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While recuperating from knee surgery this fall, I took the opportunity to check up on "my people". I'm thankful for the many new friends I met at the office and their "healing" attention!



The holiday season is at hand. We hope yours are happily spent with people who are important in your lives. We express our grateful thanks to you for your support and trust. As we prepare to wrap up 2010, please feel free to contact us if you have any questions about tax planning and other financial issues.

Popular Email Myths and Other Tax Issues

This summer and fall, we have fielded many questions about healthcare and other legislation passed (or not passed!) during the year. Here are the facts:

⊗ **Beginning in 2011, the amount of employer-paid health benefits will be reported on W-2s, but NOT as taxable income.** The figure will appear in an information only box. **Employer-paid health insurance is not taxable income to employees.**

⊗ **Long-term Care Insurance is NOT mandatory.** Under the healthcare legislation passed, employers are encouraged to set up participation in a new national program that won't require screening for health problems that might prevent an individual from qualifying for long term care insurance. **Participation in the program, to begin in 2013, is voluntary for both employers and employees.**

⊗ **There is NOT a new national sales tax on the sale of homes.** Beginning in 2013, certain high income taxpayers (over \$250,000 married filing joint) who sell their home at a gain, may pay a 3.8% surcharge if the gain exceeds the exemption amount (\$500,000 married filing joint). **This will happen only under the rarest of circumstances.**

⊗ **Beginning in 2012, businesses will have to track expenses and issue 1099s, when payments exceed \$600.00 annually, to corporations and individuals for both goods and services.** This provision of the jobs act and healthcare bill will be up for debate and revision in the "lame duck" session of the current Congress. Many groups are lobbying to have the provision repealed. Stay tuned with us for the latest. **For 2010 and 2011, businesses must issue 1099s to independent contractors when they have been paid \$600.00 or more during the previous year.** This can include anyone who does specialized work for your company but is not on your payroll.

⊗ **The 2001 and 2003 tax reduction legislation is scheduled to sunset on 31 December 2010.**

Congress was not able to come to agreement prior

to the November election whether to extend the tax cuts or modify them. The "lame duck" session of Congress will address the issue. If no agreement is reached, the new Congress will take up the legislation in January. **We anticipate the 2001 and 2003 tax rates and benefits will be extended and the filing season will proceed on schedule.**

⊗ **The Deficit Reduction Committee's report is only a proposal.** Action on any of the proposals is probably years away and several election cycles into the future. Do you want your voice heard? Write to your Senators and Representatives. **All tax legislation is passed by both houses of Congress. The IRS only interprets and enforces the laws.**

Charitable Donations

This is certainly the time of year that not-for-profit organizations are ramping up their solicitation efforts. Also, many of us are cleaning out closets of old summer clothes, toys that will be replaced with new ones for Christmas, etc. Here is a brief summary of what you need to know in order to take a tax deduction for your cash and non-cash charitable contributions:

☞ **All donations of money must be acknowledged by the recipient organization.** You cannot throw coins into the Salvation Army pot or the collection cup at a checkout stand and claim a donation. **You must have a letter and/or receipt to document the amount of your gift.**

☞ **If you buy a wreath, candy, calendar, wrapping paper, etc. and a portion of the purchase price is a donation, you must have a letter that states the amount that can be claimed.** Otherwise, you have received "something of value" and you cannot claim a charitable contribution.

☞ **If you give a monetary gift of over \$250.00, the recipient organization must provide you with a letter stating the amount of your gift and the fact that no goods or services were received in exchange for the gift.** Most not-for-profit organizations do this regardless of the gift size.

☞ **When giving non-cash donations of clothing, toys, books, household goods, etc., you must keep an itemized list of the things given and you must get a receipt from the organization that acknowledges it received items from you.** Staple your list to the receipt. You also must value your donation for tax purposes. Refer to our website for recordkeeping aids and a valuation chart. All

items must be in above average and usable condition in order to qualify for a tax deduction.

☞ If you are buying new items for a charity Christmas stocking, food basket, etc., save your receipt and circle the appropriate items. Staple the receipt to the organization's request flyer. When possible, purchase the items in a separate transaction.

☞ Those who must take a required minimum distribution from a retirement account can donate all or part of the RMD directly to a charity of choice. There is no charitable tax deduction, but there is no additional income from the distribution.

☞ You can contribute stock shares directly to a charity of choice and avoid capital gains tax if the stock has gained value. Avoid giving stock that

has lost value – you can sell the stock, claim the loss on your taxes and donate the proceeds.

☞ When donating a car or other vehicle, you must get paperwork from the recipient organization. In most cases, the maximum donation value is \$500.00 unless the organization verifies the value is higher.

☞ When donating artwork, antiques or other items of high value, you may need to secure an appraisal. Contact Bill for additional information.

☞ Charitable contributions made by credit card are counted in the year you make the charge. When a gift is made by check, mailed in and cashed by the organization after the first of the year, you must make sure you do not double-count the donation.

Tax Professional Licensing

Beginning in 2011, individuals who prepare tax returns for a fee will have to be licensed with the IRS. Oregon has required licensing of tax professionals for over 30 years, but now we will have to meet the federal guidelines, as well. We encourage you to ask about our credentials if you have any questions.

Social Security Notes

In these difficult economic times, many people are considering when to begin taking their Social Security benefits. Under most circumstances, the earliest a person can begin collecting SS benefits is at age 62. If a person continues to work while collecting SS, there may be a payback of benefits until full retirement age is reached (between 66-67). SS benefits may be taxable income on federal tax returns, but they are not taxable to Oregon. Relying on SS as a primary source of income is a risky strategy. Bill is available to consult with you about your retirement income resources and help you make decisions.

Closing Thoughts

- ☺ Pay your 4th Quarter State Tax Estimate by 31 December to take it as an itemized deduction on your 2010 federal taxes.
- ☺ Convert some or all of your traditional IRA to a Roth IRA and pay the taxes over two years in 2011 and 2012.
- ☺ Accelerate itemized deductions into 2010 by paying more items like property tax, extra mortgage payments and charitable contributions before 31 December 2010. Delay payments to increase itemized deductions into 2011.
- ☺ If you receive 1099s for work done for others, check your own records to make sure they agree. Whatever is on the 1099 is what you have to report as income.
- ☺ Forgiveness of debt, whether credit card, car loans or home mortgages may be reported a year or two after the event. Save anything that says "Important Tax Document"!
- ☺ IRS auditors are trained in QuickBooks. They will request a QB file if auditing a business.