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TAX NEWS & TIPS

YEAR-END 2011

Tax Time Again!

Too soon? I agree! Nonetheless, it's time to begin collecting the information for your 2011 return.

In this issue I'll offer you some suggestions on getting your records together. Getting an early start helps in two ways – the work is simpler and you save more money.

I also have some reminders on law changes which may affect you.

Changes for the future? Lots of talk. 2012 is a presidential election year. The economy needs plenty of help, but be prepared for more talk than action for several months.

Tax Laws Keep Changing

Keep These in Mind While You Gather Records

Many favorable tax rules were extended by the major tax bill last December. Not all rules got the same treatment. Some expire this year, some expire after 2012.

Tax Rates will remain at current levels through 2012. IRS just gave the inflation adjustments for 2011. You'll probably not notice the tiny difference. In 2013, the "Bush Tax Cuts" are set to expire. This would lead to higher rates for everyone.

Couples get one more year of favorable rates. In 2013 many of the "marriage penalty" provisions are supposed to return.

Home Energy Credits. Two special credits for 2011 – one large, one small.

Generation. Big credits apply if you generate energy. Solar is the most common, but wind, geothermal, and fuel cell devices qualify. These reduce your taxes by a full 30% of what you spend. There's no upper

limit. If the credit wipes out your tax, the excess carries to the next year. You'll get the full benefit. Credits apply for any property where you reside, even a vacation home. But, no pools or other recreation use. These are expensive projects, but the tax credit gives a true 30% discount.

Conservation. Energy-saving improvements to your main home offer less help. Look for costs to install insulation, doors, windows, skylights, certain furnaces, heat pumps, and air conditioners. Main home only – no vacation or rental properties. You get only 10% of the first \$5,000 you spend – with a big catch. The \$5,000 is your combined expenditure for 2006, 2007, and 2011. Yep, sounds crazy, but we'll need to dig out information from '06 and '07.

Possible catch. IRS says you need manufacturer's statement that the device qualifies – keep the brochure, or print the information from their website. We haven't heard the final word, but we might need to send this with your return.

Education Benefits. Course work to improve job skills has been deductible for years. But, special benefits for any college education began in 1997. There are three different benefits.

I can easily compare rules to give you the greatest benefit. Problem: you must be able to explain the program, and to segregate the costs into different categories.

Tuition & Fees. Schools send out Form 1098-T each January to report tuitions paid. It's sent to the student's address, but credits belong on the return claiming the student's "personal exemption". Usually that's the parents' return. Any cost covered by a scholarship or grant can't be counted.

Required Books & Supplies. Please keep track of required texts, lab manuals & required course fees.

Other Materials & Costs. I'll need to know costs for notebooks, pens, pencils, and any other supplies purchased to perform the classwork. "Other costs" is a broad concept. It might include special software where course work must be submitted online – it might even include monthly fees for the internet connection, or even the cost of a computer if needed for the course. Look for any special tools or art supplies. Be alert for costs such as library fees or special study groups, or costs to copy course materials. For work-related classes we can even include mileage costs for going to classes.

Your savings can vary. For most college education, only the first \$4,000 spent for each student gives a tax break. If tuition alone exceeds \$4,000, don't worry about other costs. Your savings could reach \$2,500. The savings are "means tested". They begin to disappear for single filers at \$80,000 of income (\$160,000 for couples). For work-related classes, all costs count, and there are no income limitations.

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Other College Issues. Several other tax issues might apply if you or your children are in college.

College Savings Plans. Did you use money from a "Section 529 Plan" or a "Coverdell" savings plan to pay part of the costs? If so, you'll see an IRS Form 1099-Q. The plans were allowed to grow without tax. But, now we must show the funds were used for "qualified expenses", else the earnings are taxed, and you could pay a penalty as well. Keep records of any and all costs.

Youngster's Tax Returns. If the student is your child, we might run into something called "Kiddie Tax" rules. Please warn your child *not* to file their own return until we check the rules together.

