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Dear Friends:

It's the time of the year when I interrupt your holiday season and impolitely remind you that the income tax filing season is right around the corner. Let's get on with business.

Remember the **Early Bird Discount**? I know you do, but just to refresh your memories, it's a **10% discount** off your income tax preparation fee if you contact me via telephone or e-mail prior to **Saturday, January 8th** and make your tax preparation appointment, or let me know you plan to **drop off or mail** your taxes to me.

It's a swiping world, so last year I started accepting **debit and credit cards** and I will continue to do so in 2011.

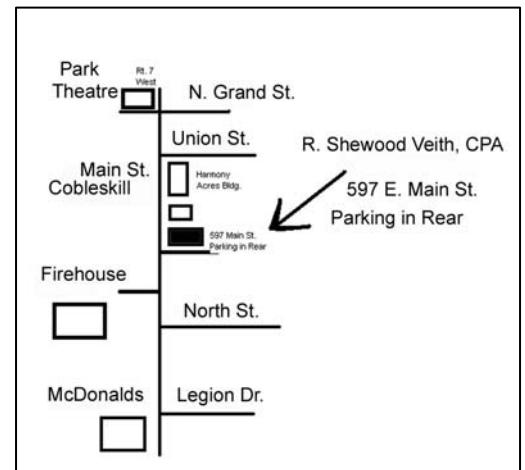
## What's new for 2010?

**Update:** This week a Federal judge in Virginia ruled that the government cannot compel people to buy health insurance - i.e. the health care bill is unconstitutional. This fight is destined for the U.S. Supreme Court. I wrote the following sections prior to this ruling, and I left them in, because the U.S. Supreme Court **could** uphold the law and strike down the lower court.

There is plenty of new tax law, and some of the most complex and challenging law concerns provisions of the **health care bill** passed this year. Most of the important parts begin in 2012 and continue to phase in through 2014. Many of the penalties for non-compliance (not having or providing health insurance) are assessed as additional taxes. These penalties will be assessed at the employer level, or individual level. In other words, the IRS will be the heavy hand to enforce the new health care law.

Also for **2012** as part of the health care bill is a new law requiring businesses to issue 1099s to **ALL** their vendors to whom they pay more than \$600 in one year. This is an onerous reporting requirement that has only one silver lining. Anything you purchase using a credit or debit card will be exempt from 1099 reporting, because the credit card company will report it automatically. **NOTE:** A rental property is considered a business and is subject to the reporting requirement. We are wondering if we will have to send 1099s to telephone companies, internet service providers and utilities companies. Right now it appears that we will. Keep in mind that this law is still a year away and could be changed. To comply with the reporting requirement businesses would have to obtain the addresses and Federal Identification Numbers for all their vendors.

**New Legislation:** As I write this the U.S. Congress, Senate and President are *trying* to work out the final tax bill of 2010. Though the U.S. Senate passed its version, it's not a done deal yet, and there could be additions and/or deletions. It does appear that some version of this bill will be passed, but, as they say, the devil is in the details. Here are some of the things we expect will be in the final tax bill of 2010.



1. Bush-era tax cuts extended for all taxpayers.
2. Alternative Minimum Tax patched for 2 years.
3. 2% Social Security withholding reduction for all wage earners and self-employed people. If you received Social Security benefits, this will not affect your benefit.
4. \$250 educator deduction does NOT appear to be in the new bill.
5. Higher education credits extended.
6. Self-employed persons can now deduct their health insurance against the SE tax, too.
7. The real estate tax deduction for non-itemizers extended.

**PASSED:** The tax bill was passed and signed on December 19.

**What does this mean?** It means that there is still work to do in Washington, and it's getting late. The IRS commissioner warned Congress that if they didn't wrap up the tax changes soon that the IRS would not be ready to accept income tax returns in January, because the computers need to be programmed. And not just the IRS' computers, but all tax preparation software.

**Adoption Credit** is now a refundable credit and was increased by \$1,000 to \$13,170, maximum. However, there are more extensive substantiation requirements to get the credit. Be ready to have adoption agreements, birth certificates, social security cards and other important information to qualify for this credit.

