

TAX LAW CHANGES AND IMPORTANT INFORMATION

DECEMBER 2010

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CLIENT CONSENT TO DISCLOSE TAX RETURN INFORMATION

- Tax return preparers must obtain the informed written consent of a taxpayer in order to disclose return information for other purposes.
- This means you can no longer call me and ask me to email your tax return to “whomever.”
- I must have your written, informed consent to release the information.

“MAKING WORK PAY” CREDIT – 2010

- This is actually a refund/reduction of the Social Security tax on an employee’s first \$6,500 of taxable wages up to a maximum of \$400 for a single taxpayer; \$800, Married Filing Joint [“MFJ”].
- It will appear on Line 63 of your tax return.
- The credit is phased out for Adjusted Gross Income (“AGI”) between \$75,00 and \$95,000 if single (\$150,000 to \$190,000 MFJ)
- The withholding tables were reduced in April 2009 to get the money into the hands of taxpayers sooner.

PERSONAL EXEMPTION – HIGH INCOME TAXPAYERS NOTE: GOOD NEWS!

- The “phase-out” of the personal exemption is being *phased out!*
- There is a five-year phase-in of the repeal of the “phase-out.” (Confusing? That’s why you have me!)

ITEMIZED DEDUCTIONS 3% LIMITATION FULLY REPEALED FOR 2010

CANCELLATION OF DEBT – May create taxable income, but it may not! Complex rules.

EDUCATOR DEDUCTION – EXTENDED, AGAIN FOR 2010

- The “Above-the-Line” deduction for up to \$250 for books and classroom materials is extended through 2010.
- The deduction is available for those who work at least 900 hours as a teacher, instructor, counselor, principal, or aide. You need to keep receipts and tell me you have them!

HIGHER EDUCATION – Deduction versus Credit?

- The Tuition and Fees Tax Deduction (now includes computers software [excluding games] and equipment) can reduce taxable income by as much as \$4,000 (more than one student) in 2009. This deduction is taken as an adjustment to income, which means you can claim this deduction even if you do not itemize deductions on Schedule A of Form 1040.
- American Opportunity replaces the Hope Credit – maximum credit is \$2,500 and \$1,000 may even be refundable.

- Adjusted Gross Income above \$80,000 Single/\$160,000 MFJ, the credit = \$0
- I'll figure the deduction versus credit in accordance with the regulations and what's best in your case.

OKLAHOMA'S PROMISE

If you have a child not yet in the *eleventh* grade that plans to attend college, take a look at this: www.okpromise.org

2010 RESIDENTIAL HOMEBUYER CREDITS -

- Submit a copy of the signed closing/settlement statement –must be attached to return
- 2010 - First time homebuyer credit (up to \$8,000) does not have to be repaid.
- Purchase had to be under contract by April 30, 2010; sale closed by September 30, 2010.
- Replacement Home Purchase Credit (after November 6, 2009) up to \$6,500, even though you previously owned a home.
- Rules are complex. Ask me if you think you might qualify.

ADDITIONAL STANDARD DEDUCTION FOR REAL PROPERTY TAXES

An individual taxpayer's standard deduction for taxable years beginning in 2008 or 2009 is increased by the lesser of:

- The amount allowable to the taxpayer as a deduction for real estate taxes described in the tax code
- Or \$500 (\$1,000 in the case of a married individual filing jointly).

STANDARD MILEAGE RATES \$.51/mile for 2010

	2010
Business	51¢
Medical & moving	19¢
Charity	14¢

NEW VEHICLE PURCHASED IN 2010?

- If purchase price less than \$49,500, the Oklahoma excise tax may be added to the *standard deduction* similar to the addition of property taxes.
- If you itemize deductions on Schedule A, you will *not* qualify for an additional deduction based on the purchase of a new car.

CHARITABLE CONTRIBUTIONS ←This is a still a BIG DEAL for 2010!