Over – 70½ IRA To Charity. You must take a distribution each year. If you have the IRA Custodian send a check to a charity, the amount can be excluded from your income. You are treated as if you took your full required distribution, but the donation is directly removed from your income. You don't need to itemize deductions, so you get full value for the gift.

Mortgage Insurance. Last year for this one. Form 1098 will show the interest you paid on your mortgage. It should also show any mortgage insurance. We can deduct this along with the interest.

Troubled Loans. If you had a loan modified, or lost a property in a foreclosure or short sale, I need lots of details. Your problems are not behind you until we deal with the income tax issues. You might have income from the cancellation of part of the mortgage. If IRS forms have arrived – 1099-A and/or 1099-C. – I must see these. I'll need as much information as possible about what really happened. I need a complete history of loans for the property. It helps if I can see some mortgage statements. These cases can involve more than simply tax law, so please be as thorough as possible.

Miscellaneous Items. A host of other provisions are set to expire after 2012. We can deal with these at the time of filing your return.

Businesses. Liberal rules for depreciation were extended to 2012. Vehicle deductions are normally limited by "luxury car caps", but for

2011 we can claim an extra \$8,000 in the first year you own the car. After 2011 this extra \$8,000 is set to disappear.

Mileage Rates. For 2011 we have a "split" rate. From January through June we get 51¢ per mile. For the second half of the year it's 55.5¢. Thus, I must ask you to find figures for each half of the year.

Collect Unemployment? You're not alone – record numbers of Americans collected this year. Please be alert for the tax reporting form. This is taxable money. In 2009 the first \$2,400 was ignored. This year it's all taxable.

Non-Itemizers may remember being allowed to claim some bonus deductions the past couple of years. Property taxes and sales taxes on new car were popular ones. These special deductions expired last year. For 2011 expect no extra savings.

Foreign Asset Reports. Do you have an account or assets in another country? Of course, we are all required to report our "worldwide income" on our tax returns. A few of you are accustomed to filing an additional simple report on foreign


accounts if the balance reached \$10,000 or more at any time during the year. Beginning this year, an extra report is needed if you have an interest in \$50,000 or more of such foreign assets. Please let me know as soon as possible – the Form is brand new. A learning experience for both of us!

Stocks & Mutual Funds. When you sell or trade in stocks we must report whether you have a gain or a loss. We compare your sale with original costs. Most brokers actually provide this information. Key phrase: Look for a "Statement of Realized Gain/Loss". These days you can usually find this if you can access your account via computer. Or you can look for this statement in the "annual consolidated statement" you receive in January.

Prepare Early. This will be a special year. We don't want to miss anything. Prepare carefully, and there are two benefits: (1) You'll see this in maximum tax savings, and (2) my fee will be as low as possible. We may even have a little time to plan for future savings! It's *your* money, but it takes *both of us* to keep as much as possible for you.

In January – Important Tax Information

IRS Receives the same reports of income and deductions as are sent to you. After all returns are filed, their computers will compare the reports with your return. They rarely miss an error. Watch January's mail. You'll see "Important Tax Information Enclosed" on the envelope.


 **1099's.** You get 1099-INT or 1099-DIV for any account paying interest or dividends. Did you find all of them? Keep notes.

Other 1099's. Real estate sales are on Form 1099-S. Stock sales on 1099-B. Pensions or IRAs are on 1099-R. There are several others.

Other Income. You may see forms for unemployment benefits, state tax refunds, prizes, awards, or gambling winnings. Don't lose these!

Partnerships, etc. Forms K-1 from partnerships, trusts, estates, and corporations arrive later. We can do the rest of your return early. Mail these forms to me when they arrive.

Form 1098. Some deductions. Form 1098 reports your mortgage interest. For a private loan, get your payment book. If your lender was the seller, you need name, address, and tax I.D. number. Form 1098-T is for tuitions paid. Student loan interest is on Form 1098-E. If you donated a vehicle to charity you'll see Form 1098-C.

