

# Summer Newsletter

Volume 13, Issue 1

## Hot Tax Topics

This summer is not only going to be hot but Congress continues to make tax laws that may affect you. Here are some hot tax topics.



## Social Security Updates

Social Security Administration reported that the base is expected to increase in 2012, potentially from \$106,800 to \$110,700. This would equate to an additional \$147 in taxes per year. In addition to projecting increased wage bases, the SSA also provided general conclusions and observations regarding the long-term viability of the Social Security program. Based on a number of factors, notably including the aging of the “baby boomer” population and the increase in life expectancy; the SSA projected that Social Security should be able to fully pay scheduled benefits until the trust funds are exhausted in 2036. (Last year's report projected that the funds would be exhausted in 2037.) After 2036, the amount of non-interest income is projected to cover approximately 77% of the cost of Social Security.

The report includes two alternatives for keeping the Social Security program solvent in the long-term—namely, increasing taxes or reducing benefits. The scheduled benefits could be paid for by raising payroll taxes beginning in 2036, initially from 15.3% to 16.4% and slowly increasing the rate after that to approximately 16.9%. Alternatively, benefits could be reduced to match the scheduled tax rates, starting with a 23% reduction in 2036 and gradually increasing after that to a 26% reduction.

This year individuals can earn \$14,160 before full retirement age or lose \$1 for every \$2 over). The base amount of income causing Social Security Benefits to be taxable is \$32,000 for Married Filing Joint or \$25,000 for a single filer.

## 2011 Mileage Rate

IRS has no current plans to increase Standard Mileage Rates for 2011 despite the current high gasoline prices. The current reimbursement rate is 51 cents per mile for business miles.

## IRS Unable To Verify Whether Individuals Claiming Residential Energy Credits Are Entitled To Them

IRS is unable to verify whether individuals claiming Residential Energy Credits are entitled to them at the time their tax returns are processed. Some 6.8 million individuals claimed \$5.8 billion in Residential Energy Credits on tax year 2009 tax returns processed through Dec. 31, 2010. The agency “does not require individuals to provide any third-party documentation supporting the purchase of qualifying home improvement products and/or costs associated with making energy efficiency improvements and whether these qualified purchases and/or improvements were made to their principal residence,” the audit said. Using a statistically valid sample of 150 tax returns, TIGTA was unable to confirm home ownership for 45 (or 30%) of the taxpayers. Home ownership is required to claim Residential Energy Credits. Auditors also identified 362 ineligible individuals who were allowed to erroneously claim \$404,578 in Residential Energy Credits on their tax returns. “These individuals were allowed to erroneously claim these credits because the IRS did not develop a process to identify prisoners or individuals under the age needed to enter into a contract to purchase a residence,” the audit said. It noted that the agency has data that could have been used to identify these erroneous deductions. TIGTA included in its recommendations that a revision be made to Form 5695, Residential Energy Credits, to request specific information to establish that key eligibility requirements are met.

## Summer Job Warnings

Often employers pay summer workers, especially unknowing students, as independent contractors. They are then surprised when tax time rolls around and they are liability for self-employment taxes. Look at the first pay stub for proper withholding.

## How to Take a Deductible Vacation?



The summer travel season is almost upon us. While you look forward to lazing on the beach, visiting the theme parks, and enjoying ice cream cones, you might also consider ways to fit some business in to your trips.

The idea is to take advantage of tax deductions for which you become eligible when you devote part of your trip to business. As long as most of your travel days are for business purposes, you can deduct the cost of travel (airplanes, trains, cars, etc.) and for hotels, parking, taxi service, meals, and so on.

As defined by the IRS, travel expenses are the Ordinary and Necessary expenses of traveling away from home for your business, profession, or job. An Ordinary expense is one that is common and accepted in your field of trade, business, or profession. A Necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.

The key factor is that your trip must be primarily for business. Days of leisure can be added to a trip and still be considered primarily for business. The more days and time per day spent on business will help substantiate the trip. There are no set rules on how many days and how much time per day needs to be spent on business for your trip to be considered business related.

Keep all the documentation for business-related travel, including confirmations of appointments, emails, phone records, registration to conferences, etc. The days spent traveling to and from a business trip are considered part of the trip. This includes the weekend if it is impractical to come home between weekday business meetings. Planning ahead can make this happen.

