TAX TIME IS JUST AROUND THE CORNER

This has certainly been a year of uncertainty. It seems as though every bill Congress has passed has had something to do with taxes. Getting the information to write this newsletter has been a challenge. We have been waiting, waiting and waiting for Congress to act. But until now Congress hasn't been any help. The US Senate passed that monster of a tax bill then after midnight on December 17th, 2010 the House passed the Bill, or should we say 'pork chop'.

We may have some answers for 2011 & 2012 – Maybe!

A final pact on taxes is done, for now. In a rare display of he-done-it, you-done-it, the president cut a deal, lost a deal and finally made a deal with Congress on taxes and jobless benefits. The basics of the tax package are set, and lots of sweeteners were added to bring in the additional support needed for the legislation to pass. This was absolutely essential in the House, where many Democrats balked at the bill. Nevertheless, the measure was signed by the president. The bill, like most of the tax bills lately, contains a lot of extras that are not tax related, i.e.: 'earmarks'. *We don't cover earmarks*!

The following is from the US Senate summary on the tax act

Two major bills enacting tax cuts for individuals expire at the end of 2010: the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA); and the *Jobs and Growth Tax Relief Reconciliation Act of 2003* (JGTRRA). The following package extends these provisions from EGTRRA and JGTRRA for an additional two years, through 2012, and will provide important tax relief to American taxpayers.

The Tax bill is about 1925 pages. Some of the tax highlights are:

An extension of the Bush tax cuts for all taxpayers' not just lower and middle incomers, as the president wanted. Thus, the 35% top rate on individuals will continue for two more years: actually through tax year 2012.

The caps on itemized deductions and personal exemptions won't return until 2013. This is good because you higher income clients will be able to utalize your entire Schedule A deductions. Also, if you have converted a §401(k), §403(b), traditional IRA or other retirement account into a ROTH IRA the tax rate will remain the same for the two years you will have to pay the taxes on the conversion.

The favorable rates on dividends and long-term capital gains have been extended; the 15% maximum rate on both, will remain in effect through 2012. The same goes for the 0% rate on gains and dividends for filers in the 10% or 15% tax brackets. Now is the perfect time to clean up stock portfolios.

The bill extends the marriage penalty relief for the standard deduction, the 15 percent bracket, and the EITC, through 2012.

Another good thing: return of the estate tax for 2011 and 2012, with a $5-million exemption, a 35% rate and a reinstatement of a stepped-up basis for heirs. For 2010, it appears that estates will have a choice: 1) Pay no estate tax, but heirs face a carryover basis for inherited assets that have appreciated by more than $1.3 million (plus $3 million for assets going to a surviving spouse), or 2) the heirs can claim a stepped-up basis on the inherited assets if the estate pays estate tax at 35% on assets over $5 million. This is a little complex, so if you need any estate help give us a call.

The estate tax exemptions will be portable, so that when one spouse dies, the unused amount goes to the surviving spouse and can be used at his or her death. The Estate & Trust lawyers will have fun with this one! By-the-way, if you (your family) have a trust be sure and make an appointment with your lawyer to review and update your trust.

In a new twist to the estate and gift tax arena, the lifetime gift tax exemption will rise to $5 million. This will be done by reintegrating the gift and estate taxes and restoring the system in place before 2004.

On to other highlights of the bill

The AMT exemptions will increase for 2010 and 2011, limiting the tax's bite, for many of our clients.

Some of the refundable tax breaks will be extended through 2012. Among them: higher earned income and child credits. Plus the American Opportunity college credit will still be available for those attending a college or technical school.

Many of the tax breaks that lapsed after 2009 will be revived for 2010 and 2011. We are not sure about 2012. The breaks include direct payouts to charity of up to $100,000 from IRAs, the ever popular R&D credit, the write-offs for state sales tax, and up to $250 of teacher supplies and college tuition. Let's just hope the tax software providers and the IRS computers get it right!

A Social Security tax cut for employees and self-employeds. For 2011 only the 6.2% tax rate for the employee portion of Social Security tax will decline to 4.2%, a tax saving of up to $2,136 per filer, for those earning up to $106,800. This will replace the Making Work Pay Credit, which provided a maximum tax saving of $400 for single filers and $800 for couples. This sounds familiar! Remember Schedule M last year?

Businesses of almost any size will be able to immediately expense the cost of assets by claiming 100% bonus depreciation. The break is retroactive...for assets put in use after Sept. 8, 2010 and before Jan. 1, 2012. In tax year 2012, 50% bonus depreciation will be available. But only NEW assets with useful lives of 20 years or less will qualify. This includes machinery, land improvements, and single-purpose farm buildings. Watch out . . . most states will not have had time to pass conforming legislation. If you are a Californian the maximum amount you can expense on your CA 540 is $25,000. It has been that way for as long as we can remember.

There is a whole lot of other tax stuff in the bill. These are the basics. We think!

If you want a copy of the Senate condensed version call or shoot us an e-mail and we'll send it to you. Its twelve pages in pdf format.

OK so what else is new?

