

Brian Lehrhoff's Update

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Filing Deadline is April 18, 2012.

Hot! Temporary Employee/Self-Employed Payroll Tax Cut for 2012 In 2012 (at this writing, through February 28) the FICA rate will be 4.2%. If you meet or exceed the maximum wage amount of \$106,800 and the credit is extended by congress for the full year, this will put \$2,136 in your pocket.

Hot! Foreign income If you are a U.S. citizen or resident alien, you must report income from all sources outside the United States (foreign income) on your tax return unless it is exempt by U.S. law. This is true whether you reside inside or outside the United States and whether or not you receive a Form W-2, Wage and Tax Statement, or Form 1099 from the foreign payer. This applies to earned income (such as wages and tips) as well as unearned income (such as interest, dividends, capital gains, pensions, rents, and royalties).

Small Business Health Care Tax Credit is of 35% of the cost is available if you have a small business and provide health insurance to your employees (not yourself.)

Health Coverage for Older Children You can provide health insurance for your children until they turn 27 if they don't have their own coverage.

Teachers The \$250 "above the line" credit still exists for 2011.

New! Sales of Stock, Bonds et al. This is the first year that the brokerage houses **must** report basis information to the IRS. Expect errors, confusion and a real mess and many amended 1099 forms. Items purchase before 2000 and any accounts transferred either into a brokerage or between brokerages need to be examined carefully for errors.

First Time Homeowner Credit for a Principal Residence If you qualified for a \$7,500 15 year interest free loan in 2008 your second repayment is now due. The \$8000 credit phases out at \$150,000 AGI (MFJ). **New!** Members of the military had until May 1, 2011 to purchase their new house. I must receive the HUD-1 statement from your closing to get this credit.

More Fuss About the Alternative Minimum Tax (AMT) The AMT was created by the Tax Reform Act of 1969. Its purpose was to target a small number of high-income taxpayers who could claim so many deductions they owed little or no income tax. Many middle-income taxpayers are paying the AMT because the original law did not index the taxpayer's income to inflation. The 2011 threshold for a married couple was \$74,450, \$48,450 for Singles and \$37,225 for Married Filing Separately (MFS)

Residential Energy Credit Lifetime maximum of \$200 for windows, \$500 total. Applies to insulation, storm doors and windows, solar panels, water heaters and furnaces that you installed in 2011! May also cover an electric vehicle.

Mortgage Insurance Premiums If you itemize your PMI payments may be deductible if your income is below \$100,000.

Survivor's Home Sale Starting January 1, 2008, a surviving spouse has up to 2 years after the date of death to claim the \$500,000 gain exclusion.

Sales Tax or State Tax Deduction? If you live in a state with no state income tax, you may deduct sales taxes again in 2011.

Lower Taxes for Investors Dividends and capital gains are taxes at either 0% or 15%, depending on your income through 2012.

Retirement savings plans for 2011 You may be able to take a \$5000 IRA deduction (\$6000 over age 50) if you were covered by a retirement plan and your modified adjusted gross income is less than \$66,000 (\$110,000 MFJ). The limits for 2012 will be \$68,000 (\$112,000).

Retirement savings plans for 2010. The maximum amount for your 401K, 403B or 457 plan is \$16,500 in 2011. The catch-up contribution is \$5,500.



Roth IRA You may contribute to your Roth for 2011 if your income was less than \$122,000 (\$179,000 joint.) The 2012 limits are \$125,000 (\$183,000) **Hot!** The \$100,000 income limit for

rollovers from a traditional IRA to a Roth no longer applies.

Record keeping requirements for cash contributions You cannot deduct a cash contribution, regardless of the amount, unless you keep as a record of the contribution a bank record (such as a canceled check, a bank copy of a canceled check, or a bank statement containing the name of the charity, the date, and amount) or a written communication from the charity. The written communication must include the name of the charity, date of the contribution, and amount of the contribution.

Standard Mileage Rates Business miles were \$0.51 from 1/1/11 to 6/30/11. and \$0.555 for the rest of the year. Medical and moving miles were \$0.19 / \$0.235..

Personal Exemptions \$3,700 in 2011. **New!** Exemptions don't phase out in 2010-12 for high income taxpayers.

Standard Deduction Married filing joint was \$11,600, single is \$5,800 and head of household \$8,500 for 2011. Rates are higher for the blind and senior citizens.

