

## **ABC Income Tax, Inc.**

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### ***Welcome to 2012!***

That means it's tax time, again. John, Pat, and David will be preparing tax returns, as usual. Lorraine, David and Stephanie will be sharing secretarial duties.

First, a side note on electricity. I spoke to a lot of people about Viridian, the innovative program to bring renewable energy to Massachusetts and save us all money on our electric bills. It was scheduled to begin here sometime last April or May. Thanks to the bureaucracy on Beacon Hill, we're still waiting for it to kick off. It should happen soon. Ask about it when you come in.

Meanwhile, in Washington, Congress once again waited until the last minute to pass the tax cut extension bill. Considering it's an election year, I have to wonder what they were thinking. There's more on this in the "Federal Items to Note" section.

Income tax audits are increasing at the federal level and state, as well. The IRS is concentrating more on crooked preparers who file "questionable returns", and their customers. They sent out letters to these preparers to let them know the IRS will be paying "personal visits" to their offices during tax season. "Questionable returns" are those that take deductions that are clearly not legal, or claim credits that the taxpayers are not entitled to. Most of these crooked preparers lure clients away from honest preparers by getting them bigger refunds thanks to the outrageous deductions and credits. In some instances, their clients didn't know the deductions and credits were on their returns!

ABC did not receive a letter because we do not take illegal deductions or credits for our clients. That would jeopardize us (Leavenworth) and every single one of you. We can lower your taxes without resorting to dirt-bag tactics.

The state audits are concentrating on self-employed single parents who claim the Earned Income Credit and people who claim Employee Business Expenses. Unlike the IRS, who will not schedule audits during tax season, the state has no problem doing it. Also, unlike the IRS, having a clean audit this year does not preclude an audit next year. It seems DOR's primary interest is squeezing more money out of people. It's Infuriating.

On a more positive note, our 10% Client Referral Program is working out very well. I think everyone who referred someone got their Client Referral Bonus.

Here's how it works. When you refer someone, we mail you a post card with the 10% Referral Bonus on it (or put it in your file if you haven't come, yet). You can use the referral bonus toward your tax prep fees. In addition to the 10% Referral Bonus, any

client who refers five or more new clients will earn a \$50 gift certificate to their favorite restaurant.

We're still located in Cotuit. I'll be in Poinciana, Florida (near Kissimmee) from March 2 to 5 (Friday to Monday). You can make an appointment for Florida by calling the Cotuit office (508) 477-8200.

This year, Short Forms start at \$95.00. Long Forms start at \$180.00. The base price includes the Massachusetts Health Insurance Form HC, the Circuit Breaker Credit, and any one state.

*Kids' short forms are still only \$40.00 when we prepare the parents' return.*

## Federal Tax Items to Note

### New Federal Items for 2011

The *Making Work Pay Credit*, which gave people who worked an additional \$400.00 refund (\$800.00 for married filing jointly) did *not* get extended. That means that all working taxpayers will receive refunds that are \$400 or \$800 short of what they got last year. A brilliant political strategy for an election, or should I say, re-election year.

A *new Form 8949* will replace Schedule D for Capital Gains and Losses. Schedule D will be a summary report, only. Generally, more detail is required, and brokers will be required to furnish tax basis information for all sales on the Form 1099-B (Yay!).

A *new Form 8938* must be completed by anyone with certain foreign financial assets. These assets include foreign bank accounts and stocks and securities issued by foreign entities (unless held in a US financial account). Reporting is required by single US residents with foreign investments worth \$50,000 at year end or \$60,000 at any time during the year, and for marrieds \$100,000 and \$120,000 respectively. If living abroad you must report at \$200,000/\$300,000 for singles and \$400,000/\$600,000 for marrieds.

### Other Federal Items to Note

**Estate Tax:** *They tax you to death; then they tax you again.*

If you are fortunate enough to have an estate worth more than \$5 million (including real estate, investments, and the value of your business), it will cost you 35% of any excess over that amount when you die. With the way government spends, it will only be another dozen years before all of us are affected by this. Does anyone remember paying 12 cents for a loaf of bread or under \$1,000 for a brand new Toyota Corolla? I do.

**Gift Tax Exemption:** One bright spot in the estate tax law, the exemption for gifts you make prior to death rises from \$1 million to \$5 million. Any exemption you use for gift

tax will reduce your Estate Tax Exemption. You can make a gift of up to \$13,000 to an individual without having to prepare a Gift Tax return. Paying income taxes of more than \$13,000 will not necessitate a Gift Tax return (sarcasm).

**Requirements for Noncustodial Parents claiming exemptions for their children:** If your divorce was finalized after 12/31/08 and you are the non-custodial parent, you **must** have a Form 8332 signed by the custodial parent to claim the exemption(s). We are required to mail the Form 8332 to the IRS. I cannot imagine what they will do with several million new pieces of paper.

