



Issue 11

Year in Review: 2011 **Income Tax Update**

*And some last minute things you can do to
STILL minimize your 2011 income taxes!!*

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Greetings USA Tax Filer!!

We are surprised how quickly the year has passed! On the income tax scene Congress continues to work on last minute income tax bills as of the date of this letter, but you can be assured we stay abreast of all the latest changes as they occur! With the economic issues this year you can be sure that we will work more diligently than ever to keep your tax bill at the lowest legal amount. The IRS will not accept any tax returns until the 14th of January (either efile or paper filing); however, there are still some things you will want to be aware of below before you decide you want to file early.

Tax Questionnaire: We are once again making available to everyone our tax questionnaires, for free, on our website as it is our attempt to be as thorough as possible in the preparation of your return. Even if your CPA or filing company provides you an organizer of any sort, you may find it useful to use our past year's [tax questionnaire](#) (still available on our website) as a guide to start gathering your documentation. The tax questionnaire may not be enough however, and we wanted to bring some special items to your attention below.

Home Owner Energy Credits

If you (and spouse if married) made or are considering investing in insulation, storm windows or doors, high efficiency furnaces or water heaters or similar energy improvements there is a 10-30% Federal income tax credit available in many cases. The bad news? It is limited to a maximum of \$500!

Mortgage Interest

Recent IRS scrutiny of home mortgage interest deductions now require us to carefully track re-financings and the use of loan proceeds. Have ready your new home loan information, closing statements from any re-financings, and a summary of what any additional loan proceeds were used for. Your new home loan, if it was a cash-out refinance, might not be fully tax deductible if it is greater than your original home loan when you bought the home.

Foreclosures

If your primary home has been foreclosed upon, you would need some extra information before you file your 2011 return. Most likely, there is no tax implication for you. However, you would still need to appropriately report it. If it is your rental income property or even your vacation property which was foreclosed upon, you need to know your original cost, any extra repairs you made to it, any nondeductible (passive losses), and any other 1099-A or 1099-C documentation your mortgage company would have provided you. This all gets factored in when you report your foreclosure so that your taxes are minimized.

Charity

A scary IRS court case in 2008 reminds us of the rules on charitable contributions. ALL deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity, and the letter must be dated by the date you file your return. The letter should show the date and amount of any individual contribution over \$250, and should also state that no goods or

services were received in return for the contribution.

****** Because of late Congressional action to enact tax law changes, anyone who itemizes and files a Schedule A will need to wait to file until mid- to late February. ******

Foreign Accounts

If you have read any news (and also any of our E-Newsletters) in the last year you know that the IRS is looking closely for offshore accounts (The IRS just completed on December 9th, the open voluntary disclosure for those seeking to show their foreign accounts in exchange for lesser penalties). If you have an account, rental property, or business interest with a value over \$10,000 in a foreign country, or a foreign business ownership (not through a mutual fund) please be aware that there are some special rules which will apply to you. There are substantial penalties for failure to disclose these items. This year there is a new form for those over \$50,000 in foreign accounts. Those having foreign mutual funds and stock have an added special filing requirement as well. The new rules would supposedly make foreign banks comply with IRS regulations by June of 2013 to report those holding accounts in their institutions.

Foreign Income

If you have had any foreign income from any source whatsoever, you would need to detail your foreign income and foreign taxes. You could always use our [foreign income worksheet](#). Conversely, if you are using a preparer, provide him/her a format whereby you detail your foreign income and foreign taxes in some sort of understandable format. That way he/she knows all the relevant information to properly file the correct foreign income and tax form to attach to your 1040. Otherwise, we have designed our spreadsheet specifically for this purpose. Even if your income is not from India, you can still use this [worksheet](#). This will surely help your CPA or accountant avoid any back-and-forth with you so that he/she can take any credit for your foreign taxes and properly report any exempt income by category, if applicable.

Mileage Deductions

Deductible mileage rates changed during the year. Please have ready your number of medical miles you drove during the year for this deduction. This includes trips to the doctor, dentist, pharmacy, dialysis, as well as any charity related volunteer work mileage.

Education Credits

A major revision of college credits by President Obama has provided us with the “American Opportunity Credit”, a special credit for undergraduate college students. If you have children in college or near to college, please discuss some options with your preparer to assure that you receive the best benefit for these costs.

Rental Property

If you own rental property, this year the IRS has demanded substantially more information. You now need, **FOR EACH PROPERTY SEPARATELY**, the physical location, the type of property (single-family, duplex, etc), and Forms 1099-K received, and a record, by property of the number of days rented and the number of days used for personal purposes.