 **After January.** In February figure out what's missing. Missing a W-2? Contact the employer. If you can't locate the employer, find your pay stubs. Missing an expected 1099? It's time to call the bank or broker.

Late Information! If information arrives late, mail it to me. Missing receipts for deductions? Make a list of your best recollection, sign and date it, and keep it with your records. This can help if you are audited.

Do You Need To Send Form 1099?

You may need to send Form 1099 to someone. There are two cases:

- **Businesses.** You must report payments to others for services.
- **"Nominee" amounts.** If you are named as receiving income, but part of the income belongs to another, you are a nominee.

You must issue Form 1099 to the other party by February 1. Copies are due at IRS by March 1. There are penalties for not sending them!

Businesses. If you paid \$600 or more to anyone during 2011 you may need to issue a form. Applies to "business" expense only. There is no need to report payment for personal expenses or any payments made to a corporation.

Was any part of the payment for services? If so, you must report the total amount on Form 1099. Rents you pay to a manager (but not to the landlord) are excepted. Same if you pay for merchandise alone. Check your records for repairs, painters, consultants, builders and the like.

Get name, address, and Tax I.D. Number. Call or use Form W-9. If someone gives his/her name, get a Social Security Number (looks like 555-55-5555). If a business name is used, get an Employer I.D. Number (looks like 55-5555555).

Rental Managers. A property manager who runs your rental sends Form 1099 to you reporting the rents.

Nominees. Suppose you and your sister share a savings account. But, your Social Security number is on the 1099-INT, even though half the income belongs to your sister. You are a "nominee". Limits here are much lower. If you pay \$10 or more to another you should send a Form 1099 to the other party. Use the same type of 1099 as you received, but you are filing as a "middle man".

Getting the Forms. I can help, or you can get forms from IRS and do them yourself. If you need my help, please call early! My tax season is hectic, and the February 1 deadline comes up quickly. If you need forms from IRS you can reach them at 1-800-829-3676, or download forms at www.irs.gov. You'll need Form 1099 and Form 1096.

2012 Inflation Adjustments

Each year IRS adjusts several tax items for inflation. We saw modest inflation this year. As a result, only small changes are in store for 2012.

Tax Rates. Consider income tax for a couple whose earnings have stayed at \$70,000 each year and have one child. They're *not* keeping up with inflation! Filing the "short form", their tax bill from 2003 to 2011 dropped from \$6,006 to \$5,225, or about \$100 per year. For 2012 they will see a \$135 decrease in their overall income tax.

Items with small inflationary change:

- Standard Deductions.
- Tax Rates and brackets.
- Deductions for children.
- Pension contribution limits.
- IRA deduction limits and income levels.

- Mileage deduction rates.
- Wage base for Social Security.
- Alternative Minimum Tax is not linked to inflation. Congress must change this, else millions will be affected.
- Social security benefits. It was announced in October that 2012 benefits will increase by 3.6%. We saw no increase in 2010 or 2011. But, your *net* check is reduced by Medicare premiums. The law says your net *benefit* may not *decline*. Thus, most retirees didn't face the increases in Medicare Part B premiums in the past two years. Now we fear the 2012 increase will be lost in "catching up" to the premium increases.

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Got Everything We Need?

*Here's a list of things most often forgotten.
Compare it with your own list of missing information.*

