

TAX NEWS

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TAX CLIENT NEWSLETTER

CONGRESSIONAL UPDATE

EXPANDED FORM 1099 INFORMATION REPORTING HAS BEEN REPEALED

After months of haggling, both houses of Congress put aside their differences and repealed the requirement that businesses report to the IRS all payments over \$600. The provision, originally enacted to fund the health care bill, would have required any business that pays another business or individual more than \$600 for goods or services in a year to file a Form 1099 with the IRS. The requirement was set to go into effect in 2012. Congress also repealed the rental expense reporting requirement that went into effect in 2011. Under that rule, all taxpayers with rental property would have been required to report to the IRS any expenses paid on the rental property in excess of \$600 per year.

Both reporting provisions were criticized for the huge burden they would have put on small businesses and taxpayers with rental property. Even though both the House and the Senate and the Democrats and Republicans all agreed the reporting provisions had to go, Congress spent two years debating how to make up the tax revenue lost by repeal. They finally agreed on a revenue raiser that requires people to return overpayments of health care subsidies if their incomes exceed 400 percent of the poverty level. Although the President was not in favor of this offset, he accepted it in the end and signed the repeal bill.

As your tax professional, I cannot stress enough how important it is that the expanded information reporting provisions were repealed. These requirements would have cost you enormous time and energy to track every business payment made for such things as office supplies at Staples to rental payments for a lease. You would have had to get the Taxpayer Identification

Numbers for everyone you made payments to. You would have been required to calculate the total payments made to each person, each business or each store, unless you paid by credit card. Then, you would have to file 1099 forms with the IRS for each vendor that received more than \$600 per year. If you failed to do so, you would have been subjected to significant penalties.

We are all grateful that common sense prevailed and Congress was able to come together for the public good and abolish these ill-conceived tax provisions before they took effect.

THE U.S. BUDGET AND COMPETING TAX PLANS

Even though Congress voted in the Spring to fund the federal government for the rest of fiscal year 2011, the budget battles on Capitol Hill are just beginning. Several long-term, tax and spending plans are being passed around Washington, including proposals from House Republicans, House Democrats and President Obama. (The House Democrats and President Obama are not in agreement on a number of issues.) It is interesting to see the wide-ranging views on how to approach the U.S. budget. It also is important to know what kind of tax changes are being considered by Congress. Here's a quick preview of the different tax plans:

Plan of House Budget Committee Chairman Paul Ryan (R-Wis.)

- Provides individual income taxpayers a choice of how to pay their taxes – through existing law, or through a simplified tax law that fits on a postcard with two rates and almost no special tax deductions, credits, or exclusions (except the health care tax credit).
- Simplifies tax rates to 10 percent on income up to \$100,000 for taxpayers filing jointly, and \$50,000 for single taxpayers.

The rate would be 25 percent on taxable income above these amounts. Also includes an increased standard deduction and personal exemption (totaling \$39,000 for a family of four).

- Eliminates the alternative minimum tax (AMT).
- Eliminates all taxes on interest, capital gains, and dividends; also eliminates the estate tax.
- Replaces the corporate income tax with a business consumption tax of 8.5 percent. This new rate is roughly half that of the rest of the industrialized world.
- Cuts \$6.2 trillion in government spending over the next decade.

President Obama's Proposals

- Allows expiration of the Bush tax cuts for upper-income earners — those taxpayers making \$200,000 if single and \$250,000 if married filing jointly. This would raise the top rate to 39.6 percent.
- Limits itemized deductions for high-income taxpayers, including those taxpayers making \$200,000 if single and \$250,000 if married filing jointly.
- Reduces the corporate tax rate to 25%.
- Abolishes many credits, deductions, and exemptions designed to eliminate \$1 trillion in existing tax breaks over the next 12 years.
- Reduces the federal budget by three dollars in spending cuts and reduced interest for every one dollar that comes from tax reform.
- Creates an automatic trigger for across-the-board spending reductions and reduction of tax breaks if, by 2014, deficit reduction targets are not met.

House Democrats' Budget Proposal

- Permanently extends the Bush tax cuts for low and middle-income taxpayers—those

taxpayers making less than \$200,000 if single and \$250,000 if married filing jointly.

- Allows expiration of Bush tax cuts for taxpayers making more than \$200,000 if single and \$250,000 if married filing jointly. This would raise the maximum tax rate to 39.6 percent.
- Returns the estate tax to the 2009 level of a 45% rate and an exemption of \$3.5 million per taxpayer.
- Permanently extends the research credit.