**Home Buyers Credits:** Gone, unless you're a member of the uniformed services, foreign services, or intelligence community.

**Energy Credits:** Not what they used to be. First, there's a Non-Refundable Credit for purchase of heat pumps, air conditioners, water heaters, furnaces, biomass stoves, windows, doors, insulation, and certain roofs. The credit is 10% of the purchase price, including installation, up to a credit of \$500 for 2011 purchases. You must reduce your 2011 credit by any credits you received for 2006 through 2010.

The credit for purchase and installation of solar hot water and electric, wind turbines, geothermal heat, and fuel cell pumps is 30% of the purchase price with no limit.

**Education Credits:**

**We must have from 1098-T to claim the credits.**

Most colleges mail the forms to the students who like to do their own on-line tax return to claim the \$1,000 refundable part of the American Opportunity Credit. This totally fouls up their parent's returns. To ensure no problem with your return, have us prepare your college student's return. It only costs \$40.

**American Opportunity Credit:** This is a tax credit up to \$2,500 for the first four years of post-secondary (college) education. The income limits for this credit are the highest for any education tax benefit: \$80,000 for singles and \$160,000 for joint returns.

**The Lifetime Learning Credit:** (20% of the first \$10,000 of qualified tuition & fees) is available for the rest of your life. The income limits for the Lifetime Learning Credit is \$60,000 for singles, \$120,000 for joint returns.

**Tuition and Fees Deduction:** You may opt for the deduction if it works out better for you. The income limits on this are \$80,000 for singles and \$160,000 for joint returns. You cannot take the deduction and the credit for the same student.

**Mortgage Insurance Premiums:** You may be able to treat Mortgage Insurance Premiums paid in conjunction with home acquisition debt as deductible mortgage interest.

**Standard Mileage Rate:** The 2011 rate for business use of your vehicle is 51 cents per mile from January 1 to June 30, and 55.5 cents per mile from July 1 to December 31. Medical mileage is 19 and 23 cents per mile, respectively. Charitable mileage is 14 cents per mile all year. Why are there three different rates?

**Student Loan Interest:** You may still be able to deduct up to \$2,500 of the interest on a qualified education loan. The income limits are \$75,000 for singles and \$150,000 for joint filers.

**IRA Deduction:** The IRA contribution limit for 2011 is \$5,000 (\$6,000 if age 50 or older). You have up to April 15, 2012 to make a contribution; so, we can discuss it before you file. If you're planning a Roth conversion, please talk to us first.

**Child's Investment Income:** The age at which a child's investment income of \$1,900 or more will be subject to tax at the parent's tax rate is age 18, or age 24 if a student.

## Massachusetts Tax Items to Note

**Mandated Health Insurance Coverage:** Make sure to bring your 1099-HC from your insurance company. We need the info for your Mass return. The penalty for not having "Minimum Creditable Coverage" is 50% of the cost of a policy through the Mass Health Connector for each month that you were not covered.

Also, not all health insurance policies are considered Creditable Coverage. Policies issued by Mega Life and Midwest National Life are among those that do not qualify.

**Real Estate/Rent Tax Credit for age 65 and Over (aka Circuit Breaker Credit):** A credit of up to \$980 (up \$10 from last year) for over 65, low-income homeowners and renters, subject to limitations on income (singles - \$52,000, Head of Household - \$65,000, Married filing jointly - \$78,000). Social Security, Tax-Free Pensions, and any Cash Public Assistance are included in this income. For homeowners, the home's **Assessed Value** cannot exceed \$729,000 (**down** \$35,000 from last year).

*It's really important to note* that elderly people living only on social security can get this money even if they don't need to file a federal return. There are many elderly out there who have not had to file taxes for years who qualify for this money; but, they won't get it if they don't file a Massachusetts return.

**Septic Credit:** A credit up to \$1,500 per year (up to a total of \$6,000 altogether) for expenses incurred to comply with Title Five for a **failed system**. If, inexplicably, you upgrade your septic system for some other reason, you do not qualify for the credit (I wish I were being facetious). This applies to your primary residence, only. You need the Certificate of Compliance from your Board of Health and the bill from the contractor.

**Commuter Deduction:** A deduction of up to \$750 for commuting costs exceeding \$150 for tolls paid through a fast lane account or for weekly/monthly MBTA passes. This deduction also applies if you pay these expenses for a dependent. The total is limited to \$750 for a single taxpayer and \$1,500 for joint returns.

**Human Organ Donor Deduction:** Beginning January 1, 2012, you may qualify to deduct your travel and lodging expenses plus lost wages up to \$10,000 if you donate certain organs for human transplant. Included organs are human bone marrow, liver, pancreas, kidney, intestine, or lung.