

Tax Tips

Keeping You Informed • Summer 2011

Tax On Wheels, LLC

"We Come To You"

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Mortgage Debt Forgiven

You may qualify for tax relief

More and more home owners have experienced mortgage debt forgiveness. If your mortgage debt is partly or entirely forgiven after 2006 and before 2013, you may be eligible for special tax relief. Normally, debt forgiveness results in taxable income; however, under the Mortgage Forgiveness Debt Relief Act of 2007, you may be able to exclude up to \$2 million (\$1 million for married filing separate) of qualified principal residence indebtedness.

Debt reduced through mortgage restructuring and mortgage debt forgiven in a foreclosure may be excluded. To qualify, the debt must have resulted from buying, building or substantially improving your principal residence. It also must be secured by that residence. Refinanced debt proceeds used for the purpose of substantially improving your principal residence also qualifies for the exclusion.

Proceeds of refinanced debt used for other purposes, such as paying off credit cards, do not qualify for the exclusion. Debt forgiven on second homes, rental property, business property, credit cards or car loans also do not qualify for this tax relief provision. However, these situations may qualify under bankruptcy, insolvency or as qualified business use real property.

In the year your debt is reduced or eliminated, your bank should send you Form 1099-C, Cancellation of Debt. Bring it to your tax appointment so the required forms can be filed.



Employee or Independent Contractor?

This classification determines if payroll taxes are required

For some business owners, determining whether a worker is an employee or an independent contractor can be tricky. Generally, you must withhold income taxes, withhold and pay social security and Medicare taxes and pay unemployment tax on wages paid to an employee. However, you don't generally have to withhold or pay any taxes on payments made to independent contractors.

There is a misconception that you may be able to choose which classification works best for your company. In reality, however, the facts and circumstances impose the worker status. In determining whether the person providing a service is an employee or an independent contractor, you must consider all information that provides evidence of the degree of control and independence. You'll need to answer these four questions:

1. Does the company control or have the right to control what the worker does and how the worker does his or her job?
2. Are the business aspects of the worker's job controlled by the payer? Examples include how a worker is paid, whether expenses are reimbursed and who provides tools/supplies.
3. Are there written contracts or employee-type benefits like a pension plan, insurance, vacation pay?
4. Will the relationship continue and is the work performed a key aspect of the business?

Businesses must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent contractor. No set number of factors makes the worker an employee or an independent contractor and no single

factor stands alone in making this determination. The concept is to look at the entire business relationship, consider the degree or extent of the right to direct and control, and finally, to document each of the factors used in coming up with the determination.

If you classify an employee as an independent contractor and you have no reasonable basis for doing so, you may be held liable for employment taxes for that worker. File a Form SS-8 with the IRS if the factors for determining worker status remain unclear.

Do You Work From Home?

If so, consider a home-office deduction

Generally, in order to claim a business deduction for your home, you must use part of your home exclusively and regularly as your principal place of business, as a place you meet your clients, or in connection with your business, where the business portion of your home is a separate structure not attached to your home.

For the most part, the amount you can deduct depends on the percentage of your home used for business. Your deduction for certain expenses will be limited if your gross income from your business is less than your total business expenses.

It's important to note that there are special rules for qualified daycare providers and for persons storing business inventory or product samples in their home.

Self-Employed Consultants

Do you sell goods door-to-door?

Picking up a second job to supplement household income in a tough economy is becoming more common. Many Americans are choosing to become consultants who visit homes to sell make-up, jewelry, candles, kitchen utensils and food products. Some may not realize the tax implications of becoming a sole proprietor and what they need to do to file taxes.

Your first step when starting a business is to open a separate business checking account. It will be easier to track your deductible expenses if they are not commingled with your personal expenses. If you incurred expenses prior to opening your business, keep them separate from your other expenses. Special tax treatment applies to start-up expenses.

It's also important to keep track of your mileage, because you might be able to deduct it on your tax return. If you are self-employed and maintain an eligible office in your home, you can deduct the mileage to and from your client's or customer's place of business, as well as between jobs. There are two ways to calculate your auto deductions: the standard mileage rate or actual expenses. The standard mileage rate is the easier method to use because you simply take your total business mileage and multiply it by the current rate (\$.51 for 2011). The actual expense method requires you to record the actual expenses, such as the cost of gas, oil, insurance, repairs, maintenance, tires, washing, licenses and depreciation. If you use your car for personal and business purposes, you'll have to divide the expenses between the personal and business portion, so keeping detailed records is a must. The business miles for the year divided by the total miles for the year determine the business percentage of your actual expenses.