- Refinance.** I need to see the settlement statement. Maybe it's best to bring all the paperwork.
- Sale of Stock.** Brokers send Form 1099-B to show sale price. Look for a "Statement of Realized Gain/Loss". Without it, we need to do all the work. We need the *original* cost. Can you find the "buy" slip? A mutual fund sale requires a complete history.
- Buy/Sell Property.** Settlement statement shows the details. Find it, or else gather everything.
- Estimated Tax Payments.** I need amounts and dates. Look near April 15, June 15, and Sept. 15. In 2012 look near January 15.
- Social Security Benefits.** Find the Form 1099-SSA. It shows the amount to claim. The amount put into your bank account won't do.
- Property Tax.** Find the amount actually paid during the year on your home, other real estate, boats, and automobiles.
- Employer Reimbursements.** We need the records. We can claim the excess expenses.
- Work-Related Driving.** Deductions for extra driving add up quickly. Review your work schedule and your calendar.
- Child Care Credit.** We must report the full name, address, and I.D. number of the care providers, not simply the amount you paid. Some states even ask for the provider's telephone number.
- Contribution Receipts.** All charity requires receipts. Your cancelled check is OK for single gifts up to \$250 – above this you need a receipt from the charity. If you donated a vehicle I need to see Form 1098-C, or you will be limited to a \$500 deduction.
- Special Events.** Jot down information about a birth or death in the family, legal costs, special expenses for your job, or any unusual medical costs. You may have found a deduction, but you have to let me know about what changed this year. I try to ask a lot of questions, but I'm not a mind reader. *Write down* the questions, or you may forget and lose a valuable deduction.

Tips For You

Health Care Mandate vs. US Constitution. The Health Care Bill in 2010 proposed sweeping reforms over many years. By 2014 we would be required to have health insurance or face fines. Many said this violates the Constitution. A District Court in Pennsylvania said it violates the Commerce Clause of Constitution. The Fourth Circuit Appeals Court refused a similar case. We have conflicting rulings from two other Circuit Courts, the 6th and 11th. Because of the conflict the U.S. Supreme Court is expected to hear appeals in their current sessions, which began October 3.

IRS Gives Cell Phone Relief.

Until last year cell phones had tough rules requiring keeping records of all usage. The rules date from 1984 when cell phones were expensive "toys for the wealthy". The Small Business Jobs Act of 2010 removed the designation. Late this summer IRS finally issued revised rules.

IRS now says employer-provided cell phones are an "excludable fringe benefit" if employer has (1) a need to contact employees at odd hours for work-related emergencies, (2) they require that employees be available to speak with clients while away from the work place, and (3) the employee may need to make contact outside work hours with clients in other time zones.

Last-Minute Tax Savers. These involve moving deductions from 2012 into 2011.

Contributions. If there are contributions already planned, ask if you can afford to make them this year. Get the savings now. If you're thinking of cleaning out the garage, do it now. Call your favorite charity, make a good list (possibly even a couple of snapshots!), and get your deduction in 2011.

Business/Work Supplies. If you buy office supplies, think about stocking up in December. Load up on paper, toner or printer cartridges, envelopes, maybe even some extra postage stamps. You can also buy business fixtures or equipment, but must be able to show the equipment was actually *used* in 2011.

Landlords/Businesses. Are there maintenance items you've been putting off? You get the deduction in 2011 if you do the work in 2011. Consider painting, carpet cleaning, replacing screens or furnace filters.

Timing of Income/Expense. An expense item is counted when you pay. Sign the check. Sign the credit card slip. Postmark the mail. IRS looks at when the funds leave your control. When this happens, your payment has been made.

With income, you cannot simply wait to cash a check – IRS says you have already gotten "constructive receipt" of the money – it's yours right now. (You are free to delay billings, though!)

"The wisdom of man never yet contrived a system of taxation that would operate with perfect equality."
President Andrew Jackson

"Blessed are the young, for they shall inherit the National Debt."
President Herbert Hoover

"The Federal income tax system is a disgrace to the human race."
President Jimmy Carter

Happy New Year!

May 2012 bring you and yours joy, good health, and the finest things in life.

Your Tax Calendar

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|----------|---|
| Dec 31 | A check mailed today counts for 2011. Last chance for deductions! State estimated tax paid today is deductible on 2011 Federal return. |
| Jan 16 | 4 th quarter estimated tax payments due. |
| Feb 1 | Employers – Quarterly payroll & FUTA due. W-2s and 1099s due to recipients. |
| Mar 1 | W-2s and most 1099s due to IRS. |
| April 17 | 2011 tax returns due. Last day for 2011 IRA contributions. |