

DWIGHT HETLETVED PC

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December 14, 2010

Again this year, we are not accepting tax appointments after the first week in April (limited exceptions). The time is needed to get the returns completed by the 15th. If you don't have any questions about your tax return and would like to drop off or mail in your tax information, please do so.

Deductions and Tax Rates

- Tax rates, mileage rates, the standard deduction amounts, personal exemption amounts, and depreciation amounts are available on our website at www.hetcpa.com along with many other common rates and deductions.

For a non-custodial parent to claim a child as a dependent on their 2010 return a FORM 8332, signed by the custodial parent, must be attached to the return.

- In 2010, a taxpayer in the **10 or 15% tax bracket** has a capital gains tax rate of zero all others are 15%.
- Prescriptions from outside the US (Canada or Mexico) are not deductible.
- Gambling losses require a log showing date and type of specific wager. In most cases, those who are gambling are winning more than the amounts shown on the W-2G. If the taxpayer gets the print out from the casino to verify losses, that printout also shows additional winnings that need to be reported. A 2009 ruling allows netting daily slot losses to daily slot wins at the same casino.
- Contributions less than \$250 require either the canceled check or written communication from the donee showing the name of the donee organization, the date, and the amount of the contribution. Contributions in excess of \$250 still require a receipt from the organization. That receipt must include date & amount. Because a recent audit disallowed the deduction, the written document from the donee organization must be dated near the date of the contribution or shortly after year end.
- The "kiddie tax" requires children with unearned income in excess of \$1,900 to pay tax at their parent's rate. The tax applies to those under age 18, as well as full time students under age 24 who are claimed as a dependent.
- Be sure to record your year ending odometer mileage if you are using your vehicle for business. Vehicles (listed property) require a log stating the business purpose.

Farmers

- With regards to prepaid expenses, there must be a specific quantity of items purchased, be a legitimate business purpose (price protection, discounts, availability) and the expenditure must not result in a material distortion of income (quantity should be used in the next year). When prepaying expenses, be sure that the invoice shows quantities (i.e. pounds of fertilizer).
- The production deduction will affect almost all farmers and some businesses. W-2 wages (subject to FICA not commodity wages) must be paid to get a 9% taxable income deduction. Those who are disabled or retired will not be subject to self-employment tax on CRP payments. Farmers are not required to file their returns until April 15th if they make one estimate by January 15th.

Credits

- The residential energy credit is still available in 2010 for qualifying exterior windows & doors, insulation, qualified ceiling fans, water heaters, roofs (Metal & Asphalt), biomass stoves and furnace/air conditioners. The credit is 30% of the cost with a maximum of \$1,500. Solar energy credits, 30% of cost (no maximum) including installation, for geothermal heat pumps, solar panels, solar water heaters, small wind energy systems, and fuel cells are available 01/01/2009 through 12/31/2016.
- The Lifetime credit is still available but the Hope credit has been changed to the American Opportunity Credit. The credit has been increased to a max of \$2,500 and it now applies for 4 years. It also includes books and materials.

If you have a student in college and need to have your return completed earlier than usual, please call early to schedule an appointment.

- The adoption credit has been increased by \$1000 per year and is now refundable.
- There is a state credit for long term care insurance premiums. The credit equals the premiums paid up to \$250 per insured individual. The policy must be "partnership plan" and the insurance company is required to provide a notice to the insured individual clearly identifying the policy as a "partnership plan" policy.

Employers

- For 2010, there is a health care credit for employers that provide health insurance to their employees. The credit is complex. To calculate the credit we need to have the amount of health insurance paid for each employee as well as the number of hours worked by all employees. Please get that information to us by January 15th.
- If you hire an independent contractor, make sure that individual truly is an independent contractor and not an employee.

If you paid an individual \$600 or more in rent, interest, or labor (not wages) for business purposes, you must issue a Form 1099 by January 31st. If you would like us to prepare any W-2's or 1099's, please have the information to us by January 15th.

- Health insurance premiums paid by the employer will need to be reported on the W-2 in 2012.
- The HIRE act allows an FICA exemption for employees hired after February 3rd and before 01/01/2011. The act also includes a credit for 2011 for a qualifying employee that remains employed for 52 weeks. The employee must complete a FORM W-11.
- Although there is no requirement to take a year-end inventory, there is a requirement to take regular and consistent periodic inventories and adjust the books to agree to actual. Regulations are generally interpreted to mean that an annual physical inventory is required at or near year end.

Starting January 1, 2011 employers will no longer be able to use the Federal Tax Deposit coupons, FORM 8109. IRS is now requiring electronic withdrawal through the EFTPS program. One can only expect electronic withdrawals for tax payments for the personal returns will be mandatory in the future as well. It is available now, so if you would like to have your 2010 tax due withdrawn from your account electronically, please let us know.

- There is a Work Opportunity Tax Credit for employers in counties in our area. To qualify, the employer must hire an employee age 18-40, who is not a family member, and must not have worked for you before. A form 8850 must be sent to Job Service before the job applicant's 28th day of work. The credit can be as high as 40% of the first \$6000 in wages depending on the number of hours the employee works.

IRS

- The IRS now requires tax return preparers to e-file returns in most situations. Those of you who prefer not to e-file may have to in the future. We prefer the e-filing as there are more errors with paper filing. If you choose to paper file your return and there is an error we will charge to correct any errors.
- The IRS is conducting more mail examinations (audits) than in the past. At a recent seminar, we were told these mail examinations are requesting log books for mileage and gambling to verify deductions. Hence, if you are required to have a log book, be sure to keep it up to date.

We are now required by IRS to have written authorization to release tax returns or other information to a 3rd party. If you would like us to release any of your information, we will need you to sign a statement. If you are unable to stop in and sign or would like it taken care of more quickly, we now have the ability to securely make available whatever documents you might need online through our client portal. If interested, please ask.

Gavin Hetletved has recently joined us and is working from Fargo as he finishes a master's degree in accounting. He will join us in Washburn in December of 2011. He can be contacted at gavin@hetcpa.com.

Our website address is www.hetcpa.com. There are worksheets on the website as well. If we didn't include the worksheets you need with your letter, you can print them from the website in the tax forms link. We've included many other useful tools such as addresses, record retention, forms, financial calculators, and our web portal login.

Our email addresses are dwight@hetcpa.com, camey@hetcpa.com, kelly@hetcpa.com, and dallas@hetcpa.com.

We are offering your copy of the tax return on a CD or electronically rather than the usual folder. If you received a CD in prior years, please bring it and we will put 2010 on the same CD. If you are interested in accessing your return from our secure client portal on our website, please let us know. We will continue to provide the folders for those who want them.

Sincerely,



Dwight Hetletved

IRS CIRCULAR 230 NOTICE:

Any U.S. tax advice included in this written communication was not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.