

MDI Rotary Income Tax Update December 2011

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Are you over 70.5 with a retirement account?

- Required minimum distributions are back.
- Based upon life expectancy tables

Did you sell stocks, bonds or other capital assets?

- Form 1099-B will now include your cost, if available.
- New form 8949 to report sales
- Three types:
 - A; 1099 shows basis
 - B; 1099 does not show basis
 - C; no 1099 received
- TIP - If basis is missing then get to broker before year end to reduce audit risk.

Do you own stocks or bonds with unrealized losses?

- Want to save an easy \$690 on your income tax bill?
- Consider selling enough to generate \$3,000 of losses before year end.
- Save \$450 federal income tax and \$240 state. (if 15% bracket federal & 8% state)

Are you in the 15% tax bracket with unrealized gains on capital assets?

- Consider selling stocks, bonds, other assets with gains before year end.
- MFJ taxable income under \$68,000 (\$34,000 if single)
- Pay 0% tax on capital gains versus normal 15%

Did you make charitable contributions?

- All require cancelled check or bank statement showing name of organization and date
- \$250 or more also needs written acknowledgement
 - Letter, e-mail, postcard
 - Amount of cash or description of property (organization does not have to value)
 - Date (or bank record showing date)
 - State if you received any goods or services in exchange
- Over \$500 special rules for donated car, boat or airplane.
- Over \$5,000 gift of property generally requires an appraisal
- Seek guidance regarding foreign donations.

Do you have unreimbursed expenses as a volunteer worker for charitable organization?

- May deduct as charitable contribution
 - Commuting expenses (i.e. mileage)
 - Meals & lodging on trips
 - \$250 or more; get written acknowledgement
 - Under \$250; no substantiation requirement (but I still advice keeping receipts or records)

Do you own a business and have children?

- Consider hiring your child.
- Avoid FICA taxes and potentially income taxes.
- Child must actually work.
- Consider having child's income go into a ROTH IRA.

Do you have employees?

- Be sure to have I-9's for all employees
- Including shareholder employees
- Horror stories regarding penalties

Do you provide housing and support to non-relative?

- May qualify to claim non-relative as a dependant.
- Must provide more than ½ of persons support.
- Persons gross income must be under the exemption amount (\$3,700 for 2011; \$3,800 for 2012).

Do you rent real estate?

- IRS has identified this as an area of concern.
- Rent home under 15 days and pay no income or sales tax.

Any tuition paid?

- May qualify for credit.
- Amount on 1099-T as billed (box 2) may not equal amount paid.
 - Most taxpayers file on a cash basis.
- Are the amounts based upon a school year or calendar year?

Received 1099-INT in wrong name with wrong social security number?

- Ask for corrected form
- Or – list and then subtract showing nominee name and social.
 - Allows IRS to see where it went.
 - Should go to proper taxpayer.

Own business?

- 100% bonus depreciation available for 2011
- No more extended loss carrybacks
 - Now generally only two years
 - Was up to five year carryback in 2010
- Over age 70.5 can still contribute to SEP-IRA
- New form 1099-K Merchant Card & Third Party Payments.

Are you an employee with unreimbursed business expenses?

- Must itemize deductions
- File form 2106 and list amount on Schedule A
- Subject to 2% AGI threshold.
 - Most do not exceed this.

Do you have a Health Savings Account?

- Over the counter drugs are no longer eligible unless doctor prescribed
- Must have high deductible health plan to be eligible for HSA

Do you have any gambling winnings? (i.e. Hollywood Slots or Lottery)

- May receive a 1099-G
- Winnings are taxable as “other income”
- Cost of tickets and loss wagers are deductible as itemized deduction
 - Only to extent of winnings
 - Not subject to 2% threshold

Did you receive gift or inheritance?

- These are not taxable.
- Except for inherited traditional IRA or 401(k)
- Annual gift exclusion remains at \$13,000 for 2011 and 2010.
- Basis for gift is generally the donor’s basis if sold for gain
 - (lower of donor’s basis or fair market value at date of gift if loss).
- Basis for inheritance is generally the fair market value at date of death.