YOUR FEDERAL TAX RECEIPT SERVICE LAUNCHED

In his State of the Union Address, President Obama promised that this year, for the first time ever, American taxpayers would be able to go online and see exactly how their federal tax dollars are spent. The service, Your Federal Tax Receipt, is now up and running. By entering a few pieces of information about your taxes, your Taxpayer Receipt will give you a breakdown of how your tax dollars are spent on government functions such as defense, education, veterans benefits, and health care. Specifically, you enter the total yearly amount of your Social Security Tax, Medicare Tax, and Income Tax. The breakdown of expenditures for your tax dollars is shown in major categories or can be shown in more detail by selecting the "Expand All Sub-Categories" option.

To use the service, go to www.whitehouse.gov/taxreceipt.

CORPORATE TAX REFORM TAKES CENTER STAGE IN CONGRESS

The President and leading Members of Congress have stated that fundamental tax reform is a major policy objective for the next two years. The primary change under consideration is corporate tax reform. The United States has watched while almost all of the other major industrialized countries have cut their corporate tax rates. This has left the U.S. with the second highest corporate rate in the industrialized world, 35%. Only Japan's is higher at 39.5 percent. There is almost unanimous bipartisan agreement that the U.S. corporate tax rate is hurting America's global competitiveness. As a result, Congress has held hearings recently to consider legislation to reform corporate taxes by lowering

the rate and changing the way the United States taxes the income of its multinational companies.

Testifying before the House Ways and Means Committee recently, the Chief Financial Officers from four large American corporations (United Technologies, Caterpillar, Zimmer Holdings and Kimberly-Clark) laid out their priorities for corporate tax reform. First, they want to lower the corporate tax rate. Some studies suggest that the corporate rate has to be lowered from 10-15 percentage points to be competitive with our trading partners. Next, the CFOs suggested moving from a worldwide tax system to a territorial system. The U.S. has a worldwide system where all corporate income earned worldwide by a U.S. multinational company is subject to U.S. tax. The corporation is then granted a foreign tax credit for taxes paid to other countries on income earned outside of the U.S. Under a territorial system, U.S. multinational corporations would be taxed by the U.S. only on income earned within the U.S. Finally, the CFOs asked that Congress make the research and development credit permanent to encourage innovation. Currently, the R&D credit expires every year and Congress has to renew it.

A bipartisan bill with similar outlines has been introduced in the Senate by Senate Finance Committee member Ron Wyden, D-Ore., and Sen. Daniel Coats, R-Ind. The bill, entitled, the Bipartisan Tax Fairness & Simplification Act of 2011, would reduce the corporate rate to 24 percent and broaden the base by repealing several business tax breaks. In a similar fashion, the Obama Administration has supported the lowering of corporate tax rates coupled with the repeal of numerous corporate tax breaks.

U.S. Encouraged to Move to Value-Added Tax

The corporate CFOs testifying before Congress also commented that the U.S. should consider adopting a value-added or VAT tax. A value-added tax is a type of consumption tax that is added to a product at each stage of the manufacturing process. When a product is finally sold at the retail level, there is an embedded tax representing the accumulated taxes added at each stage of development. The U.S. is one of the few countries in the

world that does not have a VAT tax. Because of this, the U.S. has to rely more on corporate and individual income taxes to fund government spending. This is why corporate leaders are open to the imposition of a VAT in the U.S.

Outlook: While corporate tax reform has momentum in Congress, it can only happen if the House Republicans and Senate Democrats can agree on a comprehensive plan. Given the contentious relations and the looming 2012 campaign season, it is unlikely that Congress will be able to make a bold move to solve the corporate tax problem in the United States.

Did You Know... IRS estimates that every dollar it receives in funding yields nearly five dollars in increased tax revenues. IRS Commissioner Shulman told this to Congress in making his agency's budget request this year.

GROUP URGES EXTENSION OF HEALTH INSURANCE DEDUCTIONS FOR THE SELF-EMPLOYED

If you are self-employed, you were able to deduct premiums paid for medical and dental insurance for you, your spouse, and your dependents from your 2010 self-employment taxes. This tax break was seen as leveling the playing field between self-employed taxpayers and payroll employees, who get an exclusion for premiums paid under employer-funded health insurance plans. The problem is, this tax benefit expired at the end of 2010 and it is unclear whether Congress will extend it.

The deduction was available to the following taxpayers, for insurance plans established under their businesses:

* A self-employed individual with a net profit reported on Schedule C (Form 1040), Profit or Loss From Business, Schedule C-EZ (Form 1040), Net Profit From Business, or Schedule F (Form 1040), Profit or Loss From Farming.

* A partner with net earnings from self-employment reported on Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits.

* A shareholder owning more than 2% of the outstanding stock of an S corporation with wages from the corporation reported on Form W-2, Wage and Tax Statement.