IRS Implements Tax Preparer Regulation

Good news for all

The IRS is moving full speed ahead with tax preparer regulation. This is a good thing because it will help drive many of the crooks and clowns out of business that prey upon the public. What does this mean for the average tax payer? At a bottom line level not much has changed for taxpayers. For people engaged in the business of preparing tax returns the regulation, expense and responsibility of being in the tax preparation business has increased to a moderately higher level. But for fly by night preparers, you know the ones that spring up every tax season like mushrooms after a spring rain; life is starting to become quite a bit more difficult. By no means have all the crooks and the clowns been driven completely out of

business but they surely must be thinking there has got to be a better way to make a living.

One thing we have noticed about the change is the speed and accuracy of the letters the IRS sends to taxpayers has increased exponentially. In the past it would take 2 to 3 years for these letters from the IRS questioning the tax return to show up in the taxpayer's mailbox. Now letters are showing up in a matter of weeks. This means crooks and clowns have much less time to victimize tax payers with their bad preparation. You may notice that your friends and neighbors are having difficulty locating their previous tax preparer as many of them have decided that tax preparation is no longer the best place to use their talents.

For this reason Tax On Wheels, LLC stands ready to accept your referrals. We are increasing our capacity to serve new clients with the same competence and dedication that our existing clients have come to rely upon. So please feel free to send us your referrals. For many years we have included in each paid return a coupon good for \$25 for each paying customer referred to us. So do yourself a favor and earn some extra spending cash by sending us your friends, neighbors and relatives. But more importantly do your friends a favor by sending them to Tax On Wheels, LLC, a tax return service that is reliable, reasonably priced and dedicated to world class customer service.

The Only Tax Website Address You Will Ever Need

www.taxonwheels.com

Some of our printed material may still reflect outdated website addresses. If you have been a client of Tax On Wheels, LLC for a few years you may have some of these materials with old outdated website addresses.

These old website addresses have been automatically forwarded to the current website address for the past few years. However, we have been notified by our provider that this automatic forwarding will soon end. So please update your bookmarks to the correct website address.

www.taxonwheels.com is the only website address you will ever need because we promise to be your one stop resource for all things about taxes. As we transition deeper into our comprehensive tax resource mode of operation we want you to feel right at home on our new website. That's why it has been designed with you in mind. More importantly we will now be able to constantly update the website with timely information, tools and new resources as they become available. And if you should ever find that there is something we need to add to our website to make it more useful for you just click on the contact us link and let us know. We will be glad to add anything that is available and appropriate.

If you have not been to our website lately you should stop by today and take a look at our newly redesigned format. We have many new resources available to assist you with understanding and preparing your taxes. While our old website was a full featured site, it was a bit, shall we say, plain. Alright, we admit it, the old site was downright ugly. We have given it a facelift, but we tried to keep everything simple and neat. We kept many of the old items and added lots of new things. The shiny blue button that links to our favorite tool, the online preparation and filing tool is still there at the top of most pages on the site. Click on this button if you want to prepare a tax return yourself at a much lower cost to you, perhaps for a teenager who has a simple return. The website is fully capable of handling even the most complicated returns but the result will always be dependent upon the information that is input into the computer. So if you decide you are in over your head after you get started just stop, save and give us a call. As always we are available to assist you.



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Milton R. Cooley Attends EXPLORE 2011, Genworth Financial Investment Services' 13th Annual National Conference

CHICAGO, IL – May 30, 2011 – Milton R. Cooley, Genworth Financial Securities Corp, of Irmo, SC, attended the 13th annual national conference, EXPLORE 2011, held in Chicago May 24–26, 2011. Produced by Genworth Financial Investment Services, Inc., EXPLORE 2011 is a three-day training and education conference that brings together Financial Advisers from across the country for learning and networking opportunities.

Mr. Cooley was among more than 1,000 Financial Advisers, speakers, exhibitors and guests who attended the conference. Advisers selected from more than 40 general and highly targeted sessions based on the conference's overall theme, "Get in the Loop." This three-day conference gives Financial Advisers the opportunity to expand their knowledge and skills through keynote speeches, panel discussions and best practice sharing with industry peers.