New! Itemized deduction phase-out no longer applies.

Adoption Credit The maximum credit was increased to \$13,360 in 2011 and is now refundable.

Social Security The 6.2% wage maximum remained at \$106,800 in 2011. All wages are subject to the 1.45% Medicare tax.

Savings Bonds You can use your refund to purchase up to \$5000 in \$50 Series I bonds. **Hot!** I Bonds pay 3.06% through April 30, 2012.

Child under 18 A child who is age 18 or a student under age 24, whose earned income is not more than one-half of the child's support and had \$1,900 or more in investment income will be taxed at the parent's rates.

Divorced Parents Form 8332 is now mandatory for the custodial parent to waive the exemption. Attaching pages from the divorce decree is no longer allowed.

Child Credit Congress has extended the \$1,000 credit for each child under 16 until 2012.

Child and Dependent Care Credit Remains 35% of \$3,000 of expenses for one child, and \$6,000 for two or more children through 2012.

Gifts You can still give away up to \$13,000 per person in 2011 without having to report the gift to the IRS.

Self-employed Health Insurance Deduction 100% in 2011.

Wages for Household Employees The Social Security and Medicare wage threshold for household employees is \$1,700 for 2011. This means that if you pay a household employee cash wages of less than \$1,700 in 2011, you do not have to report and pay social security and Medicare taxes on that employee's wages.

Auto Donations The amount of charitable deduction that can be taken for donations of automobiles valued at over \$500 is limited. If the charity sells the vehicle, the deduction is limited to the amount of the sale. If the vehicle is used by the organization, a deduction is allowed for the fair market value. A detailed statement is required from the recipient-organization in either situation and must be attached to the tax return.

Extensions to File Tax Returns A valid extension requires all of the tax due to be paid in advance. If you don't pay your quarterly estimated payments on time (or at all), you may be subject to penalties and interest, and your extension may be denied.

New Jersey Updates

Tax Decrease If your income was more than \$400,000 in 2011, your rates have decreased to the 2008 (old) rates. Everyone else stays the same.

Form 1099-G New Jersey no longer sends this form if you received a refund in 2011. It is available [here](#).

Property Tax Deduction 100% of your paid taxes up to \$10,000 or 18% of your rent.

NJ Lottery Now taxed for single prizes above \$10,000.

Retirement Income Exclusions The maximum amount of pension and/or other retirement income that may be excluded from gross income for 2009 remained \$20,000 (married, filing joint return), \$10,000 (married, filing separate return), and \$15,000 (single, head of household, or qualifying widow(er)), with income below \$100,000.

Earned Income Tax Credit Taxpayers who are receive a Federal earned income credit will also receive a New Jersey credit equal to 20% of their Federal benefit.

“Fair” Homeowner’s Property Tax Rebate.

Homeowners: New Jersey residents who owned and occupied a home in New Jersey that was their principal residence on October 1, 2011, may be eligible for a homestead benefit provided the 2011 property taxes were paid and they meet certain income limits. Information about the 2011 homestead benefit will be posted as it becomes available.

Tenants: There is no tenant rebate application available for 2011 since tenant rebates for 2009 and 2010 were suspended by the State Budget.

Keep reading your local newspapers for more information on your rebates.

Senior Property Tax Freeze for 2011 This program reimburses senior citizens or disabled persons for property tax increases. The income limit is \$80,000. Applications will be mailed in February and are due (for now) on June 1. If you were a first time filer in 2009 or 2010 and didn’t get a check, you may get a check this year (although you won’t get the money from last year.)

Roth IRA Conversion If you elect to pay over one or two years on your Federal return, NJ will honor that election.

Penalties New Jersey now charges \$100 per month (or any portion of a month) for late filing if a return is not properly extended. This also applies to payroll and sales tax returns. There is also an amnesty penalty for any late balance due not settled in last year’s amnesty period.

New York Updates

Form 1099-G New York no longer mails this form if you received a refund in 2011, but it is available [online](#).

New lower rates begin January 1, 2012.

Same-sex married couples who are married as of the last day of the tax year must file New York personal income tax returns using a married filing status, even though their marital status is not recognized for federal income tax purposes

One Last Word

If you know someone who needs a tax return prepared, give them one of my business cards! Nothing pleases me more than a phone call from one of your neighbors or associates that starts, "I got your phone number from Mrs. Jones. She tells me that you prepare her taxes, and she is very happy with the job that you did last year. Can you give me an appointment for this year?" Please tell me that my new client was your **referral**. If I prepare a new return this year for someone whom you've referred, I'll give you a \$25 credit on your 2012 return fee. Two referrals - \$50. There's no limit.

