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There were a number changes that affect your tax returns for 2011. I will review your tax matters and apply these changes as applicable. However, I'd like to bring these very hot new items to your attention now:

- The \$5,120,000 **lifetime gift tax exemption** is scheduled to expire 12/31/2012. For those so inclined, please talk with us before or during the preparation of your 2011 tax returns.
- **New Hire Retention Credit.** If your business hired an employee after 2/3/10 and before 1/1/11 and they stayed with you for 52 weeks, you may have a tax credit up to \$1,000 per employee.
- For self-employed taxpayers, the IRS ruled recently (retroactively) that **Medicare Part B** premiums may now be deductible "above the line" rather than as a less desirable "itemized deduction."
- Business may receive a **new form 1099-K** from financial institutions, reporting credit card sales.
- Investors may receive a **new significantly more complex form 1099-B** from their brokers showing securities sales and the purchase costs and wash sale calculations that deny the tax benefit for some losses for 2011.
- Unfortunate News: Generally, a 1099 must be issued by your business to each payee when it pays out \$600. Self-Employed businesses, Rental property and Small Businesses are **under pressure to issue 1099s during the month of January**. The new 2011 income tax forms require you are disclose (1) if you were required to file 1099s and (2) if you filed them. Answer the questions "wrong" and you may get a non-compliance penalty or even have some other contact by the IRS. In theory, when there is non-compliance the IRS could someday decide to deny deductions for some payments to independent contractors, or could reclassify payees as your employees, subjecting you to significant penalties.
- Similarly, the IRS and the States are ramping up efforts to **change self-employed people themselves into employees or common law employees**. Example: a self-employed person with only one customer, perhaps doing consulting, administration, management or commission sale work for a related family business. In May 2011 the IRS Tax Court did just that to a one-customer consultant who filed Schedule C. Then in July 2011 the IRS issued a new "Audit Techniques Guide" to their agents to use when examining S/E Consultants, with strong guidance on converting them to employees - resulting in a loss of many tax benefits. We may need to consider taking proactive steps going forward, including potentially forming a corporation or LLC to further insulate the taxpayer from this new IRS scheme to increase tax revenues.
- Taxpayers with assets or accounts located off the U.S. homeland are under heightened scrutiny, subject to severe penalties for non-compliance. Starting April 2012 a **new IRS form 8938 reporting foreign accounts and assets in excess of \$50,000 is due**. Holding of a 10% interest in a foreign entity requires the filing of form 5471 And separately, U.S.

Treasury is clamping down harder with form TD 90-22.1 which has a hard due date of delivery by June 29, 2012 for **foreign accounts balances over \$10,000** that carries a possible \$10,000 penalty for missing that date. Believe it or not - many advisors are now suggesting that taxpayers who miss that deadline be advised to retain a criminal defense tax attorney to arrange for a late filing. I think that may be overkill in most cases, but that is the situation in the eyes of some advisors.

- IRS will be taking the **Quickbooks files** away from businesses, looking for internal notations, comments, reclassifications, etc. that may identify questionable tax deductions.
- Much more information at the web site: <http://traderstatus.com/engagement.htm>

Getting back to some more pleasant reading now...

After making sure to retain your own copies, please send your actual form W-2s, 1098s and 1099s or a full, clean photocopy or PDF (do not just do a listing of the actual amounts). There are additional amounts and codes on these forms that might be needed to complete the tax returns. In a few cases these are required to be sent along with the tax return, I will generally attach them when appropriate. You may wish to email or burn to a CD-R or copy to a USB "thumb drive" some of your documents as PDFs, including any large 1099s, or Excel spreadsheets or Quick Books files "QBW or QBB or QBM files." Please identify the version of Quick Books and the Admin password.

Please retain all of your own copies of all other documents submitted to me, as I will not be making copies or returning documents to you.

I have prepared a standard "engagement letter" and "IRS Disclosure and Use Authorization Form" which CPA's use. Please review and sign for me before I get to work with your tax data. Do not send your tax data until you understand and agree to the terms. If you have a business, a trust or other entity I have not provided additional copies. Therefore please consider the provided copies to cover all your work with me and simply list your entity names.

Options for filing tax returns and delivery

IRS and State filing copies:

Most form 1040s and many business entity returns are now required to be e-filed to IRS. Unfortunately, many business entity State and Local returns must still be paper filed.

If e-filing is not available for your tax return I will mail these to you for signature. Optionally (at your request) a **PDF (print file)** can be emailed to you to print out, sign and mail (very handy when timely mail delivery could be a problem).

Your copy for permanent retention:

I will be **e-mailing** to you a permanent copy of your 2010 tax returns. These PDFs are safer for you to keep, to make backup copies of, and to print on-demand when needed for any purpose. You can even email the PDF to your banker when it is requested.

If you prefer, in lieu of a PDF, I can mail a paper copy to you upon request.

2011 Extensions & 2012 Estimated tax coupons:

There is nothing wrong with “going on extension” and it is actually preferable for many reasons, including the filing of 2011 tax elections based on events that happen later during 2012 and because there’s a smaller opportunity for IRS examinations; but if you would like to avoid going on extension please have all of your information ready **at least six weeks prior** to the April 17th filing deadline (and six weeks prior to March 15 for corporations).

When going on extension remember that there are significant penalties and interest that can be assessed if you have not paid your taxes via timely estimates & withholding and by the due date of your first extension request. If you need assistance with computing the amount of taxes due with your extensions, please have all the information to be considered summarized and ready **at least three weeks prior** to the (April 17th or March 15th) filing deadlines.

Extension returns for individuals are due October 15th (September 17th for most other returns including LLCs, partnerships and corporations) please have all of your information ready **at least six weeks prior** to these deadlines.

Between March 20th and April 17th I will be working exclusively on client work already “in house” here by March 20th. Please keep these dates in mind when pulling your data together. Similarly, between August 20th and October 15th I will be finishing client work previously received before working on other matters.

Internet Tax Notebook

If I have your 2010 personal tax return data on my computer, and if you would like to use the “Internet Tax Notebook” to help you organize your tax information for 2011 just let me know before April via email or through this link <http://traderstatus.com/contactform.htm> to receive an User ID & Password that will allow private access to your personalized Tax Notebook. I will have your file uploaded to the internet and send you a login ID and password by a reply email. Optionally I can email you a PDF to print out and work with, or mail you a printed copy. Just ask me.

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