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Newsletter – Fall 2011 527 Illinois Ave, Saint Charles, IL 60174

The Really Fall Newsletter because Winter doesn't start until just before Christmas newsletter

I did tell you the three newsletters were going to come out one after another. Well here is the second. As I will put in all three-we have moved and our new address is:

527 Illinois Ave
St. Charles, IL 60174

Corner of 6th Ave and Illinois Ave. The big deal of Avenues in St. Charles is that it means it is east of the river-very important. The other items I want to start off this newsletter with is a change we are going to make with our appointment during tax season. Due to a sharp increase in returns being dropped off without an appointment, we are going to shorten our available time for appointments and increase our time to complete returns. The biggest backlog issue we are experiencing is in getting the return processed and finalized. By reducing appointment time by 25% we should be able to devote more time to an area that needs the attention. There still should be plenty of time for anyone that wants to sit down but in order to be sure, please do use the appointment letter we send out on Christmas Eve. By getting this to us early, you should have just about any time you need to get in and see me and remember Saturday's do fill up fast. Now for what is happening.

Social Security

The problem with writing a newsletter this year as opposed to last year is the changes to the law are so far and few and it is difficult to say something that will affect just about everybody. Well here is one that will no matter if you own your own business or a W-2 employee-the social security benefit ceiling (what you pay the old 6.2% on) is going up for the first time in 3 years to $110,100. What many people have missed is the OASDI rate that is affected by this ceiling has dropped from 6.2% to 4.2% in 2011. You see this was the employment tax break the president was talking about recently. Most likely nobody in Illinois ever realized the break existed because the massive tax increase we had. Without any further action the rate will go back to 6.2% – or yet another tax increase for us to deal with.

Credits waving goodbye

The non- business credits for energy are about to disappear. These are a poor relative to the old credits we enjoyed in 2009 & 10 and before that in 2005-2007. Yes there were many of you that I had to give the bad news in 2008 that if you did the energy improvements in either the year before or the year after- you would have got cash from Uncle Sam. This current extended credit is smaller-much more restricted as far as what you can take for windows, furnaces or water heaters. This credit which is smaller ($500.00 as opposed to 1,500) is also not allowed if you took this credit of least

$500.00 in any of the last five of the last six years it was in place. But if you want to do something-you only have a couple of weeks left.

New target on the back

Guess who the IRS is now going to target for audits-the architecture industry. The only question that comes to mind because we do deal with this industry in our firm is WHY??? I think the IRS division that develops all of those audit manuals ran out of useful targets-the ones that really needed some attention and just started to go thru the alphabet so they don't lose their jobs. Who's next? Barbers??

If it walks like duck-quacks like a duck-it must be a duck

This will affect some of my clients. The tax-court just ruled the expenses including travel to a timeshare are not deductible. Now the reason for this was because the husband and wife in this case did not treat their property with a profit nature. Instead they treated it more like their second residence. So the moral of this story is if you treat a property like a timeshare like you would any rental-the deductions are still available.

They don't want to audit this either

It is official-and you may have already seen this from your employer-if you use a cell phone that is issued to you by your employer for personal use, you no longer have to report it or claim it. I am sure this was at the request of the IRS auditors. Because those auditors did not want to go thru pages and pages of phone calls. And of coarse still understand that if you abuse this the IRS could always claim the expense is not necessary to your business and disallow the whole deduction-but for the most part this is good news. And if you are not currently deducting your cell phone thru your business if you have one- now is the time to start if you have a reason form cell phone use in your business. When you really think about it- what business would not benefit these days by using a cell phone. Even I use mine quite often for business and I might be the type of business you would least likely think of needed a cell phone. Even the fancy Droid I choose.

To convert or not to convert-that is the question

One of the biggest topics of late is the converting of IRA's. While I have written about that in the past I did want to mention the story is not over when you do end up converting. Let me take an example. You convert an IRA to a Roth for $100,000 then the stock market crashes and that IRA is only worth 60,000. Well if you reconvert to a regular IRA then reconvert back you would save the tax on the 40,000. So don't put it out of your mind when you make the decision to convert. There still may be ways to save tax $.

