

BITS & PIECES OF TAX NEWS AND OTHER ITEMS OF INTEREST

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June 2011

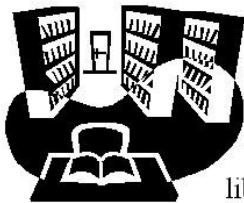
Check your mailbox!

IRS notices have been *flying* through the mail and landing in several of our clients' mailbox. If this is you, please let us help. It may be that the notice is incorrect and they just need more information to understand the tax return. It is important to check for dates on the notice so that we don't miss a deadline. We find some of these notices mixed in with W-2's and donation receipts given to us at tax time and it requires more work to "undo" after the deadline has expired. We do not charge to look over a notice. Come see us!

Idaho Credit for Educational Donation

For many years, we have enjoyed the tax benefits of donating to our favorite Idaho schools. What is so exciting about this donation is that it allows for not only a deduction on your federal return. You also receive another credit on the state. Love the double dipping.

This Idaho credit has been expanded in 2011. If you contribute monetarily (**cash only**) to an educational entity, you can receive a 50% deduction with a maximum deduction of \$500/Single, \$1000/MFJ. This is up from 20% and a maximum of \$100/\$200 respectively.



What qualifies for an educational entity? The short list is – any non-profit public or private school or its foundation, Idaho public libraries, museum, state

Historical societies, Idaho public television. Newly added is the Commission for Deaf and Hard of Hearing, Developmental Disabilities, Blind and Visually Impaired, Hispanic Affairs and Idaho's Independent Living Council.

Don't wait until it's too late!

For some of our clients, they treat our office like the dentist office. They only come when absolutely necessary, usually once a year. We are pretty friendly! And absolutely no drilling happens in this office. However, like the dentist...if you wait too long...it may be too late to undo the damage. It is important to see us throughout the year so that we can help you make informed decisions as life happens. For example, when you sell an asset, a business, or stock (that you can't find the basis), let's address these basis issues & allocations when they happen and be prepared at tax time.



Divorcing your Debt

In the past couple of years, Cancellation of Debt has become an issue for many of our clients. The bursting of the real estate bubble and the repressed economy has exponentially increased the cases of cancelled debt here in Idaho and across the country. At Ada Tax Professionals, we strive to educate ourselves to serve our clients to the best of our abilities. With this surge of cancelled debt in our own client base, we have done extensive research on the subject to the point of being able to present and educate other tax preparers. Here are the basics of what we have learned and how they might affect you.



Cancellation of debt, discharge of indebtedness, foreclosure, bankruptcy and repossessions can all trigger a taxable event that should be reported on your tax return. Banks and financial institutions will report cancellation of debt to you on Form 1099-C.

Cancelled debt is not reported or taxable income when debt is cancelled as a gift, bequest, for services to reduce student loans, and as general welfare payments such as housing assistance, job training and VA benefits.

Continued on next page.....

Divorcing your Debt continued....

Common situations when cancellation of debt is reportable, but not taxable income include: bankruptcy, primary residence foreclosure, and cases of insolvency. Insolvency is when your liabilities are more than your assets, or it could be described as having a negative net worth. Even though it is not taxable income, certain tax attributes are reduced such as basis in personal and business assets, net operating losses, capital losses, and some tax credits or carryovers.

Cancellation of debt creates taxable income most often with credit card debt, home equity lines of credit, and repossessions/foreclosures of business assets or rental property. Income from debt cancellation is usually ordinary income, unless collateral is exchanged to satisfy the debt.

This is where it gets complicated. When assets are seized to help satisfy the debt, it is treated as a sale and there may be a taxable gain or loss. Your adjusted basis, the fair market value, and the amount realized all factor into determining the gain or loss on the deemed sale. In addition to the gain or loss on the sale, there may also be ordinary income from any debt that is canceled. At this point it makes a difference if the debt is recourse (you are personally liable for it) or non-recourse (they can only take the property held as collateral and cannot come after you personally).



In many of the cases we have seen, there are multiple debts canceled in one tax year. Each event is treated separately and each one has its own set of unique details and applicable rules that determine the outcome.

