



# Bill R. McCracken Accounting, Tax & Financial Services

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*I like the slower pace of life after tax season,  
but I'm still waiting for some sunshine!*

**May 2011**

Thank you for choosing our office to prepare your 2010 taxes. The season certainly presented several challenges – late passage of a federal tax bill delayed most return filings by two to three weeks and the Oregon legislature waited until mid-March before tying into federal legislation. My staff and I worked hard to keep return prep moving but I know some of you experienced extra waiting time this year. We all appreciated your patience! I hope whatever changes Congress makes this year are done early enough so the next filing season proceeds without a hitch!

Now that the pace of work is starting to slow down a bit, we remind you we are available if questions come up, you receive letters from IRS, ODR or other tax authorities, advice is needed prior to a big decision, etc. Please call our office first to make sure we in when you want to come by. Look for our newsletters with news and information you can use. Bill is a Notary, if you need that service, and is also a registered representative with Genworth Financial. He is would be pleased to discuss your retirement plan and other financial investments.

**Let us know if you move or your marital status changes, so we can update our mailing list.** We wish you a happy and productive year ahead! *Mr. Bill*

## Audit Flags

Not every IRS letter is an “Audit”, but those that ask for more information should be taken very seriously. A full-blown, in-person tax audit, where records and details are scrutinized, is rare. More common are “letter audits” when IRS asks for records supporting a particular tax deduction. If the documentation substantiates the deduction, generally a “no change” letter is issued and the case closed. Some common letter audits include:

◆ **Work Clothing** – most of us are not required to wear a uniform for work, even though our employer may have a workplace dress code. Tax laws permit a deduction for “work uniforms” only when the employer **requires** the employee to purchase specific pieces of clothing, generally with the business name on them, and wear them while working. The clothing cannot be items that are appropriate to wear outside of work. Your employer’s dress code may mandate black slacks and a white shirt or blouse, but this does not qualify as a deductible “uniform” because these items can be worn outside work.



## Mr. Bill and his Staff



Mr. Bill



Erin ~ Office Assistance



Pam ~ Office Manager



Cathy, Tim and Bill reviewing a return.



◆ **Unreimbursed Business Expenses** – these can include business meals, cell phone, mileage, gifts, entertainment, etc. Is the expense “usual and customary” for your occupation? Are the expenditures excessive? Does the taxpayer slip in personal meals and expenses? We suggest you keep a detailed log or calendar if you regularly entertain business clients and prospects. If your employer fully reimburses your expenses, then you cannot claim them as a deduction. If your employer gives you an advance for expenses, but does not require you to turn in the excess, then you can report the expenses and you must report the advance as income. Personal meals are never deductible unless you are away overnight from home on business. If your family accompanies you on a business trip, their expenses are never deductible. Remember too, the IRS gift limit is still \$25.00 per year, per person.

◆ **Hobby Activity Claimed as a Business** – it is tough to get a business up and running, much less make a profit. If the activity generates a profit three out of five years, tax laws presume it is a business. However, the activity must still be run in a business-like manner with a separate bank account, promotion of the product or service, bookkeeping records and a profit motive. Hobby income is fully taxable and expenses are deductible, as miscellaneous deductions on Schedule A.

◆ **Home Office** – unless you are self-employed, your employer must require you to work at home or not provide you with an office space in order for you to claim the home office deduction. Home office space must be **exclusively and regularly** used for that purpose. You cannot share the space with the guest room, TV room or dining room table!

◆ **Business Mileage** – commuting to and from work is never deductible. Exceptions may be allowed for certain out-of-town work. A mileage log and/or appointment calendar showing locations of meetings is good documentation.

◆ **Charitable Contributions** – claiming a large amount relative to your income can be a red flag. Also, claiming a high dollar amount of non-cash contributions every year can raise suspicions.

### We're Stretching our Legs!

**The office will be closed May 2-6 and May 23-June 10.** We will check phone messages daily and respond as needed. Please do not email expecting a quick response as we may not consistently check emails. We will not be able to provide letters or copies of tax returns while the office is closed.

### Making Work Pay Credit

2010 was the last year for the \$400 Making Work Pay Credit. Many of you qualified for this credit and it was designed to cover a change in the federal withholding tax tables. In 2011, working taxpayers are receiving a new benefit – less Social Security tax withholding. This will not impact taxable income. Self-employed taxpayers will recognize this benefit when completing their 2011 tax returns. As far as we know, this is a one-year tax benefit for 2011 only.

### Is Your Teen Working This Summer?

If your teen-age son or daughter has a summer job, make sure there is some federal and state tax withholding from their paychecks. The teen may have to file a tax return next year, but most likely you will still be able to claim him or her as your dependent. A dependent making over \$1,600 in Oregon will have a tax liability if there was no tax withholding on wages earned. Your teen should **never** claim “exempt” on the W-4 form.

### Energy Efficiency Tax Credits

Federal energy credits for windows, furnaces, water heaters, etc. have been extended through 2011. The credit is now 10% of the improvement cost with a maximum credit of \$500. However, if you have previously claimed the credit, you can only claim it for improvements made in 2011 if you have not exceeded the current \$500 cap.

Oregon is continuing its Residential Energy Credit program. You must apply for the credit in order to claim it on your tax return. The Oregon Department of Energy website has all the information on what appliances are eligible for credits, qualifying models, required application forms and instructions: [http://oregon.gov/ENERGY/RESIDENTIAL/residential\\_energy\\_tax\\_credits.shtml](http://oregon.gov/ENERGY/RESIDENTIAL/residential_energy_tax_credits.shtml)

Tax credits for hybrid vehicles no longer exist. There are federal credits for certain electric vehicles including the 2011 Nissan Leaf, Chevrolet Volt and Wheego LiFe EV.