if you are under full retirement age for the entire year, \$1 in benefits will be withheld for every \$2 you earn over the annual earnings limit (\$14,160 in 2011). Note that if your monthly benefit is reduced in the short term due to your earnings, you'll receive a higher monthly benefit later as the SSA recalculates your benefits when you reach full retirement age.

Each person's situation is different. Most importantly you need to assess what is right for your personal and family situation.

Retirement Plans for Small Businesses

A retirement plan can help you and your employees save for the future. If you're self-employed or own a small business and you haven't established a retirement savings plan, what are you waiting for?

Tax advantages:

- Your contributions are deductible when made
- Your contributions aren't taxed to an employee until distributed from the plan (assuming other than Roth)
- Money in the retirement program grows tax deferred (or, in the case of Roth accounts, potentially tax free)
- Certain low- and moderate-income employees may be entitled to a tax credit ("saver's tax credit") for a portion of their contributions to the plan

You can read more at

www.elocpa.com/smallbusinessretirementplan

Capital Gains Rates – 2011, 2012 and beyond (if Congress doesn't act)

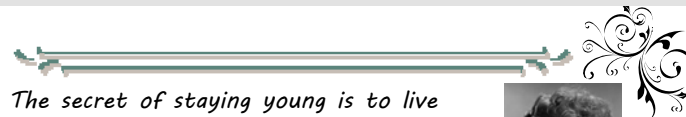
A capital asset is anything owned that is used for personal or investment purposes. When it is sold, there is either a capital gain or loss. There are long-term and short-term capital gains.

Anything held for longer than a year is considered long-term, while anything held for under a year is considered short-term. The tax rates for long-term and short-term capital gains are listed below for the years 2011 and 2012.

2011 - 2012		
Income Tax Rate Bracket	Short-Term Capital Gains Tax Rate	Long-Term Capital Gains Tax Rate
10%	10%	0%
15%	15%	0%
25%	25%	15%
28%	28%	15%
33%	33%	15%
35%	35%	15%

If Congress allows the Bush tax cuts to expire in 2013, long-term capital gain rates will increase to 20% (or 10% if you fall into the fifteen percent bracket). Short term capital gains will continue to be taxed at the same rates as ordinary income, which is also expected to rise in 2013.

This increase in capital gains rates for 2013 makes prior year capital losses more valuable. Prior year losses can be used to offset 2013 gains that would be taxed at the higher rates.



The secret of staying young is to live honestly, eat slowly, and lie about your age. - - - Lucille Ball



Myths and Facts about Social Security

There is no doubt that Social Security is an important source of retirement income for most Americans. However it may not be wise to rely too heavily on Social Security because changes need to be made to the system to keep it solvent. But whether retirement is years away or just around the corner, keep in mind that Social Security was never meant to be the sole source of income for retirees. As President Dwight D Eisenhower said, "The system is not intended as a substitute for private savings, pension plans, and insurance protection. It is, rather, intended as the foundation upon which these other forms of protection can be soundly built."

Myth: Social Security is only a retirement program.

Fact: **Social Security also offers disability and survivor's benefits.**

Myth: If you earn money after you retire, you'll lose your Social Security benefit.

Fact: **Money you earn after you retire will only affect your Social Security benefit if you're under full retirement age.**

Myth: Social Security benefits are not taxable.

Fact: **You may have to pay taxes on your Social Security benefits if you have other income. Up to 85% of your Social Security benefits may be taxable, depending on your tax filing status and the total amount of income you have.**

For specific information about the benefits you and your family members may receive, be sure to read your annual Social Security Statement. You can also visit the Social Security Administration's website at www.socialsecurity.gov.



Are you rolling the dice with the IRS?

Chances are usually slim that you'll be selected for an audit, but here are a few things that may land you on the IRS' radar.