**E-Filing** - The IRS has mandated that all tax preparers who complete 10 or more income tax returns **MUST E-File** all tax returns. This isn't a problem for me, or you, because we've been E-Filing successfully for many years. Also, to direct deposit your refund into your bank account I'll need the **bank routing number, your account number** and if it is a checking or savings account. Direct deposit can only be made into a joint account for a couple filing jointly. A voided check is the easiest way to give me your bank info.

**Tax Preparer Registration** - The IRS is now requiring ALL professional tax preparers to register with the IRS, pay a \$64.25 fee, take a proficiency exam and meet annual continuing education requirements. CPAs and attorneys must register and pay the fee, but are exempt from the exam, and already complete continuing education requirements to maintain their licenses. You may know people whose tax preparer is out of business, because they can't or won't meet the new professional standards. If you do, you know where to send them. New York State has their own \$100 fee and registration requirements.

**Employers** - If you have employees, you are now mandated to pay your Federal and NYS employment taxes electronically. If you have questions on this, please call me.

**First Time Home Buyer Credit** - In 2008 and 2009 the U.S. Congress instituted a credit for individuals purchasing a home for the first time. However, those who received the credit in 2008 must start paying it back \$500 per year beginning in 2010. The IRS sent out reminder letters to everyone who must begin repayment. Also, if you sold your house, or converted it to a rental or other business property, the entire credit must be repaid.

2009 first time home buyers got the credit free and clear - no repayment. The credit was extended into the early part of 2010. If you had a contract to buy a house signed prior to April 30, 2010, and closed by June 30, 2010, you still may claim the credit. The IRS allowed taxpayers to amend their 2009 tax return and claim the 2010 credit on their 2009 tax return and receive their refund early. If you didn't amend your 2009 taxes, but qualify for the credit, you may claim the credit on your 2010 tax return.

**Who is blind?** A legally blind person receives an additional \$1,100 tax deduction. This isn't new, but I thought I'd pass the IRS definition along in case any of you qualify. The IRS says that a person with 20/200 vision is blind and can take the additional deduction.

**Sales Tax on New Cars** - Last year's sales tax deduction for new cars for non-itemizers is gone. However, there is still the sales tax deduction for large purchases - RVs, autos, etc. - for those who itemize their deductions, but you only get the deduction if it exceeds your state income tax deduction. That is, you get the larger of sales tax, or state income tax as a deduction. This is most beneficial for state/school/municipal retirees who pay no NYS income tax and itemize their deductions.

**Foreign Bank Account Registration** - This was an issue last year, and is still a **BIG** issue. If you have a bank account in a foreign country that had \$10,000 in it on *any day of the year*, you must disclose the account on form TDF-90.22-1. This is not a tax form, but a Department of Treasury form. The fine for **not** disclosing is \$10,000 with a maximum penalty of \$100,000. You have until June 30 to file the form. Some foreign governments are giving the IRS names of US citizens with accounts in their country.

**Energy Improvement Credit** - The Energy Credit is still in place for qualified energy improvements. The credit is up to \$1,500, or 30% of the cost of the materials (installation and labor not included). The improvement must come with a **government certification**. Your retailer/dealer should provide you with this certification, and you should keep a copy of it in your file. Note that the windows, siding, etc. must be purchased and installed to qualify for the credit. Energy Star appliances don't qualify.

**Dependent Exemption** - If you wish to claim your child who does not live with you as a dependent, the *custodial spouse* must release the dependent to you on form 8332, or you will not get the child as a dependent. Custody in tax law is determined by counting the nights where the child sleeps. The parent with the most sleepovers is the custodial parent. It is possible that one parent could have legal custody, but not be the custodial parent for tax purposes. Note that the divorce decree does not determine custody at tax time.

**Mileage Rate Change** - The IRS business mileage rate for 2010 is 50 cents per mile, the charitable mileage rate is 14 cents per mile, and medical is 24 cents per mile. The 2011 business rate will be 51 cents per mile.

