"Tax Tips" --- 2010 Tax Return Filing Season ...Ready, *Set*, GO!!!! Plus some information for those of you owning Rental Property.

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Tax Filing 2010

Brought to you by: Milan Madhani, CPA & Vimal Madhani, MST of Vimlan Tax Services, LLC

Everyone is Ready...are you?

If you missed the January E-Newsletter, not to worry!!! If you have heard something about the IRS not being ready to file many returns, then that was true, not a rumour. However, the IRS and most states are NOW READY to accept and process your returns, whether you E-file or paperfile. So...boys and girls, ladies and gentleman, get your engines ready (or your tax docs in order, for that matter). The only deadline you should now be concerned withis the actual federal tax filing **deadline of April 18th, 2011 which falls on a Monday** and your local state tax filing deadlines (in most states, it coincides with the federal filing deadline). If you are going to take an extension, that is fine, however, keep in mind the tax payment is STILL due on April 18th, 2011 if you owe taxes. How do you know if you owe taxes? You'll have to estimate them from the amount of income you made this year. Look at your tax returns from last year, see if your income was about the same, and compare it to what was deducted from your paychecks or what you paid in on your own. If you need help, you can always visit your local CPA or call him for a quick formula to figure out what you might owe for taxes by April 18th. Conversely, our **website gives you quite a handy formula for estimating both your federal tax as well as for all states with an income tax.**

Here are some reminders before you go to your local CPA, tax professional, or if you are just filing your return on your own.

1. **New Tax Laws are updated here, on our website.** There are relatively few changes in 2010, other than the extension of already-existing tax breaks and deductions. Some things which did not get passed this year are the following: **a)**special car sales tax deduction (although a general level of sales tax deduction is still allowed), **b)**the flat property tax deduction for nonitemizers who own their own home which they live in, **c)**and the nontaxability of unemployment earnings (the first $2,400 of unemployment earnings is now fully taxable for 2010).
2. **Don't forget about the Energy Credit** This is a "gimmie" of $1,500 max, if you've never used this credit before. The IRS has a good description of what this is, however, this credit will offset your taxes dollar for dollar if you've done energy efficient improvements (certain roofs, asphalt driveway, water boiler, energy efficient doors, windows, insulation material...even a water boiler heater).
3. **HSA (Health Savings Accounts)** Do not forget you have until April 18th of this year to put money in this checking (it is technically a checking, and not a savings) account if you were covered under an HDHP last year. If you were single, your overall health insurance deductible had to be $1,200 on Dec.1st last year or if you have family coverage, your overall health insurance deductible had to be at least $2,400 last year on Dec.1st. The more money you put into this account, the more of a refund you will get (and/or the lower your tax liability will be on our 2010 tax return).
4. **The 2010 Tax Questionnaire is ready, here on our website** and it is a very good guide for you to get acquainted with all the necessary docs you might need to have ready prior to filing your tax return. Whether you are filing with us or anyone else, this consolidated two page questionnaire not only serves as a checklist of necessary tax filing documents, but it also has several questions that might apply to your filing situation or help jog your memory of any extra information you may need prior to filing. So be sure to go through this questionnaire thoroughly. If you do not use this questionnaire, a tax organizer provided by your online tax filing provider or your local professional CPA/tax professional can be quite useful, in these authors' opinions. A couple of things of note this year are the following (the first point here was mentioned in our last E-newsletter, but the second point is new):

   a. If you took the $7,500 homebuyer's credit on your 2008 tax return, you must remember that this (2010) is the first year that you will have to start paying it back by $500. So either your refund will be curtailed by that amount or your tax payment will increase by $500.

   b. For those of you who are realtors OR own any investment property from which you receive rental income: There are TWO very important things of which I would like people who own investment/rental property to know. The IRS wants to know what kind of investor you are. Are you a passive, active, or realtor-like investor in your properties? The definitions are a little bit detailed than are mentioned here, but the basics are the following ***(WHICH ONE ARE YOU????):***

   i. Passive investor means that you do not manage your property and hand it over to

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a management company (or a manager, or a partner, etc.) to handle the "ins & outs" of your property like getting a tenant, collecting rent, and/or the general upkeep of the property(ies). This kind of passive investor **cannot take ANY of the losses** in the year of the tax return, usually, and has to suspend the losses until he/she sells the property to claim them against any possible profit...**or else** add them to any loss stemming from the sale.
ii. Active investor means he/she does quite a bit of management of the property (more than 50% in these author's humble opinions) rather than a management company or another partner who owns the property. This person can take a **maximum of $25,000 loss** for these properties which they actively manage.
iii. Realtor-Investor An investor who manages the property more than 750 hours during a year, is a classified "realtor" in the eyes of the IRS; it has nothing to do with whether the property investor is a real estate agent or a broker or not and everything to do with whether he/she has a total of at least 750 hours of managing the property(ies). This type of investor has **NO limit to their losses on their property(ies).**