- Underreporting your income – the IRS computers have gotten pretty good lately at matching the numbers on your tax return with information reported to them on Forms 1099, 1098, W-2, etc. If these don't match up, chances are good that you'll be hearing from them.
- Claiming large credits, such as the home-buyer credit or the adoption credit – due to the size of the credits in most cases (and the abuse by some taxpayers), the IRS is giving returns with these credits additional scrutiny. Be prepared to provide additional documentation to support these credits.
- Home office deduction – there are several requirements that need to be met in order to claim this deduction, and history has shown that most people that claim it don't meet all of them. Be sure to consult with your tax advisor if you wish to claim this deduction.
- 100% business use of a vehicle – it's rare that a vehicle can be considered 100% for business use, especially if there are no other vehicles available for personal use. Be sure to have detailed records to claim vehicle deductions. Also be sure that if you're claiming the IRS' standard mileage rate, you aren't also claiming actual expenses for fuel, maintenance, and other costs.
- Hobby losses (see article on page 2) – if you don't show a profit on your business, farm, rental, etc. at least 3 out of every 5 years, the IRS may claim that you aren't trying to make a profit and re-characterize it as a hobby.
- Taking higher than average deductions – the IRS computers compare your return with millions of others. Claiming deductions that are out of range for your income level might trigger an audit. Be sure to keep detailed records to support any deduction that you wish to claim.

Other things that may draw attention from the IRS include large meal and entertainment deductions, cash businesses, math errors on self-prepared returns, failure to report foreign bank accounts, and engaging in transactions involving large amounts of cash. As always, be sure to discuss your particular situation with your tax advisor. (*Kiplinger, IRS Audit Red Flags: The Dirty Dozen, December 2010*)

Payroll Bits

2011 Rates:

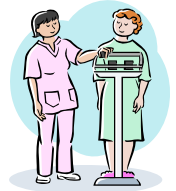
- Social Security (employee) – 4.2% (taxed up to \$106,800 of wages)
- Medicare (employee) – 1.45% (no limit on wages)
- Social Security (employer) – 6.2% (taxed up to \$106,800 of wages)
- Medicare (employer) – 1.45% (no limit on wages)
- South Dakota State Unemployment, if applicable, taxes the first \$11,000 of wages.
- Federal Unemployment (940) – taxes the first \$7,000 of wages
 - January 2011 – June 2011 = taxed at 0.8%
 - July 2011 – December 2011 = taxed at 0.6%

2012 Rates:

- Social Security (employee) – 6.2% **subject to change, verify prior to 2012 payroll** (taxed up to \$110,100 of wages)
- Medicare (employee) – 1.45% (no limit on wages)
- Social Security (employer) – 6.2% (taxed up to \$110,100 of wages)
- Medicare (employer) – 1.45% (no limit on wages)
- South Dakota State Unemployment, if applicable, taxes the first \$12,000 of wages.
- Federal Unemployment (940) – taxes the first \$7,000 of wages at 0.6%

A few key notes from Health Care act affecting taxes effective through 2013

1. Beginning in 2013, high-income households will be paying more into Medicare as a result of the new health reform law. (Individuals over \$200,000 and joint over \$250,000). Under the new law, starting in 2013, high-income individuals will pay another 0.9 percentage point, so their share will total 2.35% of their wages. SE individuals will not be permitted to deduct any portion of the .9% additional Medicare tax.
2. New Medicare tax on net investment income beginning in 2013. New 3.8% Medicare tax to unearned income for certain high-income individuals. The new 3.8% tax will apply to the lesser of (i) an individual's net investment income and (ii) the excess of the individual's modified adjusted gross income (AGI) over \$200,000 (\$250,000 applicable to joint return). "Net investment income" includes gross income from interest, dividends, annuities, royalties and rents, net gains from disposition of property, other gross income derived from a business that is a passive activity of the taxpayer. Excluded items would be capital gain from sale of residence or interest from municipal securities and taxpayer's gain on the sale of a business in which the individual actively participated.
3. Taxpayers will see the 7.5% of AGI floor on itemized deductions for medical expenses rise to 10%, beginning in 2013. However, taxpayers aged 65 and over would be exempt from the cutback through 2016.
4. For 2012, the Patient Protection and Affordable Care Act contains a requirement that businesses include the value of the health care benefits they provide to employees on W-2's (see Notice 2010-69 and 2011-28 for over 250 employees 2012 or 2013). The Problem is that "health care benefits" has not yet been defined.
5. An important provision of the Patient Protection Act is CLASS, the Community Living Assistance Services and Support Act, which was originally introduced by late Senator Edward Kennedy. The CLASS Act will make long-term care insurance available to all Americans, who will automatically be enrolled with the choice to opt out. To begin in 2011, individual states will set up programs for long-term care benefits. CLASS Act will accept enrollees in 2013.
6. 2011-ban on using funds from flexible spending or health savings accounts on cost of over-the-counter medications
7. Grants for Wellness Programs beginning in 2011
8. Pharmaceuticals subject to annual excise tax starting in 2011
9. Sales of medical devices will be subject to 2.3% excise tax beginning 1/1/2013
10. As a condition of enrollment in Medicare, Medicaid, or CHIP, the Patient Protection and Affordable Care Act requires providers and suppliers to establish plans detailing how they will prevent fraud