In a couple of weeks it will be 2011. Have you noticed that the older you get the faster the years race by? Aside from the fact that we really aren't sure what effect this new tax bill will have on yours and our 2010 tax return, here are some items that you will need to get ready

When you receive your W-2's in January make sure to review them very carefully. It would be a good idea to keep your last paycheck of the year to match up the numbers. On the W-2 make sure your name and social are correct. If you have moved during the year make sure your present and any past employers have your correct address. Having your correct address is important! If by the first week in February you are still short a W-2 or two, call your employer(s) and ask 'where is my W-2 form'? Don't wait! Many times it will take several weeks before they will send a replacement. It is the employers' responsibility to mail or give you the form by January 31st. You will need to send us all of your W-2's.

Form 1099's. All Form 1099's report some type of income: –INT is interest from banks, etc., – DIV our dividends, -- S for Real Estate Sales, 1099 B is for sales of securities, -- R for funds received from retirement accounts. The following are the bad ones – C & -- A these are for the cancellation of debt and abandonment of property. They deal with foreclosures, cancellation of debt -- be it credit cards or real estate.

If you receive any of the Form 1099's read it over very carefully and make sure your name and the social numbers are correct. If you have a problem with the amounts being reported on the form, don't wait until you send us the form, call the issuing company and ask for an explanation. If you deal with a securities brokerage house (Smith Barney, etc) do not expect that the first Form 1099 B will be correct. Look for a correction about the end of February. It usually takes these folks a couple of tries to get it right. Be sure to send us all of your Form 1099's.

Form 1098's. These are your home mortgage interest payment statements. The –T show college tuition. Again make sure your name and social are correct. OH, the –-- T's are sent to the student. Ya even if you paid it! Be sure and warn your college student children to give it to you. You will need it for your tax return, if your child is still a dependent. Tell your dependent child 'DO NOT FILE YOUR OWN TAX RETURN!' No matter what the lady at the local franchise tax preparation firm says. If your child files their own tax return you may loose your dependent exemption and the credit for the tuition and fees you paid.

Other Income. Last year's state tax refund, unemployment, lottery winnings (Sure), prizes, awards, rental income, etc. Except for the rental income send us the form with your information package. For rental income, if we do not already have the basis information, call us.

Records. Every year we put this in the last newsletter as a reminder. This year be especially careful. We try very hard to prepare the best tax returns possible. However, without your input, documentation, and feedback our dart board really isn't very good! So look back at the year and review your date book and your check book to make sure your memory is refreshed on what you did during 2010. We prefer that you keep the receipts. However keep them in a safe place we may ask to see them. We know you are busy with the Holidays and the forthcoming New Year but please take a few minutes and review and start organizing your income and expenses.

New rules on who needs to send Form 1099's. Internal Revenue Code Section §6041(a) has been changed. This is the section in the code that says for any business that pays $600 or more dollars to another business or individual that isn't incorporated you must notify the Secretary of Treasury (the IRS) of those payments. Do you need to issue any of these 1099's? Not sure, Call us! The businesses that now fall under these requirements include landlords. Without naming names or pointing fingers you landlords know that we have been telling you to do this for years. Now it is a requirement. Call us and we'll bring you up to speed.

Far too many people are not working.

Far too many of those who are not working are burned out from looking for a job. Notwithstanding the fact that this new tax act extended unemployment compensation, looking for a job, job search costs, are deductable. Not in any specific order here are a number of things that can be deducted;

❶ You need to itemize, use Schedule A, on your tax return.

❷ You need to be looking in the same type of 'Trade or Business'. You must be seeking employment within the field of work wherein you have a job history.

❸ You need to keep a log of all of your job search activities. You will need to keep track of: a) telephone calls, b) mileage, c) potential employer visits and interviews, d) costs of employment agencies, e) costs of résumés, f) copying of résumés or other documents, and g) postage.

❹ The following will require a really detailed log: a) on-line fees, b) special software, c) meals and meetings with support groups and friends that might lead to possible jobs, and d) special tools. The secret to getting the biggest deduction is how well your log describes your job search activities.

❺ Moving. If your new position requires you to move more than 50 miles, you may have deductable expenses. Call us!

Here and there.

Social Security. No additional benefits this year and if you are still paying in, it will be 4.2% for the first $106,800 in 2011.

Medicare Part B. No additional premium costs this year. Remember if your benefits do not increase your Part B premium costs cannot increase.

Stock & Securities. Brokerage firms must start tracking basis (the money you have invested in the issue). Starting in 2011, for all sales in 2011 and future years' brokerages houses must report gains and losses on sales. We suggest that you track your securities and know your basis. Need help getting started? Call us we have some easy to use basis tracking forms.

Foreclosures & Cancellation of Debt. If this happened to you in 2010, we have a difficult job ahead. This is true even if you had a 'short sale' or deeded the property back to the lender. Some localities call this a 'deed in lieu'. We will need very detailed information on the actual chain of events, the balances of all loans, as well as your borrowing history for the property. Try as we may, you may be taxed on all or part the loans forgiven by the lender. If you receive a Form 1099 –A or Form 1099 –C call us immediately. We have prepared a lot of the necessary tax forms and each one was a challenge.

That's all folks . . . Have a . . .

MERRY CHRISTMAS