iv. GROUPING IRS wants you to group your properties starting in 2011..meaning if you do not print a special "election" statement on your tax return that says you are grouping your properties as one management activity (think of it like you are treating your group of properties as one property) for the purposes of qualifying as either an active investor a realtor-investor, then you will have to qualify as an active investor or a realtor investor for EACH separate property before it is determined whether you can take a loss on each property (if you have losses that is). Imagine trying to qualify 750 hours *per investment property* to determine if you are a realtor-investor for each individual property if you did not print the statement to group them as one activity!! This can be a costly decision on your part to not treat your multiple investment properties as one activity because you might end up with huge losses for all of your properties in total, but may only be able to take a limited amount of losses because you never printed the "grouping statement!" Visit your local CPA or tax professional to know more about this. This rule has always been there, however, it is now being further looked into.

v. MILEAGE LOG AND RATE For 2010, the mileage rate for business mileage (that means for managing your investment/rental properties also) was $0.50 per mile. So add up the mileage and multiply it by 50%. That's your auto expense deduction on Schedule E for each property you own. Remember, if you are using ACTUAL auto expenses or used them last year for your vehicle(s) for that property (like oil changes, repairs, insurance, depreciation), you CANNOT use standard mileage rates going forward for that property or group of properties (if you grouped them). If you used standard mileage rates last year, you can start using your total actual costs for your vehicle(s) this year multiplied by the ratio of business mileage to total mileage driven on your vehicle(s). Ideally, the IRS would like you to keep a mileage log of the number of miles you drove to and from the property, what you did, the dates you went to the property(ies), the costs you incurred that day, if any, and the people you met that day if any. A good detailed excel spreadsheet backed up by some paper records is good practice for record keeping because this, along with your other receipts and invoices can go a long way in case you ever get audited by the IRS and/or any state/local tax authorities.

More Foreign Bank Account Reporting (FBAR) Requirements ...BRAND NEW VOLUNTARY DISCLSOURE INITIATIVE JUST RELEASED BY IRS

Check the Box Requirement (Schedule B) and TD 90-22.1

The IRS just released another Special Voluntary Disclosure Initiative for all of you who have foreign bank accounts and are US citizens or US residents (a US resident is anyone in the US for at least 183 days not on a student visa like an F1 or a J1) who file US 1040 tax returns.

The last open voluntary disclosure ended October 15th, 2009, but this one is new for 2011 and ends August 31st, 2011. **See this link here for more info.** All voluntary disclosure offices are usually handled by the local IRS Criminal office division in your area.

If you have had any foreign bank accounts during last year which total up to be $10,000, (or any past year for that matter) or have had even any signatory authority (such as a power of attorney), then you have a foreign bank account reporting (FBAR) requirement. The reporting of these accounts does not necessarily mean you will pay US income tax on these accounts. The IRS just wants to know where your money is parked. The fact that you even have any foreign bank accounts (brokerage accounts included) or signatory authority over them means you must at least FIRST check the box at the bottom of Schedule B of your 1040 which asks if you have any foreign accounts last year. The moment those accounts added up to be $10,000 or more during last year (or any past year) requires you to fill out a Treasury Department

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90-22.1, Report of Foreign Bank and Financial Accounts EACH year that you had a total balance of $10,000 or more.

PENALTIES: The basic penalty for a simple, nonwillful failure to file a FBAR is $10,000 PER YEAR for 2005 and later years. The IRS can subject you to criminal prosecution, and for 2005 and later years, impose heavy civil penalties of up to 50% of the *highest* balance in the foreign account for each year that the violation continues. If you have had foreign accounts for many years, the IRS currently has a voluntary disclosure program, but you might be charged a penalty of at least 20%, and probably more, of the highest balance in your foreign account. If your decision to not report your foreign accounts was not willful, then the penalty would be limited to $10,000 per year, and it would not be possible to charge a penalty by the IRS based on a percentage of the balance in the account. There is a chance you can opt out of this voluntary disclosure program and contest the willfulness penalty that is imposed as part of the program. In all cases, the government has the burden of proving willfulness. But it is essential to first discuss this with a tax professional if you are in this situation. REMEMBER, foreign interest income goes on your tax return, but the foreign account numbers and balances go on the 90-22.1 form and this latter form gets reported to Detroit.

Bottomline being, check to see if you have any foreign bank accounts, or if you have inherited any ownership or signatory authority over such foreign bank and brokerage accounts, and be sure to report them appropriately on the 90-22.1 if necessary, and do check the box at the bottom of Schedule B when filing your tax return this year.

Once you file your taxes, be sure to check our website to check the status of your refund, if applicable.

Have a SAFE and quick filing.

In this issue:

"Tax Tips" is brought to you free by:
Vimlan Tax Services, LLC.
939 N. Plum Grove Road, Suite A
Schaumburg, Illinois
60173
Ph.847.619.0413
Fx.847.619.0966
info@vimlantax.com
http://www.vimlantax.com/

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