Brian

My Privacy Policy

Accountants are now required by law to inform their clients of their policies regarding privacy of client information. We have been and continue to be bound by professional standards of confidentiality that are even more stringent than those required by law. I have always protected your right to privacy.

I collect nonpublic personal information about you that is provided to me by you or obtained by me with your authorization.

For current and former clients, I do not disclose any nonpublic personal information obtained in the course of our practice except as required or permitted by law. In all such situations, I stress the confidential nature of information being shared.

I retain records relating to professional services provided to assist you with your professional needs and to comply with professional guidelines. In order to guard your nonpublic personal information, we maintain physical, electronic, and procedural safeguards that comply with our professional standards.

Please call if you have any questions, because your privacy, my professional ethics, and the ability to provide you with quality financial services are very important.

What is an Enrolled Agent?

An Enrolled Agent (EA) is a federally-authorized tax practitioner who has technical expertise in the field of taxation and who is empowered by the U.S. Department of the Treasury to represent taxpayers before all administrative levels of the Internal Revenue Service for audits, collections, and appeals.

What does the term “Enrolled Agent” mean?

“Enrolled” means to be licensed to practice by the federal government, and “Agent” means authorized to appear in the place of the taxpayer at the IRS. Only Enrolled Agents, attorneys, and CPAs may represent taxpayers before the IRS. The Enrolled Agent profession dates back to 1884 when, after questionable claims had been presented for Civil War losses, Congress acted to regulate persons who represented citizens in their dealings with the U.S. Treasury Department.

How does one become an Enrolled Agent?

The license is earned in one of two ways, by passing a comprehensive examination which covers all aspects of the tax code, or having worked at the IRS for five years in a position which regularly interpreted and applied the tax code and its regulations. All candidates are subjected to a rigorous background check conducted by the IRS.

How can Enrolled Agent help me?

Enrolled Agents advise, represent, and prepare tax returns for individuals, partnerships, corporations, estates, trusts, and any entities with tax-reporting requirements. Enrolled Agents’ expertise in the continually changing field of taxation enables them to effectively represent taxpayers audited by the IRS.

Privilege and the Enrolled Agent

The IRS Restructuring and Reform Act of 1998 allow federally authorized practitioners (those bound by the Department of Treasury’s Circular 230 regulations) a limited client privilege. This privilege allows confidentiality between the taxpayer and the Enrolled Agent under certain conditions. The privilege applies to situations in which the taxpayer is being represented in cases involving audits and collection matters. It is not applicable to the preparation and filing of a tax return. This privilege does not apply to state tax matters, although a number of states have an accountant-client privilege.

Are Enrolled Agents required to take continuing professional education?

The IRS requires Enrolled Agents to complete 72 hours of continuing professional education every three years

What are the differences between Enrolled Agents and other tax professionals?

Only Enrolled Agents are required to demonstrate to the IRS their competence in matters of taxation before they may represent a taxpayer before the IRS. Unlike attorneys and CPAs, who may or may not choose to specialize in taxes, all Enrolled Agents specialize in taxation. Enrolled Agents are the only taxpayer representatives who receive their right to practice from the U.S. government (CPAs and attorneys are licensed by the states).

Are Enrolled Agents bound by any ethical standards?

Enrolled Agents are required to abide by the provisions of the Department of Treasury’s Circular 230, which provides the regulations governing the practice of Enrolled Agents before the IRS. NAEA members are also bound by a Code of Ethics and Rules of Professional Conduct of the Association.

Why should I choose an Enrolled Agent who is a member of the National Association of Enrolled Agents (NAEA)?

The principal concern of the National Association of Enrolled Agents and its members is honest, intelligent and ethical representation of the financial position of taxpayers before the governmental agencies. Members of NAEA must fulfill continuing professional education requirements that exceed the IRS’ required minimum. In addition, NAEA members adhere to a stringent Code of Ethics and Rules of Professional Conduct of the Association, as well as the Treasury Department’s Circular 230 regulations. NAEA members belong to a strong network of experienced, well-trained tax professionals who effectively represent their clients and work to make the tax code fair and reasonably enforced.