The National Association for the Self-Employed (NASE), a nonprofit trade group based in Washington, D.C., has asked Congress to make the deduction permanent, or at least extend it for two years. Testifying before the Senate Committee on Small Business & Entrepreneurship in May 2011, Kristie L. Arslan, Executive Director of NASE, stated that, "It is imperative that the 22 million self-employed Americans receive the same tax treatment of health care costs as all other businesses." The testimony explained that the one-year deduction saved self-employed business owners approximately \$456.71 to \$968.14 in taxes.

Outlook: Even though it is getting too close to elections for Congress and the Administration to do much of anything, small business tax relief generally has bipartisan support. If there is any kind of tax bill passed this year, a short extension of the self-employed health insurance deduction may make it into the final legislation.

OBAMA ADMINISTRATION EFFORTS TO ELIMINATE OIL AND GAS TAX BREAKS FAIL

With the U.S. budget deficit running at record levels and the price of gasoline hovering around \$4.00, the Obama Administration has called for eliminating special tax breaks for oil and gas companies. These companies' record profits have made them an easy target for revenue raising. However, Senate Democrats were unable to get the 60 votes needed to pass the "Close Big Oil Tax Loopholes Act." The bill failed in a vote to end debate by 52 to 48.

The tax breaks available to the oil and gas industry include depletion deductions, expensing of intangible drilling costs, and the deduction for domestic production. Some of these provisions have been in the Code for years. Oil companies argue that they need the tax breaks to invest in more exploration and keep gas prices down. Opponents of the tax breaks point to the fact that the oil companies have used most of their profits to buy back their stock instead of investing in energy projects. A study by the bipartisan Congressional Joint Economic Committee estimated the bill would have brought in \$21 billion over 10 years. The report concluded that the tax incentives have little effect on oil pro-

duction, so their repeal would be unlikely to affect domestic energy prices.

Even though the bill failed, the Democrats are saying they will insist on scaled back oil and gas tax breaks in any deficit-reducing or debt limit legislation. President Obama released a statement regarding the defeat, saying, "It is disappointing that at a time when oil companies are posting near record profits, Republican Leadership in the Senate led an effort to protect billions of dollars in tax breaks for the oil and gas industry that even oil and gas CEO's in the past have admitted are unwarranted and unnecessary." The Obama Administration has pledged to continue to pursue the repeal of oil and gas tax breaks.

VIEW PRESIDENTIAL TAX RETURNS

President Obama and Vice President Biden have publicly released their 2010 federal income tax returns. The President and the First Lady filed their income tax return jointly. The Vice President and Dr. Jill Biden also filed joint returns. The Obamas' tax liability for the year was \$453,770 on \$1,340,207 in taxable income. The Bidens had \$304,840 in taxable income and a \$86,626 tax liability.

To see the returns including attached Schedules, go to the website, www.taxhistory.org. Click on "Presidential Tax Returns" in the left panel. The President's and the Vice President's returns will be at the top. Also available are tax returns of many other presidents and presidential candidates. The documents are in PDF form.

IRS UPDATE

IRS RELEASES FILING SEASON STATISTICS, BIG INCREASE IN ELECTRONIC FILING OF RETURNS

The IRS has released the 2011 filing season statistics which show that the electronic filing of returns was at record levels this year, topping 100 million for the first time. This represents an 8.8 percent increase in e-filing from last year. In 2010, 98.7 million tax returns were filed electronically. Overall IRS filing season statistics as of the first week in April are shown in the table at the bottom of this page.

Fraudulent Filing and Prisoner Returns

Also this season, the IRS had identified over 335,000 tax returns with \$1.9 billion claimed in fraudulent refunds and it prevented the issuance of 97 percent of those fraudulent refunds. The IRS also selected 63,501 tax returns filed by prisoners for fraud screening, representing an 88 percent increase compared to last filing season. As you probably know, fraudulent filing by prisoners has been reported widely in the news media.

TAXPAYERS MAY OPT OUT OF ELECTRONIC RETURN FILING

The IRS has issued regulations which require most tax return preparers to electronically file individual income tax returns. Beginning in calendar year 2011, preparers must e-file if they reasonably expect to file 11 or more individual tax returns in a year. If you do not want your return filed electronically, I can mail print

IRS 2011 FILING SEASON STATISTICS

Cumulative through the weeks ending 04/09/10 and 04/08/11

Individual Income Tax Returns	2010	2011	% Change
Total Returns	98,802,000	98,562,000	-0.2%
Total Processed	93,205,000	95,806,000	2.8%
Total Refunds:			
Number	79,705,000	80,874,000	1.5%
Amount	\$234.306 Billion	\$234.161 Billion	-0.1
Average refund	\$2,940	\$2,895	-1.5%

income tax returns to the IRS for you. However, I will need to obtain a hand-signed and dated statement from you stating that you do not want your return e-filed.

