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Newsletter – Winter 2011

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Winter Newsletter of 2011

As promised the 3 newsletters came out one right after the other. Next year I will do my best to spread this out a little more. This has been a tough year because in all my years of doing this-I am not sure I ever had so little happen in taxes. It has been hard to find things to write about. While there is talk of a new tax package I wrote this just after the news came out that the 2 sides could not agree on anything in Washington. Shocking! Huh? Anyway there are some bits of news with some very important items. First to get rid of some details.

Also as promised I will again announce we have moved to:

527 Illinois Ave
St. Charles, IL 60174

You will see this one more time in the letter inviting you to schedule your tax appointment. Also to note we will again close the office at the end of the year as we have done for the last 28 years. Our last day in the office for 2011 will be 12/26. We will return on the 5th of January. While where we are at we do have access to the Internet, it will be spotty. So try an e-mail but please mark it important so I can filter to it. Once we are back on the 5th-well you know that's when we start sleeping in the office, but anyway here goes.

Rates Unchanged

A question I get a lot is what is the mileage rate for business miles. The IRS announced the rate effective 1/1/12 and that rate stays at 55 ½ cents a mile. That is the same rate that was used for the last half of 2011. As many of you know there is also a deduction for miles used in connection with medical, charitable and moving. The medical and moving rate is 23 cents a mile down from 23.5 for 2011 and charity remains unchanged at 14 cents a mile. Again an indication of what the IRS thinks of charity. If you have not been tracking these miles for medical and charity- you should. Our goal is always to keep as much money in your pocket as legally possible. And as usual the IRS makes this as difficult as they possibly can- the rate for 2011 was different for the first half of the year than the second. Therefore you should give me your mileage from 01/01/11 to 06/30/11 and then from 07/01/11 to 12/31/11. You would think a smart organization would change these rates on a calendar year as opposed to making it as hard as possible. Of course I did say smart.

You see- They are our friend

I get bulletins and notices sent to me directly from the IRS via email. It is a real belly laugh when I see something the IRS is doing that they think will improve their image. All I see for the next 10 emails is some sort of variation of the same news. I don't think the IRS realizes their reputation is as far beyond repair as any reputation could be. Kind of like Jack the Ripper trying to convince you to be your kid's nanny. Notice I didn't say Governor because I would say Jack would

have a great chance in Illinois to get elected. Anyway the IRS announced they have 153 million dollars in unclaimed refund checks just waiting to hand over to us. Now what they didn't tell us is that outside of the press release- the IRS is not going to do a darn thing to find any of those people. So if you are owed a refund and didn't see this when the local news carried this story that day-you are out of luck. But this is a good argument for direct deposit. You can do direct deposit even if you don't e-file and direct deposit cost you nothing to do. We just need a voided check (not a deposit slip).

On the death bed

Without any action between now and the end of the year many tax breaks are about to expire. For businesses the main one is in the area of depreciation. Others for individuals are the sales tax deductions, certain tuition deductions and many related issues to Alternative Minimum Tax (AMT) are also set to go at the end of 2011. While no one item amounts to very much together they will make quite an impact collectively. This is the problem with sunset provisions in the tax law. If we get to a point like we are now where everybody is fighting with each other in Washington-we are the ones that end up getting hurt.

DON'T SAY I DIDN'T WARN YOU

In my earlier newsletter this year I told you about the IRS's failure to get access to someone's email via the provider in an audit. I told you at that time I thought the only reason the IRS pulled back was to make sure when they did this in the future it would survive a court challenge. Well they did and now they can. Not only that but they can get into where it came from and how it originated. Be careful in your emails and if I ask you to call me instead of putting something in an email-this could be the reason why.

Secure Yea Right

Something I have always had to scratch my head at was how could a branch of government-funded by billions of our tax dollars call themselves a "service" and yet charge us fees to deal with them. This year over 309 million will be paid in fees for us to have the privilege to deal with the IRS. These user fees are ALWAYS at a time when we want or need something from them but doesn't that sound just a bit insane to you?

It doesn't take a genius

Because of our record deficit for the last 3 years, Washington has been trying to figure out why. The 2009 tax data was just released and of the 140.5 million tax returns filed, income dropped 8% as all of these. While there were 4 categories of income that increased only one that increased by more than 5% was unemployment compensation and that increased 91.3%. Just about every other category of income was down A LOT. Gains on sale of property down 130.8%, gain of capital assets (stock etc.) down 50.7%, rental income down 31.8% and dividends down 25.5%. Now while income was down so were deductions. I guess having your home foreclose on helps someone. And I guess it only makes sense the only one it helps is the IRS. Also that new work pay credit also helped reduce government revenues but total tax receipts declined 16.1%. Gee-maybe socialism doesn't work after all.

Just another ball dropped

Hopefully none of you know this but the IRS use to go to collection agencies to try to collect tax debts. This program proved to be a complete failure. (anyone from the Illinois Department of Revenue listening) and the IRS cancelled the program. Now we find out that in all the cases the IRS took back from the private collection agencies, 47% have not been touched or worked on in any way. I guess the moral of the story is if you owe taxes you want the notice to come from Dewey Cheatum and How because the chance you will ever have to pay are very slim.