- The detailed requirements for cash and non-cash contributions are available and I can e-mail them to you. Let me know. Charities are not following these rules and you must extract the required documentation from them now, not when the deduction is questioned by the IRS.

- Documentation/receipt is required for merchandise contributions. It must include name and address of the charity and the date, description and value of items donated.

GAMBLING/WAGERING LOSSES

Gambling winnings are fully taxable and all must be reported on your tax return. (Even if you did not get a W2G) You must file Form 1040 and include all of your winnings. Gambling income includes, among other things, winnings from lotteries, raffles, horse races, and casinos. It includes cash winnings and also the fair market value of prizes such as cars and trips. Generally, over a certain amount, the casinos will provide you with a W2-G, but you must have good records supporting any losses claimed against the winnings.

Anyone who pays your winnings or awards you a prize is required to issue you a Form W-2G if your winnings are subject to Federal income tax withholding or if your winnings are over:

- \$1,200 - bingo or slots
- \$1,500 keno
- \$5,000 poker tournament
- \$600 (other than bingo or slots)
- At least 300 times wager

You can find more information in Publication 525, Taxable and Nontaxable Income.

However, all gambling winnings must be reported regardless of whether any portion is subject to reporting or withholding. In addition, you may be required to pay an estimated tax on your gambling winnings. For information on tax withholding on gambling income, refer to Publication 505, Tax Withholding and Estimated Tax.

If your luck is not always so good, you may deduct gambling losses. Losses may be deducted only if you itemize deductions and only to the extent that you have gambling winnings. You are required to keep an accurate diary or similar record regularly maintained by you, supplemented by verifiable documentation (checks, ATM withdrawals, etc.) Gambling losses are claimed as a miscellaneous deduction on Form 1040, Schedule A. Remember, the losses you deduct may not be more than the gambling income you report on your return. You are responsible for maintaining adequate records to support wagering winnings and losses.

HOBBY LOSS RULES

- Must be engaged in for profit.
- Losses are limited to the deductions that would otherwise be deductible whether or not the activity was for profit but only to the extent of income from the activity. Schedule A.
- Activity is presumed to be a hobby unless profitable for three out of five consecutive years. (Two out of seven years, for horse breeding, training or racing.)

BUSINESS TAX MATTERS

PENALTY FOR LATE/FAILURE TO FILE PARTNERSHIPS OR S CORPORATION RETURNS

- Penalty increased from \$85/86 to \$195 per partner or shareholder per month.
- S Corporation - Due date is March 15
- Partnership Due date is April 15)

DEPRECIATION LIMITATIONS ON VEHICLES - "Luxury Vehicle" is defined as "cost greater than \$15,300!"

First year depreciation deduction for luxury auto (gross weight 6,000 pounds or less) = \$3,060. For light trucks or vans (gross weight more than 6,000 pounds) = \$3,260. (Autos with gross vehicle weight greater than 6,000 pounds are excluded.) There are lots of other complex limitations. Ask if you think you may have purchased a qualified vehicle in 2010.

SECTION 179 - ELECTION TO EXPENSE – 2010-2011 LIMIT IS \$500,000; 2012, \$25,000

50% SPECIAL BONUS DEPRECIATION ALLOWED FOR 2008-2010

IRS ASKS WORKERS TO IDENTIFY EMPLOYERS WRONGLY PAYING ON 1099 ←WATCH OUT!!

Workers who think they should be "employees" and have you pay ½ the Social Security and Medicare tax can file Form 8919 and only pay the employee's portion. But guess what? This will trigger the IRS coming to you for misclassifying an "employee" as "independent contractor" and all the associated penalties and interest, as well as taxes on amounts paid!

S CORPORATION COMPENSATION

If you are not paying a "reasonable" compensation to working shareholders, expect a letter from the IRS!

LISTED PROPERTY

The business use of "listed property" requires stringent recordkeeping that very few taxpayers are aware of, much less comply with. Examples of listed property: *automobiles, computers and cell phones.*