As you can see, this can be very simple or it can be very complex. If you find yourself in the situation of having debt cancelled, please call us. We can help you prepare for tax time by explaining the ins and outs of insolvency, determine adjusted basis, and calculate estimates so you know what to expect. Cancellation of debt is a lot like divorce. The actual debt may be gone, but there are still issues to deal with after the paper is signed.



In July, Corporate officers may elect out of paying Idaho State Unemployment (SUTA) on themselves. To opt out of paying this tax, you must notify the Idaho Department of Labor in writing by December 15th of each year to be effective in the following year. After filing this exemption you do not have to do it again for 2 years. This will become effective in July and available in 2012 for the first time. A form should be available at the Department of Labor's website soon. This exemption from state unemployment does not allow you to be exempt from federal unemployment (FUTA). For more information go to www.labor.idaho.gov/corporateofficerlaw or we will gladly guide you through the process.

What is Income?

Each year we ask you a long list of questions to make sure that we have all income accounted for on the tax return. As a refresher, we thought we would go over what exactly is income. This is by no means an complete list.

Income is monies received from wages, tips, fringe benefits, interest, dividends, alimony, income from a business, sale of stock or other assets, IRA distributions, pensions, farm income, rental income, social security benefits, prizes, awards, jury duty pay, gambling winnings and hobby income. In certain circumstances, refunds, disability, inheritance, distributions from qualified tuition programs, education savings accounts, periodic payments of long term care, cancellation of debt income and bartering may be taxable.



All benefits received whether monetary or not may be taxable. It is important to keep track of these items during the year and bring in to us at tax time.

THE BULLETIN BOARD

Form 1099 Update

The 1099 reporting requirements for rental owners has been repealed as of April 2011. If you remember, as part of the Health Care Bill, rental owners in 2011 had a new requirement to issue a 1099 for each contractor that they paid services to in excess of a \$600 each year. We informed many of you at tax time in order to prepare you for this change. Also repealed, was the requirement to report payments made to corporations in excess of \$600 scheduled to take affect in 2012.

Recycling Corner

What to do with all those grass clippings?! How about starting that compost heap? With a little care you can have a great inexpensive, natural additive for the flower beds in just a few months. All you have to do is just water the heap and turn it regularly to get some air.



NOTICE: Finance Charge Policy

In April, Ada Tax Professionals instituted a new policy. All tax returns and balances left unpaid after 30 days will be charged a finance charge. To avoid any finance charges, please pick up tax returns and pay all monies due to Ada Tax Professionals in a timely manner.

Capital Gain's rate

The long term capital gain's rate of 0% and 15% for the lower tax brackets will continue through 2012. This is great news if you sell stock or any other asset at a profit.

Idaho Personal Property

Each year many business owners in January receive their Personal Property Declaration from the state. This form requires listing all the assets a business has and then property tax is assessed on these items. The county has been auditing businesses to see if their personal property list matches their depreciation schedule as a way to promote tax compliance. It is a good idea to take a few minutes and go over both of these lists to double check for accuracy.

ADATAX PROFESSIONALS

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RETURN SERVICE REQUESTED

SPOTLIGHT..... on *You!*

This newsletter spotlight is on YOU our client. Who are you? You are single, married, have young children, grown children, wishing you could still be a child! Have no dependents, 8 dependents or think your pet should be your dependent. Work for a wage, self-employed in a one person operation or self-employed with a full fledge brick and mortar business with employees. Retired by choice...or wish you had a choice. Volunteer at church, the police department, school, city, library or coach your child's soccer team. Live in Idaho, Oregon, California, Nevada, Utah, Montana, Mexico, New Zealand or the State of Denial (oops..who put that in here?). Having us prepare your return for 19 years..or one. Love to garden, ski, atv, travel, read, knit, sew, camp, hike and those who think that watching tv is a hobby. Sport your orange and blue..Go Broncos...or silver and gold...Go Vandals! Referred your neighbor, friends, co-worker, family (Thank You!!)



Your Favorite Motto's are: "I thought I gave you that already" "How can I make money without paying tax?" "As long as I don't have to pay!" or "I owe what?!?!?" and "Where do I sign?"

I'm sure you can see yourself. We can! You are perfectly described here in our spotlight. Our focus is on you, because without you, there is no Ada Tax Professionals. Come by and see us as we are always excited to see our favorite client..You!

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