Who's running the store

The Government Accounting office (GAO) just issued a severe reprimand to the IRS because of the horrible job they did in preparing their own financial statements. The reason was "serious" internal control issues (basic on any financial audit) and management shortcomings. Hey I have an idea-why don't they try having somebody that knows something about accounting. We know they can't hire anybody that knows anything about taxes.

The tax increase you are not hearing about

I did mention this before but it needs to be done again. Starting in 2013 there will be a new tax on unearned income like stock sales and dividends, interest ect. for the higher income tax returns which means most of you. This is part of that lovely health care bill that phases in over the next 6 years. Well this part of the phase in is a 3.8% tax on all of those transactions. This means 2012 is the last year you can escape this tax unless the law changes. Changes to your portfolio may need to be made in 2012. This might be a reason to see me outside of tax season next year.

WARNING for all our business tax return filers and I am confused

I got a sneak peak at the tax returns for businesses in 2011 (1120, 1120S and 1065). There are 3 MAJOR changes. One is just for me but the other 2 affect you big time. The first is for 2011 you now must report sales in 2 categories. You must report sales made thru credit cards and separately report sales every other way(checks cash ect). I didn't tell you about this earlier because I read the IRS was going to postpone this to next year. What I found out is while some of the reporting we need to do was postpones the IRS still wants this part of the law complied with in 2011. Now don't panic just yet with OMG I have to go back to all of 2011 and break out everything that was paid to me in credit cards. What is going to happen is your credit card provider is going to issue you a new form 1099-K listing all you credit card sales thru your business. I will need these forms so please give them to me when you give me your tax info. Second is the IRS is about to put the same emphasis on making sure everyone files a 1099 if they are suppose to as they did with off shore account. Off shore accounts now have outrageous penalties if you don't report them and this all started with a little box that you had to check on your schedule B just a couple of years ago. Now that little box is on business returns for 1099's and it is going to ask did you file all 1099's that you were suppose to. This paves the way for huge penalties if the answer this yes and you don't. Possibly in the 5 figure range. 1099's are due at the end of February and if you pay anybody that is not a corporation over \$600 in 2011 you need to get the name address and Social security # and we need to file this.

How deep is the ocean

The director of the Congressional Budget Office (CBO) gave a grim speech to congress about the future of our economy. He commented the normal household has been hit so hard it will take quite a while before we can get back to normal. Also he said current economic conditions are unrivaled since the Great Depression and that is why we are in such a

“deep” recession. Ok first if we are still in the toilet with our current economic condition how is our normal household going to start recovering? And second what does it take before we use the word depression to describe what we are going thru?

Target still on the back

Almost every time I do this I run across yet another article of what must be done to eliminate this 1.5 billion annual deficit we have. This article like all others are targeting some or all of the existing deductions. This one goes after the mortgage interest deduction. Way too much talk in this area-they are preparing us for something. I guess they are either going to kill what is left of the real estate market or make sure all charitable organization go by the wayside.

Another question

An item I forgot to put in my last newsletter (and almost this one) is the question I get on what do I have to have withheld on a distribution from a retirement plan. I can tell you what the law says. Most distributions are to be withheld at 20%. Distributions that are made directly to a new trustee are not withheld at all. If a payment is to be a regular recurring payment then you need to call me because these are to be treated like a W-2 wage. And non-regular payouts are to be withheld at 10%. The reason I wanted to write about this is almost none of these percentages are enough and unless you call you are in for a big unpleasant surprise. If you get caught by the additional 10% penalty that is on many if not most of these distributions, you could owe more than double of what got withheld. Beware retirement plans are not a good source of money in that crunch that most of us find ourselves in and taxes could exceed 40% of your distribution.

Quick tips

- The IRS has issued guidelines of what happened if you receive a notice. Of course their guidelines make the assumptions the notices they send are NEVER their fault but are a result of something we did. Let me assure you this is just another lie. Please be advised I have also issued guidelines and that guideline is –if you receive a notice don’t pay it –it is most likely wrong.
- Audits of schedule E’s (mostly rent and royalty income) have seen a sharp increase. The IRS refuses to believe the economy is causing a drop in revenues here and they believe us the taxpayers are just not reporting the income. Here I can really help the IRS out. Stop wasting your time. If someone is filing a Schedule E that means they ARE reporting the income. Anyone that’s not reporting the income doesn’t file that form because THEY ARE NOT REPORTING IT. (it wasn’t only the scarecrow that needed a brain)
- I could title this Whoops Forgot Something. In trying to fix the hole left in our estate tax law by the in action of our congress-the fix they did put in forgot to limit gifting. If you have an estate over 5 million and you are not using gifting, you are getting poor advice and please note your accountant does accept all gifts in the spirit of helping you with your estate plan.
- And finally the IRS has issued a new list of tax tips for newlyweds designed to reduce stress at tax time. I guess the IRS figures our divorce rate isn’t high enough as it is. They want to add more to freak out a newly married couple. I have a way to reduce stress at tax time but it would result in all our IRS friends losing their jobs.

And Finally

Well that's all for 2011-tax appointment letters are coming soon but please don't call until 1/6 because we want to be there. We do wish everyone a Very Merry Christmas or whatever holiday you are going to celebrate and Happy New Year-we will be seeing you or talking to you in the next few months.

Merry Christmas and Happy New Year!

Tom and Dorothy