Filing tax returns electronically has benefits and drawbacks. The benefits are that the returns are processed quickly and you should get your refund in much less time. The drawback is that it is easier for the IRS to analyze and scrutinize an electronic tax return.

IRS RELEASES LIST OF TOP FILING ERRORS

The IRS has released its list of top errors made on individual tax returns this year. By far, the Making Work Pay Credit and the Government Retiree Credit have caused the most errors. Taxpayers either did not claim the credits or calculated the rate reductions incorrectly. The second most common error was made in determining the taxable amount of social security benefits. Finally, a significant number of errors were made in computing the First-Time Homebuyer Credit Repayment amount. To avoid these common errors, it is important to hire a tax professional you can trust. The rules for these tax calculations are complicated and beyond the ability of most taxpayers to figure out themselves.

THIS YEAR'S DELAYED FILING DEADLINE EXPLAINED

This year, the federal income tax filing deadline was shifted not due to it falling on a weekend or regular legal holiday, but because of the date of Emancipation Day, April 16th, and a legal holiday in the District of Columbia. Here are the rules for the tax filing day, depending on when Emancipation Day falls.

Effect of Emancipation Day

For taxpayers nationwide, when Emancipation Day, April 16, falls on a:

* **Saturday:** Friday, April 15 is the observed date of the holiday and the filing deadline is Monday, April 18.

* **Sunday:** Monday, April 17 is the observed date of the holiday and the filing deadline is Tuesday, April 18.

* **Monday:** Monday, April 16 is the holiday and the filing is Tuesday, April 17.

Filing Extension Deadlines This Year

Because Emancipation Day delayed tax filings this year, the extended filing deadline for Form 1040 individual returns is October 17, 2011. The extended deadline for filing C Corporation and S Corporation returns is September 15, 2011, the regular extension date.

MILITARY SPOUSES HAVE UNTIL OCTOBER 2011 TO PAY TAXES

The IRS has extended the deadline for paying 2010 taxes for spouses of military personnel who are working in or claiming residence or domicile in a U.S. territory or are living in a U.S. territory but claim residence in a U.S. state or the District of Columbia. For these taxpayers, payments will be due on October 17, 2011.

OVER \$1 BILLION IN REFUNDS REMAINED UNCLAIMED

The IRS has announced that \$1.1 billion remains unclaimed by 1.1 million taxpayers for the 2007 tax year, and the opportunity to claim the refund closed on April 18, 2011. The IRS estimates that half of these potential 2007 refunds were \$640 or more. Generally, the IRS allows taxpayers three years to claim a refund. After three years, the refund becomes the property of the U.S. Treasury.

To claim a refund on the 2007 return, taxpayers were required to file the 2007 request, properly addressed and post-marked by April 18, 2011. The 2008 and 2009 tax returns also must have been previously filed or the 2007 refund would be held. There is no penalty for filing a late return qualifying for a refund.

California, Texas, and Florida topped the list with the most taxpayers who did not claim their refunds. California taxpayers left a total of \$129,205 on the table. North Dakota, South Dakota, and Vermont had the lowest number of taxpayers who failed to claim their refunds. Of course, the Dakotas are very low-population states. The lowest three states had less than a total of \$2,000 in unclaimed refunds.

Note: The above numbers reveal that more taxpayers across the U.S. should be filing returns to get their refunds. These statistics show how important it is for you to have your tax situation evaluated by a professional before deciding not to file an income tax return.

OPTIONS FOR TAXPAYERS WHO CANNOT PAY THEIR BILL

If you cannot pay the full amount of your tax liability for the year, the IRS gives you several options to pay it off over time or reduce the amount of the outstanding liability. If your tax liability remains unresolved, I will be glad to discuss the two options described below with you.

Installment Agreements

For taxpayers who did not pay in full by April 18, an installment agreement may be appropriate. As your tax preparer, I can file forms with the IRS to request that you be put on an installment plan.

Offers in Compromise

The IRS recently expanded the Offer in Compromise program, which now covers taxpayers with annual incomes of up to \$100,000 and tax liabilities up to \$50,000. If you meet certain income and asset requirements, you may be able to compromise your tax liability with the IRS by making an Offer in Compromise.

An Offer in Compromise is an agreement between a taxpayer and the IRS that settles the taxpayer's tax liabilities for less than the full amount owed. It is subject to acceptance based on legal requirements. Generally, the IRS will not accept an offer if it believes the liability can be paid in full as a lump sum or through a payment agreement. Prior to approval, the IRS examines the taxpayer's income and assets to determine the taxpayer's ability to pay.

