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2012 Tax Season Newsletter

DID YOU KNOW? All paid income tax preparers must have an identification number known as a PTIN. Paid preparers must sign all tax returns they prepare as the preparer, and include their PTIN on the return. The IRS has an ongoing effort to identify “ghost preparers.” Do not pay a preparer who does not have a PTIN and who marks the return as “self-prepared” or refuses to sign your tax return as the return preparer.

IN ORDER TO STAY CURRENT and better serve our clients, we attend many hours of tax training each year. This year, this training consisted of a one day Tax Practitioner Institute, a two day National Association of Tax Professionals (NATP) 1040 Workshop, a one day NATP tax seminar, a one day Maine Tax Forum, and a two day Maine Association of Professional Accountants “Gear Up” tax seminar, as well as many telephone forums and webinars hosted by various agencies and associations throughout the year. These training events cover many facets of federal and Maine tax law as well as current changes.

WE ARE MEMBERS of the National Association of Tax Professionals (and ME chapter), National Society of Tax Professionals, National Association of Enrolled Agents (and ME chapter), National Society of Accountants (and ME chapter), National Institute of Professional Bookkeepers, National Association for the Self Employed, Lincoln Lakes Region Chamber of Commerce, Lincoln Referral Group and we’re a business member/supporter of the Lincoln Snowhounds snowmobile club.

WIN \$100. Last year’s winner of our drawing was Pat and Maria Morin of Old Town. This year all completed 2011 income tax return clients will be entered and the \$100 winner will be drawn at 5 pm on April 17, 2012.

FOREIGN ACCOUNT REPORTING. The IRS can take more than 100% of the value of an undisclosed offshore account in taxes, penalties and interest if they discover it. Any U.S. person (even non-citizens) must report any ownership of or signature authority over any foreign financial accounts totaling over \$10,000 U.S at any time within the year. This is reported to the Treasury Department on Form TD 90-22.1 which we can prepare while preparing your income tax return.

ORGANIZE NOW. If you would like us to send you a tax organizer to help you get ready for tax time, call us at 794-8563 or email taxman2@barkerbusiness.com.

HISTORY TIDBIT: The last time the national debt decreased from one year to the next was 1956 to 1957. The top federal income tax rate for the highest earners was 91% in those years.

NEW 1099 REPORTING requirements have been repealed. The requirements remain that those running a trade, business or non-profit who pay for rents or services totaling over \$600 for the year to any non-incorporated individual or business, must issue to the payee and the IRS a Form 1099MISC documenting the amount paid. If the payment was for medical or legal fees a 1099 must be issued even if the recipient is incorporated. The current penalty for failure to file is \$50 per form. We can help you with your 1099 reporting requirements.

TAX FRAUD HOTLINE. If you suspect or know of an individual or company that is not complying with the tax laws, you may report this activity by calling the IRS at 1-800-829-0433 or report on Form 3949-A (available at irs.gov). File Form 211 to receive a reward if applicable. Maine tax violations can be reported by calling 207-624-9600. The caller can remain anonymous.

BUSINESS USE OF AUTOS requires a written record be kept to substantiate such use. Commuting back and forth from home to your main job is not business use. A written record showing the date, purpose and miles driven for each business trip as well as the January 1st and December 31st odometer reading is the minimum information required. The written record requirement is the same for deducting either actual expenses or taking the standard mileage rate. The standard business mileage rate for 2011 is \$0.51 for January through June and \$0.555 for July through December.

WE PROVIDE PAYROLL SERVICES. You give us your employee hours worked each period and we'll prepare your payroll checks, direct deposits, or detailed pay-stubs that you can attach your own check to. We can accommodate all calculations and deductions such as tips, child support and retirement plan withholding, as well as vacation and sick time accrual if needed. We prepare all quarterly and year-end payroll tax returns as well as 1099 forms for payments to independent contractors.

CAPITAL GAINS will be taxed by the IRS at 0% for taxpayers in the 10% and 15% tax brackets, and 15% for all others in tax years 2011 & 2012. For 2013 and beyond these rates will increase to 10% and 20%.

TAX CREDIT FOR Residential Energy Property has decreased from 30% to 10% of cost with a lifetime maximum of \$500. The 2011 credit must be decreased by credits received from 2006-2010. If \$500 or more in credit has already been taken, no more is allowed. This is the credit for qualifying wood and pellet stoves, insulation, roofing, doors and windows, water heaters and heating and air conditioning systems that are installed into existing principle homes. New construction, second homes and rental property do not qualify.

TAX CREDIT FOR Residential Energy EFFICIENT Property is 30% of cost with no upper limit. Existing homes and new construction both qualify, as well as principle and second homes. Rental property does not qualify. This is a credit for qualifying geothermal heat pumps, residential windmills and solar energy systems.

FORMS 1099-B must show the adjusted basis for "covered securities" sold as well as whether it was a short or long term transaction. 1099-B forms must be sent to the taxpayer by Feb 15, 2012. If you have investments and will receive a 1099-B please wait until you have received all your forms before having your taxes prepared.

SSA & MILITARY RETIREES will receive a cost of living adjustment of 3.6% in 2012. This is the first increase since 2009.

GOVERNOR LEPAGE told us at the Maine Tax Forum that he is writing a bill to exempt retired pay from income taxes in the State of Maine. Social Security income as well as the first \$6000 of "qualified" pension income is currently exempt. He asked that everyone contact their state representatives and senators to support this bill.

MAINE FOLLOWS IRS for section 179 depreciation! Previously ME section 179 depreciation was limited to \$25,000 with the remainder being added back to income and carried forward with portions taken over the remaining life of the asset. The result of this could be little to no tax due to the IRS for a business owner, and yet have a sizeable tax bill due to the state of Maine. Now both the IRS and ME will allow up to \$500,000 section 179 depreciation to be taken.

ADOPTION CREDIT is still available for 2011. This credit is for qualified adoption expenses paid by the taxpayer, up to \$13,170 per child. If a child with special needs is adopted the taxpayer can receive the full \$13,170 credit even if they had no adoption expenses. It is my understanding that all children adopted out of the Maine foster care system qualify as children with special needs. This is a refundable credit, meaning you can receive the credit even if you have no tax to offset it. It will be added to your refund like the earned income credit and additional child tax credit.

IDENTITY THEFT has quadrupled, targeting the deceased, elderly and children. If you file a tax return and discover a social security number has already been used on another return you may be a victim of identity theft. You should call the *IRS Identity Protection Specialized Unit*, toll-free at 1-800-908-4490.