

DUNN ACCOUNTING & TAX PREPARATION

Marlene E. Dunn Till, EA
1920 Shady Springs Drive
Neenah, WI 54956

Phone (920)727-1040
Fax (920)725-3866

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Dear Client:

This year has been a challenge in the tax world. Congress is stalled on necessary simplification of our tax system. They cannot come to agreement on the smallest detail. Tax professionals hope each year that tax law changes will come early enough for education for our clients and ourselves. Forms need to be created timely by government agencies. It seems each year we scramble to be ready. New Regulations have piled up again for us. Unlicensed preparers now must obtain special licensing - it is about time we protect the taxpayer from those who prepare incorrect or inadequate returns.

I have enclosed the Tax Tips newsletters. Please read them for information that assists you in preparing your information for your tax interview. If any items trigger more questions, please feel free to call me.

Here are a few tidbits not covered in the tax tips:

Cell phone use for business. In the past you had to prorate the personal vs. business of the cell phone expense. NO MORE. The IRS ruled that if the main purpose of the phone is for business use it is assumed that the personal portion is minor. Therefore, for business use, most cell phones will now be 100% deductible.

Mileage expense amounts are covered in the tax tips. 2012 amounts per mile are: 55.5 cents for Business, Medical or Moving are 23 cents, & Charity is 14 cents.

Daycare Meal Expense for 2012 are: Breakfast \$1.24; Lunch/Dinner \$2.32; Snacks \$0.69. Does this increase cover how much more you pay at the grocer?

Gift Exclusion: The maximum that does not require filing a gift tax return is still \$13,000. Filing a return usually does not trigger any tax, only reporting the gift.

Basis of Stock Reporting: Beginning in 2011 stockbrokers must report, to the IRS and the taxpayer, the stock basis. In 2012 they must begin reporting basis of all Mutual Funds, and in 2013 they must report all other transaction basis such as straddles. Of course, we know that all those figures will be correct, right?

Reporting capital gains/losses: No longer will these be reported on the Schedule D but now will be on the Form 8949, with the Schedule D being a recap of activity. The new federal form just adds more paperwork to an already short tax season. One good thing: the rates for 2011 and 2012 remain the same: 0% if you are in the 15% bracket and 15% if you are in the 28% bracket.

Form 1099-MISC. There was a law passed as part of the Health Care Act that would require most businesses to report all their vendors whom they pay \$600 or more (even I would have had to send a Form 1099 to Office Depot to make sure they report the income from my purchases). Congress finally got the message loud and clear that this burden would have buried the business community in paperwork, financial burden, and erroneous and even double reporting, that they wised up and repealed the provision of the law. The Health Care Act writers used the amount they said the IRS would collect from non-reporters of this income to subsidize the overall costs of the Health Care Act.

Schedule C Filers. There is something new on the form this year. It is 2 questions to answer Yes or No. It asks: "Did you make any payments that would require you to file

Form 1099? If yes, did you or will you file them? So before, I file a Schedule C for any client I will ask these questions. You will need to know who must receive a Form 1099. Here is a link that explains who a Schedule C Filer should send a Form 1099 MISC to. http://www.ehow.com/about_5479258_should-receive-misc.html There are penalties for not doing them, so if in doubt, call me.

There is also an extra line for reporting the business income. There is a line for income received through credit cards and third party (such as paypal) services. Then there is a line to report the rest of the income. So please give me the two figures separately if you receive that type of income.

A Self Employed person can now use Long Term Care Insurance for deductions the same as health insurance premiums. This is a new ruling by the IRS.

Energy Credits are still available up to \$500 but if you had more than \$500 in energy credits in the earlier years (except 2008) you must subtract those credits from the \$500. There are limits for each type of item and percentages of the cost of items. Some include labor and some do not (windows, etc). Look up Energy Credits on IRS.gov for more info. Solar, wind and geothermal items can generate a credit on a vacation or second home.

Schedule E Rental Income Form. Each property on the form must now be coded to show if it is single family, multi-family, commercial, vacation/short term, or land rental. Any Personal use days must also be shown.

WISCONSIN

Health Savings Accounts are now allowed for WI. However, if a distribution is from funds accumulated in the fund before 2011, they must be reported as they were reported in earlier years.

Earned Income Credit. The credit has been somewhat reduced for 2 or more children.

Estate tax. There is no estate tax in WI for 2011 and 2012.

HEALTH INSURANCE - Wisconsin has a different method of allowing a deduction for health insurance, and Medicare insurance. Please give these amounts to me. There are different percentages for these payments based on if you paid them while you were working (not pre-tax), employer did not pay them, while you were self-employed or while you were unemployed (including being retired from work).

Childcare expenses. There is a subtraction from income for a portion of the expenses for childcare. The amount is \$750 for one child and \$1,500 for two children, reduced by a percentage for 2011. Each year this percentage will increase until it is 100% deductible. The figure is taken off of the federal Form 2411.

INCOME TAX ORGANIZER. I will have an income tax organizer for anyone who wishes to use one. Just send me an email and I can send it to you or call and I can mail it.

If you have any questions, please do not hesitate to call or email. Please watch for your appointment postcard mid January.

Sincerely,

Marlene Dunn Till
Enrolled Agent