NEW CHANGES IN IRS LIEN PROCEDURES TO AID STRUGGLING TAXPAYERS

The IRS has announced a new series of steps to help people with their tax liabilities and with avoiding tax liens. The changes to the IRS's lien filing systems include:

- **Significantly increasing the dollar threshold for issuing liens.** Currently, liens are automatically filed at certain dollar levels for people with past-due balances.
- **Making it easier for taxpayers to obtain lien withdrawals after paying a tax bill.** Liens will now be withdrawn once full payment of taxes is made if the taxpayer requests it. In order to speed the

withdrawal process, the IRS also will streamline its internal procedures to allow collection personnel to withdraw the liens.

- **Withdrawing liens in cases where a taxpayer with unpaid assessments of \$25,000 or less enters into a Direct Debit Installment Agreement.** Liens will be withdrawn after a probationary period demonstrating that direct debit payments will be honored.
- **Creating easier access to Installment Agreements for more struggling small businesses.** Small businesses with \$25,000 or less in unpaid tax now can participate in the installment agreement program. Small businesses will have 24 months to pay.
- **Expanding the Offer in Compromise program to cover more taxpayers.** This program is being expanded to allow taxpayers with annual incomes up to \$100,000 to participate. In addition, participants must have tax liability of less than \$50,000.

“We are making fundamental changes to our lien system and other collection tools that will help taxpayers and give them a fresh start,” IRS Commissioner Douglas Shulman said in announcing the changes. “These steps are good for people facing tough times, and they reflect a responsible approach for the tax system.”

What is a Tax Lien? A federal tax lien gives the IRS a legal claim to a taxpayer's property for the amount of an unpaid tax debt. Filing a Notice of Federal Tax Lien is necessary to establish priority rights against other creditors. Usually the government is not the only creditor to whom the taxpayer owes money.

A lien informs the public that the U.S. government has a claim against all property, and any rights to property, of the taxpayer. This includes property owned at the time the notice of lien is filed and any property acquired afterwards. A lien can affect your credit rating; therefore, it is critical for you to arrange for payment of taxes as quickly as possible.

Tax liens generally are filed with the recorder or clerk of the county where a taxpayer's assets are located.

STORM VICTIMS IN MANY STATES QUALIFY FOR IRS DISASTER RELIEF

Again this year, the IRS can barely keep up with all of the areas being designated federal disaster areas due to recent tornadoes, floods, and other natural disasters. Taxpayers in the following states have recently been given tax relief by the IRS: Alabama, Arkansas, Georgia, Kentucky, Mississippi, Missouri, Oklahoma, and Tennessee. The relief comes in the form of relaxed filing and payment deadlines for taxpayers who live in disaster areas or who operate a business in a disaster zone. The IRS's computer systems automatically identify taxpayers located in the covered disaster area and apply automatic filing and payment relief. If you live in or have a business in an area located outside of the immediate disaster area, you may still be eligible for tax relief. You should be aware that the disaster relief is time-limited, so you must meet the extended deadlines to avoid penalties. I will be glad to evaluate your individual situation and help you with any delayed filings.

IRS WILL REQUIRE PROOF OF ELIGIBILITY FOR ALTERNATIVE FUEL MOTOR VEHICLE CREDITS

A Treasury watchdog agency, the Treasury Inspector General for Tax Administration, recently conducted an audit to monitor the IRS's handling of the renewable energy tax incentives in the 2009 stimulus Act. The agency found that over 12,000 individuals erroneously claimed \$33 million of plug-in electric and alternative motor vehicle credits from January 1 to July 24, 2010. Individuals that abused the credit either claimed the same vehicle for multiple plug-in electric and alternative motor vehicle credits or claimed an excessive number of vehicles for personal use credits. In the audit, the Inspector General also identified improper claims for the credits by prisoners and IRS employees.

To prevent similar problems in the future, the Inspector General recommended that the IRS develop a coding system to identify vehicle makes and models and that the IRS require

the Vehicle Identification Number for each vehicle subject to the credit. As a result, the IRS plans to add a new line on the forms used to claim the credits to require a VIN. The IRS also plans to recover erroneous claims by reversing credits and conducting audits.

LACTATION EXPENSES ARE DEDUCTIBLE MEDICAL EXPENSES

The IRS has announced that breast pumps and related supplies are considered “medical care” under the rules for deduction of medical expenses. The IRS concluded that these expenses are deductible because they are for the purpose of affecting a structure or function of the body of the lactating woman. In addition, the IRS has clarified that amounts reimbursed for these expenses under flexible spending arrangements, Archer medical savings accounts, health reimbursement arrangements or health savings accounts are not income to the taxpayer.

MORTGAGE ASSISTANCE PROGRAMS DO NOT RESULT IN INCOME

The IRS has provided guidance on the federal tax consequences for payments made to financially distressed homeowners under federal housing programs, including the Housing Finance Agency Innovative Fund for the Hardest-Hit Housing Markets and the Department of Housing and Urban Development's Emergency Homeowners' Loan Program (ELHP). The guidance clarifies that homeowners who receive or benefit from payments made under state programs and federal programs may exclude the payments from gross income. They also may continue to deduct home expenses, including mortgage interest and property taxes.