### Traveling with Your Spouse

If a spouse goes with you on a business trip or to a business convention, his or her travel expenses can only be deducted if your spouse

1. is your employee,
2. has a bona fide business purpose for the travel, and
3. would otherwise be allowed to deduct the travel expenses.

To be an employee, your spouse must be on the payroll and payroll taxes must be paid. If your spouse is not an employee and travels with you on vacation, you can still deduct the cost of your room at the single-occupancy-per-day rate, rather than half the rate. Meals could also be deductible. If you are paying for lunch or dinner for a customer or business associate and that person's spouse, the full cost of the meals might qualify under the 50% meal deduction. Let us know if you're unclear on this deduction; we can give you the details.

With travel outside of the United States, the transportation for business trips of one week or less may be deducted. However, only a portion of transportation costs for longer trips is deductible.

### What Expenses Are Deductible?

Here's what you can deduct when you travel away from home for business.

#### Transportation Expenses

You can deduct Transportation Expenses when you travel by airplane, train, bus, or car between your home and your business destination. If you were provided with a ticket or you are riding free as a result of a frequent traveler or similar program, your cost is zero. If you travel by ship, additional rules and limits apply.

#### Taxi, Commuter Bus, Subway, and Airport Limousine Fares

You can deduct the fares for these and other types of transportation that take you between

- the airport or station and your hotel, and
- the hotel and the work location of your customers or clients, your business meeting place, or your temporary work location.

#### Baggage and Shipping Expenses

You can deduct the cost of sending baggage and sample or display material between your regular and temporary work locations.

## Car Expenses

You can deduct the cost of operating and maintaining your car when traveling away from home on business. You can deduct actual expenses or the standard mileage rate, as well as business-related tolls and parking. If you rent a car while away from home on business, you can deduct only the business-use portion of the expenses.

## Lodging and Meals

You can deduct your lodging and meals if your business trip is overnight or long enough that you need to stop for sleep or rest to properly perform your duties. Meals include amounts spent for food, beverages, taxes, and related tips. Additional rules and limits may apply.

## Cleaning Clothes

You can deduct the dry cleaning and laundry expenses you incur while away on business.

## Tips

You may deduct the tips you pay for any expense listed above.

## Other Expenses

You can deduct other similar ordinary and necessary expenses related to your business travel. These expenses might include transportation to or from a business meal, or Internet access fees.



## IRS asking for QuickBooks files

The Internal Revenue Service is moving aggressively to collect more taxes from small businesses. Recently the IRS purchased copies of QuickBooks accounting

software to use in its tax audits. Small businesses are among the largest contributors to the amount of taxes owed but not paid because of noncompliance with tax laws. Many feel this could lead to a "fishing expedition" since years, other than the one requested, are available in the data file. In the past the IRS asked for only the documentation to support the items on the return instead of the electronic file.

## Office News

### Staff

The friendly voice you hear when you call our office is Trisha Watson, our receptionist. Those using our payroll processing, deal directly with Leslie Alley, our payroll specialist. We are open daily from 8 a.m. to 5 p.m. including during your lunch hour even during the summer!

### QuickBooks

Did you know both Alice and Leslie are QuickBooks Certified ProAdvisors? We work one-on-one with clients on their QuickBooks issues. Whether you need help in setting up the program, trouble shooting problems or assistance in specific tasks, we are able to help on-line, by phone or at your location.

### Payroll Processing

One of the services we offer is payroll processing. Having a local payroll provider gives you the added benefit of having one representative to speak to about your account who is available when you need them. We offer a cost effective payroll service that including direct deposit of your employee's checks, tax deposits made electronically, quarterly and annual reporting. Contact us for a quote on our competitive rates

### Tax Notices

If you receive a notice from the IRS or Georgia, please contact us. We deal with these agencies on a regular basis and are able to help you navigate their requests. Often these notices are in regard to mismatched items, requests for additional information or misapplied payments.

We want to thank you again for your continued support of our business. We appreciate each of you. Your referrals are welcomed.

Sincerely,  
Bob & Alice Reeves  
770-632-5562

### CIRCULAR 230 DISCLOSURE

To ensure compliance with requirements imposed by the IRS, we are required to inform you that any U.S. federal tax advice contained in this communication (including attachments) is not intended or written to be used, and cannot be used, for the purpose of 1) avoiding penalties under the Internal Revenue Code or 2) promoting, marketing, or recommending to another party any transaction or matter addressed herein. Please contact your tax professional as each individual's facts and circumstances can be different.