Roth IRA Conversions

You will continue to hear from lots of “experts” this year that you need to convert your retirement accounts to Roth IRAs. While there are a number of advantages to conversions, there are an equal number of disadvantages that carry some major tax consequences. Please do not convert your accounts in 2011 without talking to your tax preparer or CPA first, to at least discuss both the positives and negatives. ***All conversions for 2011 must be completed by December 31, 2011.***

Gift Changes

Effective 1/1/2009 the amount you may give to one person in one year without any return filing requirements has been increased to \$13,000. Additionally, Congressional inaction on the estate tax front requires most people that have any substantial net worth to immediately consider estate planning. Please contact your preparer to discuss these issues if you have given a family member or anyone more than this amount.

Worthless Stocks and Bonds

If you own stocks or bonds that became worthless this year please be sure to provide your preparer with the cost and purchase dates so that you can take any allowable deductions.

Formatted Stock Worksheet

Please fill out our [formatted stock worksheet](#), available on our website, if you have had stock or mutual fund sales in the year. An example is included in the first row for you. Otherwise, please provide a csv file or an xls spreadsheet file your brokerage would provide you which detail the relevant sale date, buy date, buy cost, sale cost, and security symbol information. This way your preparer can quickly import the sales information quickly into his software and avoid costly and time-sensitive errors for you.

Tax Planning

There is still time to setup an appointment for year end tax planning by December 31. We recommend a meeting if you have had any major changes during 2011 or are expecting major financial changes in 2012 such as retirement, inheritances, etc. So, do call your preparer!

Future Income Tax Rates & Other

Now that Congress has extended the 2010 tax levels to 2012 for all taxpayers, we are able to much more accurately plan for 2012. Congress has also dramatically changed the estate tax rules for the future. In both cases we highly recommend that when you are getting your information to your preparer for your 2011 Federal tax return that you set an appointment for an after tax season "Tax Tune Up" to examine tax and estate planning strategies. Estate planning for those having a worker H1B or L1 visas, and even Green cards is markedly different and insufficient and untimely planning on this front can definitely have costly consequences. The IRS does not allow the same tax breaks for non-US Citizens from an estate planning concern as it does US Citizens.

Last Minute Things..

You still have one more week left in 2011. Here are some of our ideas:

1. If you wish to minimize your tax for 2011, we would recommend that you max out the 401k/403B company retirement account you are a participant in. Even if the stock market has treated you poorly or if you company is not matching any of your contributions at the moment, it is still a great tax benefit for you to go ahead and contribute because it will reduce your income tax (not social security and medicare tax). Just contribute it to the "cash" or "fixed" portion of your 401K/403B where the monies are not invested in the market, if you are concerned about market fluctuation. You can always decide to invest it later.
2. If you haven't contributed to your FSA (flexible spending account) for medical reasons or dependent care benefit, we would suggest that you make sure you can do this before your pay period ends by 12/31. The monies can be spent, in most cases in 2012, before you would forfeit the monies in the FSA.
3. Making an extra mortgage payment will only get posted to your principle, and that is not a deduction, so we would not recommend that. But, how about making your property tax payment if your county allows it and/or if your property tax has already been assessed on your property? Do you have any taxes you haven't paid yet of any kind? Making an extra payment could allow you an extra deduction on your itemized deductions, if you are an itemizer.

4. For all you corporate tax filers, and even Schedule C filers (sole proprietors, usually), why not make the extra payments to your vendors if you can afford to? Put it on your business credit card. The payment will be due 30 days from now, but it is still a valid expense for 2011. (You can also pay your CPA ahead of time for 2011 tax return filing fees -- your CPA would surely love it as well).
5. Business trip that you're taking soon or even in 2012? Book it now, and pay as much of your expense now, on a credit card so that you can take that expense on your 2011 tax return.
6. If you're a corporate tax client, you can contribute up to \$16,500 (\$22,000 if you're 50 or older) in a Solo 401K (assuming you're the only shareholder/member of your company) by January 15th 2012, assuming the plan is set up by Dec. 31st, 2012. Your company can then contribute the profit sharing portion by the corporate filing deadline, plus extension deadline in the new year for the 2011 tax return. There are some extra things you can do by way of retirement plan contributions as well...watch for one more email for 401K, SEP-IRA, 1099 requirements, and defined benefit contributions limits.

If you receive a new Form 1099-k please be sure to bring it to your preparer and do not panic. The 1099-K rule was repealed some time ago. It will not have a bearing on your tax return.

There are literally hundreds of other changes, extensions and deletions that your preparer will consider this year while preparing your return. Because of these changes we request everyone to try to have their tax information in to their preparer at least two weeks earlier than normal. Your preparer will surely be grateful. Otherwise, for all you late stragglers, **the deadline this year is Monday, April 18th, 2012 due to a federal holiday falling on the 15th.** Please rest assured that we will utilize our best resources to once again provide you with timely, complete and accurate tax information and knowledge in order to keep you and your preparer better informed so that your tax burden is kept at the lowest legal amount. Thank you again for your continued attention to our Tax Tips E-newsletters. .

Sincerely,

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