Uniforms rejected

The IRS has pulled their ruling that allows employers to provide uniform type clothing as tax-exempt fringe benefit to the employees. While this may not affect many of you it could affect your company or your kids that work somewhere that has uniforms. Why this was done nobody is sure.

Deficit again

The fiscal year deficit was 1.3 trillion which matched the deficit for 2010 but was lower than 2009. By the way these are our first 3 years of trillion deficits ever. Remember when everyone use to complain about the 300 billion dollar deficits? Anyway the government is looking at ways to squeeze us harder to make this up. The reason it has to come out of you is because the Congressional Research Service (CRS) has declared that cutting government spending will not matter. 50% of our budget goes to programs like social security and Medicare. 20% goes to state and local governments and interest in our debt. 20% goes to defense and that leaves 10% for federal spending which by the way included our traffic controllers, courts and corrections. I am not sure if I would feel comfortable cutting those areas. Of course state and local government spending will be cut-another nail in the coffin for Illinois. So the conclusion is- we have to tax more in the form of higher rates (let the Bush tax cuts expire) eliminate non-deductibles like the charitable gifts, reducing home mortgage interest or taxing all of social security payments and also creating a new carbon footprint tax (bye bye big SUV's). The article went on much further but the point is government has no intention of reducing it's spending-only reducing yours. So beware. This does bring up an interesting idea on the decision to contribute to a Roth or regular retirement plan. We have always preferred getting the tax deduction currently much for the bird in the hand type of tax planning. However if future tax rates increase, that very much favors changing your retirement contributions to Roth's. Future increased tax rates very much favor a non-tax distribution from a Roth as opposed a fully taxed contribution from a regular IRA or 401k.

And they are not done yet

The same CRS has also said that 1 in 4 taxpayers will be hit by AMT. For my clients that will easily be 1 in 2 and by the way, the temporary fix in place for 2011 will expire in 2012 and then if you have kids, pay real estate taxes or breathe you will get hit with AMT. Anybody for some throat slitting about now?

We should follow the Swiss-Really?

With all the very bad news-we do have one that is willing to stand up to the IRS-the Swiss government. It was the Swiss organization that gave the IRS the information on Swiss accounts that led to the huge push for foreign account reporting, well the Swiss government said enough is enough. So did our government respect the Swiss wishes? You have got to be kidding. They threatened the Swiss with no more Swiss imports to the US. So before our government turns Switzerland into the next Cuba you better stock up on all that chocolate you love.

Some quick finishes

The IRS issued 6.2 million notices on returns last year. Only 133,200 were disputed or 1.6%. Since the IRS error rate on notices was once checked at 70%-guess who gets the short end of the stick.

On the other side the IRS estimated the new health care credit for small businesses was going to pay out 2 billion dollars but only 278million has been credited to employer accounts. If you have an employee and you are paying for that employee's health insurance you need to let me know.

And it is not just you that gets confused by the new tax laws. Problems exist on the homebuyer credit reporting and refunding. Many mistakes were made by the IRS in this credit. Also 2.6 billion apparent incorrect education credits were issued. Please note they are NOT a welled oiled machine. And when the IRS screws up and you our clients challenge them, the due process program is flawed. So lets see they can't get it right to start with, can't get it right thru any part of the process- but do they pay any penalties and interest to us? What did Bill Gates say- Life is not fair get used to it.

And Finally

The biggest buzz about raising revenue has been lately getting rid of the deduction for charitable contributions. While this is cause for concern-I do want to remind you that about 10-15 years ago the big talk was about getting rid of the mortgage interest deduction. That never happened but that doesn't mean it couldn't. Like I said IT WILL BE YOU THAT WILL PAY FOR OUR VERY POOR FISCAL POLICIES-BE 100% CERTAIN OF THAT.

That's all for now-see you with our Winter/Christmas newsletter soon.
Tom and Dorothy