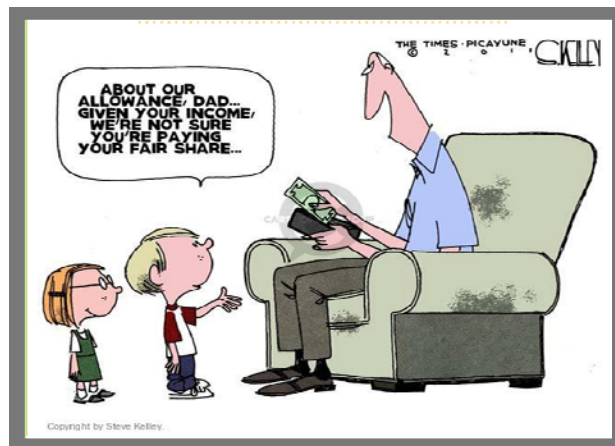


2011 Income Tax Brackets

	<u>Taxable Income</u>	<u>Tax Rate</u>
Married, Filing Jointly (and surviving spouse)	\$ 0 - 17,000	10%
	17,000 - 69,000	15
	69,000 - 139,350	25
	139,350 - 212,300	28
Head of Household	212,300 - 379,150	33
	Over 379,150	35
	\$ 0 - 12,150	10%
	12,150 - 46,250	15
Unmarried Individual	46,250 - 119,400	25
	119,400 - 193,350	28
	193,350 - 379,150	33
	Over 379,150	35
Married, Filing Separately	\$ 0 - 8,500	10%
	8,500 - 34,500	15
	34,500 - 83,600	25
	83,600 - 174,400	28
	174,400 - 379,150	33
	Over 379,150	35
	\$ 0 - 8,375	10%
	8,375 - 34,500	15
	34,500 - 68,675	25
	68,675 - 106,150	28
	106,150 - 189,575	33
	Over 189,575	35

Useful bits of information:

	<u>2011</u>	<u>2012</u>
Personal exemptions	\$3,700	\$3,800
Standard deductions for:		
Single	\$5,800	\$5,950
Filing joint/qualifying widow	\$11,600	\$11,900
Filing separately	\$5,800	\$5,950
Head of household	\$8,500	\$8,700
Additional deduction for taxpayers 65 and over or blind		
Single	\$1,450	\$1,450
Married	\$1,150	\$1,150
FICA taxable wages maximum	\$106,800	\$110,100
Kiddie Tax on unearned income in excess of	\$1,900	\$1,900
Section 179 depreciation	\$500,000	\$139,000
Student loan interest deduction	\$2,500	\$2,500
Self-employed health insurance	100%	100%
Social security limit - age 62 until year reach full retirement age	\$14,160	\$14,640
Repay \$1 of benefit for every \$2 earned over limit		
Social security limit - year reach full retirement age	\$37,680	\$38,880
Repay \$1 of benefit for every \$3 earned over limit		
Adoption Credit (per eligible child)	\$13,360	\$12,650 refundable non refundable
Annual Gift Tax Exclusion	\$13,000	\$13,000
IRA Annual Contribution Amount	\$5,000	\$5,000
Catch-up contribution (taxpayers 50 & over)	\$1,000	\$1,000



Mileage Rates

For 2011: (beginning Jan 1, 2011 - June 30, 2011)

Business:	51¢
Charitable:	14¢
Medical or moving:	19¢

For 2011: (beginning July 1, 2011 - December 31, 2011)

Business:	55.5¢
Charitable:	14¢
Medical or moving:	23.5¢

For 2012: beginning Jan 1, 2012

Business:	55.5¢
Charitable:	14¢
Medical or moving:	23¢



Use Tax.....Are you Paying???

Use tax applies after transactions take place and only on goods and services on which South Dakota sales tax was not paid. Use tax applies to products and services the purchaser **uses, stores, or consumes** in South Dakota.

Items commonly found use taxable include, but are not limited to:

Appliances	Napkin & napkin rings
Cards (gift/punch)	Office supplies
Computers	Software & Support
Cup sleeves	Stir sticks/Straws
Equipment	Magazine subscriptions