"Attending EXPLORE 2011 is one way Financial Advisers can advance their knowledge and ability to offer their clients innovative and proven techniques to help them achieve their financial goals," said Enrique M. Vasquez, President and Chief Executive Officer, Genworth Financial Investment Services. "Genworth is pleased to produce this event annually, which demonstrates our commitment to helping Financial Advisers learn how to serve their clients as effectively as possible. We are proud to work with our Financial Advisers who are successful because they consistently deliver the highest level of service and support to their clients."

About Genworth Financial Investment Services

Genworth Financial Investment Services, Inc., the wealth management partner of choice for independent financial professionals, comprises Genworth Financial Securities Corporation, a full-service FINRA broker/dealer, and Genworth Financial Advisers Corporation, an SEC Registered Investment Adviser. We partner with 2,000 independent financial professionals to help them address the complete wealth management needs of their clients. As a Genworth Financial company, we are able to provide the financial strength, stability and depth of resources of a large international firm, coupled with the personal service and support expected from a smaller, entrepreneurial company. For more information, visit genworthfinancialsecurities.com.

About Genworth Financial

Genworth Financial, Inc. (NYSE: GNW) is a leading Fortune 500 global financial security company. Genworth employs approximately 6,500 people with a presence in more than 25 countries. Its products and services help meet the investment, protection and retirement and lifestyle needs of more than 15 million customers. Genworth operates through three segments: Retirement and Protection, U.S. Mortgage Insurance and International. Its products and services are offered through financial intermediaries, advisers, independent distributors and sales specialists. Genworth Financial, which traces its roots back to 1871, became a public company in 2004 and is headquartered in Richmond, Virginia. For more information, visit Genworth.com.

Quik Tips

- 1 If you moved recently, notify the IRS of your change of address by filing Form 8822.
- 2 For the 2011 payroll tax holiday, social security tax withholding will be 4.2 percent, down from 6.2 percent. This will save the average taxpayer \$1,000.
- 3 Don't forget to use up the funds in your flexible-spending account (FSA) before the end of the year. You are not allowed to roll over this money, so use it or lose it.
- 4 Maximum 401(k) contributions remain unchanged at \$16,500 for 2011.
- 5 For your 2011 return, the maximum credit you can claim for installing energy-saving windows, doors, roofs or other eligible improvements or property is \$500 (\$200 for windows). Be aware the amount you claimed for the credit in 2006, 2007, 2009 or 2010 will reduce the amount you can claim in 2011.
- 6 The standard mileage rate for business travel in 2011 is 51 cents per mile.
- 7 The maximum amount of wages subject to social security tax is \$106,800 in 2011. There is no limit on wages subject to Medicare tax.

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Form 1099 Reporting Requirements Repealed

Small businesses, landlords spared from increased burden

Part of the *Patient Protection and Affordable Care Act* (PPACA) would have required business owners who pay a non-employee taxpayer more than \$600 in any tax year to furnish that taxpayer with a Form 1099 beginning in 2012. These payments would have included, interest, rents, royalties and amounts paid for goods or services.

This past April, President Obama signed the *Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011* (HR 4), which repealed the section of the PPACA that enacted these reporting requirements. In addition, HR 4 also repealed the Form 1099 reporting requirements imposed on landlords, which was to take effect in 2011 under the *Small Business Jobs Act of 2010*. This provision required persons who received income from rental property to report payments of \$600 or more to service providers on Form 1099-MISC.

The repeal of these expanded reporting requirements reinstates the old rules requiring business owners to issue Form 1099-MISC for payments of \$600 or more for rents, services, prizes and awards or other income payments, excluding payments to corporations.

Bartering Income

How can it impact your taxes?

Many small business owners use bartering as a way to save a little money. But many do not realize the tax consequences associated with bartering. When bartering occurs, there is usually no money exchanged, just goods and/or services.

In general, you are required to issue a Form 1099-B, *Proceeds from Broker and Barter Exchange Transactions*, to the party you traded with. This form indicates the fair market value of the item you traded.

The fair market value of the item you receive is income to you and is taxable in the year the service is received. Your bartering activities also may result in ordinary business income, capital gains or capital losses, or you may have a nondeductible personal loss. In addition, the fair market value of the item you traded, may also be deductible to the extent the barter received is a deductible expenditure. Bartering income may result in liabilities for income tax, self-employment tax, employment tax or excise tax.

