



# "Tax Tips" --- 2010 Tax Return Filing Season & Report of Foreign Bank Accounts (FBAR) Reporting

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## Tax Filing 2010

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### Let's get ready to.....File!!

Ladies and gentleman, 2010 is now complete, for better or worse, and the 2010 filing season is now upon us. This year, the **deadline for 2010 tax filing is April 18th, which falls on a Monday**, because the IRS is observing Emancipation Day in the District of Columbia. (Corporate filers must still file by the 15th of March for calendar year taxpayers). This means all you late filers will actually have 3 whole more days to Efile your returns. But don't wait till then, and file early! It is well known that the IRS is not kind to late filers. In recent years, the IRS has put into play the Modernized Efiling Program (MEF, for short); this program has allowed for much faster processing time for tax returns and refunds for each year since 2004. As a result, the lag time between the efilng date and refund issuance date has been getting shorter every year.

Here are some things that you should be aware of prior to filing your 2010 tax return. Except for the following people, the IRS started accepting efilng for 2010 returns on January 14th. **(If you are an itemizer of expenses on Schedule A, i.e. mortgage interest, property taxes, job expenses, etc., or a student or parent claiming tuition deductions up to \$4,000 on the front page of your 1040, or an educator claiming the \$250 expense deduction also on the front page of your tax return , YOU MUST WAIT UNTIL MID TO LATE FEBRUARY BEFORE YOU CAN FILE YOUR TAXES, WHETHER YOU'RE AN EFILER OR A PAPER FILER).**

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 are the **a)car sales tax deduction** (although a general level of sale tax deduction is still allowed), **b)the flat property tax deduction for nonitemizers who own their home**, **c)and the nontaxability of unemployment earnings** (the first \$2,400 of unemployment earnings is now fully taxable for 2010).
2. **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. A couple of things which we would like to remind filers of regarding this questionnaire are the following:

**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 who are US Visa holders:** be sure to check your W2 and make sure that no Social Security and Medicare Taxes (FICA taxes)were taken from your pay during the time you were an F1 (OPT, CPT) visa holder (international student). If that is the case, you will have to file a 1040NR return and then must file a refund for the FICA taxes in a separate process. If you will be filing with us, we can help you with this matter; however, be sure to answer question #18 and the Visa information on the questionnaire. **Side note: L2 Visa holders (spouses of L1 Visa holders)can apply for a social security # (much faster) instead of an ITIN#; a social security # is superior # compared to an ITIN#. Check the link here at the social security's website for the necessary documentation requirements. L2 applicants must be present in the USA to apply for a SSN#. All other spouses of US Visa holders are eligible to apply for an ITIN #, whether the spouse came to the US or not; a valid passport and secondary form of ID (in English) must be available. [See ITIN](#)**

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[Instructions here on our website.](#)

**c. State tax:** Just because your employer didn't withhold state taxes from your paycheck during the time you worked for that employer(s), that does not mean you are 'off the hook' for that state's filing requirements. If you worked in a state, or you were working on a project in a different state which your employer derived revenue from, chances are that more likely than not, you will HAVE to file a state tax return for that state. This is a common mistake by employers to not withhold state taxes from their employee's paycheck due to the employer and employee being from a different state from the working state, and a common mistake by employees thinking they do not have to file a state tax return because their employer is based in a different state. Double check with a tax professional or that state's filing requirements to determine if you would have a state tax return filing requirement based on your time in that state or time worked on a project based in that state.

**d. Job Expenses** If you are self employed or have self-employed earnings (such as from a 1099-M), be sure to fill out page 3 of our questionnaire. If your job expenses are split between your W2 job and your self employment contract jobs, be sure to provide a separate page 3 for job expenses relating to each separate job or self employment contract job. YOU MUST HAVE PROOF OF ALL THESE EXPENSES.--> Credit card statements are good, but some extra substantiation, like a spreadsheet, a mileage log, and some other invoices are required as proof to be able to deduct these expenses. You do not have to submit the proof of these expenses to us.

**e. Question 30** For those of you who have had your home which you either moved out of, had foreclosed on, rented out, or a former rented property which you now moved into, please be sure to provide us a separate spreadsheet highlighting the expenses and income from that property and the appropriate dates from when the move out, conversion, or foreclosure happened. If it was foreclosed on, you would have received a 1099-A or 1099-C. If you sold or bought a property, have the HUD-1 Document ready for us.

**f. Stock Sales** If you have had stock or mutual fund sales, and they are numerous, please be sure to fill up our [Formatted Stock Sales Sheet available here on our website](#) and submit that to us if you are filing with us. We will not accept an excel sheet of your own making or a stock sales sheet from TradeKing, Scottrade, or any other brokerage site as it is difficult and time-consuming for us to extract the information from those sheets.



### **Foreign Bank Account Reporting (FBAR) Requirements and Foreign Income**

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

Here is what the IRS commissioner, Doug Shulman has said recently regarding foreign bank/brokerage accounts, "The IRS has made important strides at stopping tax avoidance using offshore accounts. We continue to focus on offshore tax compliance and people with offshore accounts need to pay taxes on income from those accounts."

So, the final thing we would tell you is that 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 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 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.

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.

#### Foreign Income and Foreign Housing

For those of you with foreign income, such as (but not limited to) foreign interest, dividends, or wages, you must report this as income on your tax return. Foreign wage income and foreign housing allowance (provided by some

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employers as a bonus or allowance in some countries) are excludable (meaning they are not taxed in US) up to a certain amount on the US 1040 Tax return. However, they must be reported on the US 1040. If you are filing with us, please be sure to indicate that to us by completing question 24 on our questionnaire and attaching a separate sheet if necessary.



### Correction, last E-Newsletter Aug-Sep 2010

In the last E-newsletter, a few of you recognized an error we made regarding the "Buy vs. Rent" topic. In that E-newsletter, we incorrectly stated that a Baker ratio of 10 to 1 meant renting was more economical, when in fact buying was more economical. Thank you to all those who pointed out that error.

Once you file your taxes, be sure to [check our website](#) to check the status of your refund, if applicable.

Happy Filing!

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