Did you know... The nationwide average purchase price for residences in the United States is \$220,000 for new and existing residences. The IRS compiles these figures for a mortgage bond program.

TAXATION OF SOCIAL SECURITY BENEFITS

Many seniors are surprised to find out that sometimes their social security benefits are taxed, depending on how much other income they have for the year. Social security benefits are taxed when a taxpayer's adjusted gross income plus one-half of the social security benefits exceed a predetermined "base amount." Then, the taxpayer is required to report up to 50% of benefits received. A different threshold applies to taxpayers with higher incomes. These taxpayers must pay tax on their benefits if their income exceeds an "adjusted base amount," requiring these taxpayers to include in income up to 85% of the benefits received.

The "base amount" is as follows:

- \$32,000 for married taxpayers filing a joint return;
- \$0 for certain married taxpayers filing separately; and
- \$25,000 for all other taxpayers.

The "adjusted base amount" is as follows:

- \$44,000 for married taxpayers filing a joint return;
- \$0 for certain married taxpayers filing separately; and
- \$34,000 for all other taxpayers.

If you expect a higher than normal income for the year, let me know and I will do a preliminary estimate of the taxes you may owe on your social security benefits.

THINGS TO KNOW IF YOU RECEIVE AN IRS NOTICE

Each year, the IRS sends millions of letters and notices to taxpayers for a variety of reasons. Here are several things to know about IRS notices – just in case one shows up in your mailbox.

1. Don't panic. I can help you deal with many of these letters simply and painlessly.

2. There are a number of reasons why the IRS might send you a notice. Notices may request payment of taxes, notify you of changes to your account, or request additional information. The notice you receive normally covers a very specific issue about your account or tax return.

3. Each letter and notice offers specific instructions on what you are being asked to do, such as pay an amount by a certain deadline or send further information.

4. If you receive a correction notice, you should compare it with the information on your return. I can help explain any differences.

5. If you agree with the correction to your account, then usually no reply is necessary unless a payment is due or the notice directs otherwise.

6. If you do not agree with the correction the IRS made, it is important that you respond as requested. I can help you prepare a written explanation of why you disagree and include any documents and information you want the IRS to consider, along with the bottom tear-off portion of the notice. It will take the IRS about 30 days to respond.

7. It's important that you keep copies of any correspondence with your records.

FILING AN AMENDED RETURN

The IRS allows you to file an amended tax return to correct your filing status, your income or to add deductions or credits you may have missed. Amended returns must be filed within three years of the original return. Read over the important facts below about filing amended tax returns and let me know if you think you may be a candidate for filing an amended return.

- Amended returns are filed using Form 1040X, Amended U.S. Individual Income Tax Return. This form can be filed to correct previously filed Forms 1040, 1040A, or 1040EZ.
- An amended return cannot be filed electronically. It must be filed by a paper form.
- Generally, you do not need to file an amended return due to math errors. The IRS will automatically make that correction. Also, you do not have to file an amended return because you forgot to attach tax forms, such as W-2s or schedules. The IRS normally will send a request asking for those.
- You must file Form 1040X within three years from the date you filed your original return or within two years from the date you paid the tax, whichever is later.

- If you need to amend more than one tax return, you will have to file a separate form for each one and mail them in separate envelopes.
- If you are filing to claim an additional refund, we will need to wait until you have received your original refund before filing Form 1040X. You may cash that check while waiting for any additional refund.
- If you owe additional tax, it is best to file the amended return and pay the tax before the due date of the original return to limit interest and penalty charges that could accrue on your account. Interest is charged on any tax not paid by the due date of the original return.
- Your state tax liability may be affected by a change made on your federal return. Therefore, we may need to correct the state return as well.

RULES FOR PAYING ESTIMATED TAXES

If you receive income that is not subject to withholding, you likely will need to pay estimated taxes during the year depending on what you do for a living and what type of income you receive. Usually, this income comes from self-employment, interest, dividends, alimony, rent, gains from the sales of assets, and prizes or awards.

As a general rule, you must pay estimated taxes if *both* of these statements apply: 1) You expect to owe at least \$1,000 in tax after subtracting any tax withholding and credits, and 2) You expect your withholding and credits to be less than the smaller of 90% of your 2011 taxes or 100% of the tax on your 2010 return. There are special rules for farmers, fishermen, household employers and higher income taxpayers. For Sole Proprietors, Partners and S Corporation shareholders, you generally have to make estimated tax payments if you expect to owe \$1,000 or more in tax when you file your return.