**Charitable Contributions** - All contributions, even those made with a check, *must have a written receipt for substantiation*. Clothing and household donations to Salvation Army, etc. must have an itemized list of **ALL** items donated. Contrary to popular myth, there is no standard or automatic charitable deduction.

**2009 IRA Contributions** - The 2010 IRA and ROTH IRA maximum contributions are still \$5,000 for individuals under 50, and an additional \$1,000 for those over 50 years old (\$6,000 total). Your 2010 contributions may be made until April 15, 2011.

**Medical Expenses** - Laser eye surgery is a deductible medical expense. Elective cosmetic surgery is not deductible. Dental implants, orthodontics, chiropractors are all deductible. Of course, all medical expenses must be itemized and only the amount in excess of 7.5% of your gross income is deductible.

**Filing an extension is NOT a red flag.** Taxpayers that extend their returns are no more likely to be audited than those that don't. There are any number legitimate reasons (excuses?) to extend a return. Fear of an audit should not discourage you.

**Filing and extension does NOT give you more time to pay your tax.** An extension only eliminates the failure to file timely penalty. If you owe tax when you file your extended tax return, there will still be late payment penalties and interest to pay.

*Now the annual housekeeping items. . . .*

If you had a new child in 2010, make sure that ***your new baby has a social security number***. No dependency deduction can be claimed without a SSN for the child. I will also need your new baby's date of birth.

Make sure your banks, brokerage firms, mortgage companies, employers, IRA custodians, pension companies

and any other institution from which you should receive tax information – *including former employers* – **have your correct address**. Failure to get a W-2 or 1099 on time may delay processing of your tax return. Keep in mind that 1099s are not required if your interest income is under \$10, so your bank may not send a 1099 for your small savings account.

For those of you who claim a business mileage deduction, take your odometer readings on December 31 and **compute your total miles and business miles**. Remember, commuting and personal miles are not deductible.

\*\* If you plan to take the **child care credit**, obtain the name, address and social security number or tax identification number of your daycare provider, as well as the amount paid for each child. NOTE: I will need this information even if you used your employer's pre-tax daycare plan (if there is an amount in box 10 of your W-2). \*\*

With potential tax legislation still tied up in Washington the IRS told Congress that if they didn't get the new law passed soon that tax return filing and processing of refunds would be delayed. The IRS needs time to reprogram their computers for the changes in the new law. This has happened before, but usually tax returns requiring one or two specific forms are delayed. The new law will affect all taxpayers, so there's a slightly greater chance that a delay, should one occur, will affect more people.

**I will gladly prepare your dependent children's tax returns.** Every tax season a taxpayer's child files their 1040EZ form in January looking for a quick refund. Later the parent's tax return is rejected by IRS, because the child claimed him/herself on their tax return. Now mom and dad can't claim the child, they are angry and frustrated; amended returns need to be filed, tax has to be repaid on the kid's return and mom's and dad's refund is delayed. It's easier for me to prepare the child's tax return correctly than deal with the fallout from an impatient child. AND . . . I don't charge to prepare dependent children's tax returns. Let's get it right the first time.

I am currently accepting appointments for the third week of January and beyond. For those who would like to visit with me, appointment times are as follow:

<b>Monday, Tuesday</b>	<b>6:30 p.m. to 8:30 p.m.</b>
<b>Wednesday</b>	<b>1 p.m. to 5:30 p.m.</b>
<b>Thursday</b>	<b>10 a.m. to 8:30 p.m.</b>
<b>Friday</b>	<b>8 a.m. to 4:30 p.m.</b>
<b>Saturday</b>	<b>9 a.m. to 3:30 p.m.</b>

If you **do not need an appointment**, please feel free to **drop off** or **mail** your information to me. I will call or e-mail you if I have any questions. You may do the same, of course.

I will be posting this newsletter on my website. Please check my website for contact information, office hours, or directions.

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My daughter Rachel will be back in the front office this year. She was a great addition to the office last year, and we're looking forward to working together again.

Finally, this marks my 19th year in Cobleskill. Debbie and I are so grateful to each of you for your loyalty and friendship. Merry Christmas, Happy Hanukah and a prosperous and joyful new year to everyone.

*Sherwood*