

Important 2011 & 2012 Tax Alerts

The following tax issues are items we feel you need to be aware of for the 2012 tax filing season. If you have any questions or concerns, please contact our office for further information.

1. For the upcoming 2012 tax filing season all tax preparers and CPA firms who file more than 10 individual tax returns must begin filing them electronically. Therefore, if we prepare your Form 1040, individual tax return, it will be filed electronically.
2. The IRS has **proposed** a new tax law beginning in the 2012 tax year requiring 1099's to be filed for payments of goods and services of \$600 or more to *all* businesses. This law was repealed, but if you have trade or business involved in rental property you may still be required to file 1099's for your business;
3. If you are a >2% shareholder of an S-Corporation you can deduct the value of your health insurance premiums as an adjustment to gross income as long as the value is included in your W-2 wages. If you don't include the premiums in your wages you can't take the deduction, and discrimination rules apply. There is no additional tax liability here, only reporting requirements.
4. Starting in tax year 2012, the Affordable Care Act requires employers to report the value of the health insurance coverage they provide to employees on each their annual Form W-2. This reporting is for informational purposes only and does not affect tax liability.
5. Business owners must correctly determine whether the individuals providing services for you are employees or independent contractors. Misclassification of an employee as an independent contractor may cause you to be held liable for employment taxes.
6. Shareholder-employees of S corporations that provide services to the S Corporation must pay reasonable compensation to themselves which is subject to employment taxes. The IRS may re-characterize corporate distributions/dividends as salary paid in lieu of reasonable compensation.
7. The IRS imposes penalties on any partnership or S corporation who files a late or incomplete tax return. The penalty is \$195 per shareholder and \$95 per partner for each month that the return is late up to a maximum of 12 months.
8. A lender who cancels or forgives a debt you owe of \$600 or more is required to file with the IRS, Form 1099-C, *Cancellation of Debt*. This amount may be taxable to you, depending on your current financial situation.
9. A taxpayer must maintain adequate records or other corroborative evidence to support the business portion of auto expenses. Taxpayers should maintain an account book or log that indicates dates, location, miles, and business purpose of the travel; otherwise no substantiation can result in loss of the deduction.
10. If you claim a non-cash charitable deduction of property over \$5,000 per item or group of similar items, an appraisal is generally required.

Bell, Rugh & Logan, LLC