Estimated taxes are paid quarterly, on April 15, June 15, September 15 and January 15. Payments should be sent in with Form 1040ES, Estimated Tax for Individuals. I can calculate your estimated taxes and help you arrange payment. Please let me know if you expect to have income without withholding in any tax year.

BUSINESS ISSUES

IRS URGED TO INCREASE STANDARD MILEAGE RATE

With gasoline prices topping \$4.00 in many parts of the country, the IRS is coming under pressure from members of Congress to raise the standard mileage rate for the second half of the year. The standard mileage rate is used by taxpayers to deduct business vehicle expenses. The standard mileage rate for 2011 is 51 cents per mile. For example, if you drive 10,000 miles on business in 2011, you can deduct \$5,100 (10,000 × 51¢) along with parking fees and tolls for business use of your vehicle.

In 2008, the standard mileage rate was increased mid-year due to rising gas prices. That year it was 50.5¢ per mile for January 1, 2008 through June 30, 2008 and 58.5¢ per mile for miles driven in July 1, 2008 through December 31, 2008. Now a bipartisan group of House members wants the IRS to increase the rate mid-year again. In a letter sent to IRS Commissioner Douglas Shulman the group stated, "As you know, the current rate of 51 cents per mile was set at the end of last year. Since gas prices have risen sharply since then, this rate is probably not an accurate gauge of the cost of operating an automobile." The lawmakers go on to urge the IRS to reevaluate the 51¢ rate.

However, an IRS spokesman recently told a payroll industry group that the IRS has no plans to raise the rate this year. The IRS cited logistical problems with a half-year rate and observed that gas prices may go down. If prices keep going up or do not go down soon, Congress may step up the pressure on the IRS to reconsider its position.

IRS SETS DEPRECIATION LIMITS FOR AUTOMOBILES

The IRS has set the new limits for depreciation of passenger automobiles first placed in service during calendar year 2011, including separate tables of limitations on depreciation deductions for trucks and vans. The new

limits reflect the required automobile price inflation adjustments. The tables also take into account that the first-year depreciation limit for cars is increased by \$8,000 for "qualified property" placed in service before January 1, 2013.

Passenger Autos With Bonus Depreciation

The maximum depreciation deduction for a passenger automobile placed in service in 2011 for which bonus depreciation applies, is:

- \$11,060 for the first tax year in its recovery period (2011);
- \$4,900 for the second tax year in its recovery period (2012);
- \$2,950 for the third tax year in its recovery period (2013);
- \$1,775 for each succeeding tax year in its recovery period (2014 and later years)

IRS REVISES RULES FOR WITHHOLDING ON NONRESIDENT ALIEN EMPLOYEES

The IRS has issued a Notice providing updated rules for calculating the amount an employer must withhold on nonresident alien employees for services performed within the United States. Generally, nonresident aliens are entitled to only one exemption on their W-4 and they may not claim the standard deduction. Therefore, employers must make special adjustments to their withholding calculation because the regular tax tables take into account the standard deduction. The IRS explained that employers should use tables in the revised Publication 15 (Circular E), Employer's Tax Guide, to calculate nonresident alien withholding taxes.

IRS ISSUES MAXIMUM VEHICLE VALUES

The IRS has released the 2011 maximum values for employer-provided vehicles for purposes of the cents-per-mile valuation and the fleet-average valuation rules.

Maximum Automobile Value, Cents-per-mile Valuation

Employers who provide a passenger automobile to an employee for personal use in 2011 can determine the value of the personal use by using the vehicle cents-per-mile valuation rule and the maximum value. On the date the automobile is first made available, the fair market value should not exceed \$15,300 for a passenger automobile or \$16,200 for a truck or van.

If the fair market value exceeds these amounts, the employer may use alternative valuation rules, including the lease valuation or the commuting valuation.

Maximum Automobile Value, Fleet-Average Valuation

Employers with a fleet of at least 20 automobiles who provide an automobile to an employee for personal use in 2011 can determine the value of personal use by using the fleet-average valuation rule to calculate the Annual Lease Values of the automobiles in the fleet. For a passenger automobile, if the fair market value is greater than \$20,300, the fleet-average valuation rule cannot be used to determine the Annual Lease Value. For trucks and vans, if the fair market value is greater than \$21,200, the fleet-average valuation rule cannot be used.

If the fair market value exceeds the above amounts, the employer may determine the value of the personal use by using alternative valuation rules.

STATE TAX NEWS

THE BEST TAX 'UNDER THE RADAR', CELL PHONE FEES

If you're a politician, the last thing in the world you want to be seen doing is raising taxes. So the trend has been to find an area where any new taxation can be defined as a "usage fee," rather than a "tax. This is what many jurisdictions have achieved when imposing fees on cell phones.

The recent growth of cell phones has been phenomenal, reaching close to 300 million in 2010. Compare that

to the 50 million (and shrinking) land lines. The taxes and fees imposed on cell phones now are as high as an astonishing 23.69% in Nebraska, with the national average coming in at 16%, according to the Tax Foundation, a national tax education group. This figure is more than the “sin” taxes on tobacco and alcohol in most locales. With the new and fast growth in data usage, most consumers just pay up with little realization of how much the tax really is. After all, have you ever tried to read your cell phone bill? This “confusion pricing” may not be unintentional. The State of Texas even sued Sprint because the company listed a state tax as a specific line-item in its bill, rather than hiding it from customers within other charge amounts.

Note: Here is some interesting history. The original federal telephone excise tax was imposed as a *temporary* measure over a hundred years ago to help fund the Spanish-American war.

SALES TAXES ON Groupon® DISCOUNTS

Internet coupon services like Groupon® now offer daily coupons for a variety of services. For example, if you sign up, you may get offered \$50 in dining dollars at your favorite restaurant for a coupon purchase of \$25. If you take the coupon and have a nice meal for two in Atlanta where the tax is 8%, the bill comes to \$50.00, excluding sales tax. You have only paid \$25 for the \$50 meal, so how much tax should be collected? Restaurants claim they do not have to collect on the \$25.00 coupon discount. However, when *Forbes* did a nationwide survey of state revenue collectors, three of five of the most populous states, Florida, Illinois and California, replied that they expected the restaurants to collect the full tax on the entire amount or be liable for it. There’s a lot of tax money at stake in this dispute and the controversy is just beginning. It will be interesting to see how the states line up on this issue and what steps they will take to enforce the higher tax amounts.

SALES TAXES AT AN ALL TIME HIGH

A new report by the Tax Foundation has found that the average sales tax rate has hit an all-time high—a whopping 9.64%, up a full percentage point in just one year. Vertex, Inc., which tracks this information, combined local and state taxes and even Indian reservation levies to come up with the real number for the combined burden for state and local taxes. Vertex’s stated average is probably higher than what Americans pay on average because the company calculated separately the average sales tax levied by states, by counties, by municipalities and by special districts such as business improvement zones and Indian tribes, and added them together. Arizona tops the list of total taxes with 13.725%, while taxpayers in Chicago and Los Angeles pay a combined total of around 9.75%. California has the highest statewide sales tax rate, 7.25%, followed by five states at 7%, including Indiana, Mississippi, New Jersey, Rhode Island and Tennessee.

AN IDEA WHOSE TIME HAS GONE—TAX REFUND DEBIT CARDS

The Georgia Department of Revenue thought it had a good idea when it decided to offer debit cards preloaded with a taxpayer’s tax refund. The debit cards were issued through Bank of America. Bank of America apparently thought it was a good opportunity, too, and devised a scheme of “fees” to go along with the cards. Now some Georgia taxpayers who *did not* request the debit cards are furious. Instead of having their refund direct deposited, taxpayers were issued debit cards. Bank of America charged a \$1.50 fee for withdrawing money from the card, although the first withdrawal was free. Also, taxpayers could check the balance on the card *only one time* for free. After that, there was a \$1 fee. To add insult to injury, taxpayers got charged \$2 for any call to the Bank of America customer service line.

The small consolation is that taxpayers who got debit cards were able to fill out a survey about their experience. In response to taxpayer complaints, State officials told taxpayers to take the debit cards to their bank and deposit it like a check.

THE PERILS OF TAX SOFTWARE OR WHY IT PAYS TO HIRE A TAX PROFESSIONAL

The IRS’s statistics show that an increasing number of taxpayers are using software programs to prepare and file their own returns. However, the cost savings may not always be worth it. Especially when starting a new business, with the complexity of the laws, it is easy for taxpayers to overlook required filings and to mishandle business deductions. As your tax professional, I can help ensure that you do not pay too much or too little, and I can help you avoid mistakes that can lead to penalties.

Recently, a number of court cases have involved taxpayers who tried to avoid penalties by claiming the tax software program they were using caused the underpayment of tax. In case after case, the courts *denied* relief to the taxpayers, pointing out that the programs are only as good as the information the taxpayer puts into them. In *not one case* did the taxpayer win with this argument. Thus, hiring a tax professional can pay for itself very quickly with just the addition of often-overlooked business deductions and the avoidance of even small penalty amounts.

Thank You for Your Business

As your tax professional, I assure you that I will be keeping a watchful eye on Congress and on IRS actions which may affect your personal finances and your business. I will be happy to address any concerns and answer questions you have about any of the issues covered in this newsletter. Thank you for the opportunity and privilege of allowing me to serve as your tax professional.

Best Regards,

“I shall never use profanity except in discussing house rent and taxes.”

—Mark Twain, American humorist



Service to the Tax Profession