TaxTips

Keeping You Informed ▪ Summer 2012

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Identity Theft

What you need to know

Having your identity stolen can be scary and overwhelming. Identity theft occurs when someone uses your personal information such as your name, social security number (SSN) or other identifying information, without your permission, to commit fraud or other crimes.

Identity thieves continue to create new ways of stealing personal information and using it for their gain. Identity theft cases are among the most complex handled by the IRS. The IRS is continually reviewing processes and policies to minimize the incidence of identity theft and to help those who find themselves victimized by it.

Remember that the IRS does not initiate contact by email or social media tools to request personal or financial information. The IRS does not send emails stating you are being electronically audited or that you are getting a refund.

Here's how you can protect yourself:

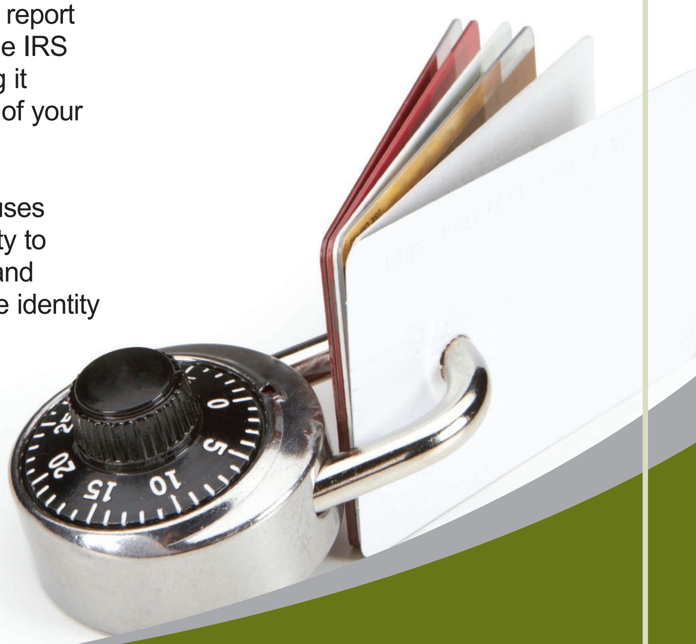
- Don't carry your social security card or any document(s) with your SSN on it.
- Don't give a business your SSN just because they ask. Give it only when required.
- Protect your financial information.
- Check your credit report every 12 months.
- Secure personal information in your home.
- Protect your personal computers by using firewalls, anti-spam/virus software, update security patches and change passwords for Internet accounts.

There are a couple of ways to know your identity has been compromised. If your SSN is stolen, another individual may use it to get a job. That person's employer may report income earned by them to the IRS using your SSN, thus making it appear you did not report all of your income on your tax return.

Sometimes an identity thief uses a legitimate taxpayer's identity to fraudulently file a tax return and claim a refund. Generally, the identity thief will use a stolen SSN to file a forged tax return and attempt to get a fraudulent refund early in the filing season.

You may be unaware that this has happened until you file your return later in the filing season and discover that two returns have been filed using the same SSN. If this occurs, the IRS may send you a notice stating that more than one tax return for you was filed or IRS records indicate you received wages from an employer unknown to you. If you receive a notice from the IRS, don't ignore it! Bring the letter to Tax on Wheels at (803) 732-4288.

For more information on how to protect yourself and what to do if your identity has been stolen, visit IRS.gov and enter "Identity Theft" in the search box. Also, the FTC has detailed procedures on what to do.



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Business or Hobby?

Nine factors to consider

When it comes to taxes, you need to know whether the activity you conduct is a business or a hobby. This distinction is important because hobby expenses are limited to hobby income. A hobby cannot generate a tax loss.

To be considered a business, the activity must produce a profit for three out of five years. If the activity is horse breeding, racing, training or showing, it must make a profit for two out of seven years.

There are other factors to review when determining whether an activity is a hobby or a business. A taxpayer should answer the following questions that the IRS uses during an audit.

1. Does the time and effort put into the activity indicate an intention to make a profit?
Spending extensive time and effort in carrying on the activity can indicate that there is a profit motive.

2. Do you depend on the income from the activity? If you depend on this activity as your only source of income, this makes a strong case of a profit motive.

3. If there are losses, are they due to circum-stances beyond your control or did they occur in the start-up phase of the business? If losses continue after what is considered customary for the activity, it may indicate that the activity is not run for a profit.

4. Have you changed methods of operation to improve profitability? One of the most important things you can do is make sure you conduct your activity in a business-like manner. You should have a separate checking account that is only used to pay business expenses. Never pay personal expenses from the business account. Also, consider creating a written business plan. Keep all records, papers and receipts in an organized manner.

5. Do you have the knowledge needed to carry on the activity as a successful business?
If you have extensive knowledge of the activity or consulted with experts, this may indicate that you have a profit motive.

6. Have you made a profit in similar activities in the past?
If you have ever converted a similar activity from a loss to a profit, this may indicate that you are engaged in the current activity for a profit.

7. Does the activity make a profit in some years?
Substantial profit, even when only occasional, would generally be indicative that an activity is engaged in for profit.

8. Do you expect to make a profit in the future from the appreciation of assets used in the activity? The assets that you use in the activity may appreciate in value.

9. What elements of personal pleasure or recreation are involved in the activity? The presence of personal pleasure does not necessarily mean the activity is simply a hobby, but it can be used as an indicator when the IRS is making a decision. Of course, nothing is clear-cut when it comes to the IRS and taxes. If you are unsure whether your activity is a hobby or a business, schedule an appointment with Tax on Wheels at (803) 732-4288 to discuss your circumstances.

Did A Credit Card Company Forgive Your Debt?

This might be taxable income to you

Times are tough for many families. Some might find themselves in a difficult situation when it comes to credit card debt. Many individuals make arrangements with their credit card companies to pay a portion of the debt owed. The remaining portion of the debt is considered to be canceled debt or "forgiven debt." When this occurs, the company will send you a Form 1099-C, Cancellation of Debt. Consumers need to be aware that there may be a tax bill associated with the canceled debt.

In general, canceled debt is considered taxable income. There are some exceptions. If you receive a Form 1099-C but the creditor is still trying to collect the debt, then the debt has not been canceled and you do not have taxable cancellation of debt income.

Canceled debts that meet the requirements for any of the following exceptions or exclusions are not taxable.

- Amounts specifically excluded from income by law such as gifts or bequests.
- Cancellation of certain qualified student loans.
- Canceled debt that if paid by a cash basis taxpayer is otherwise deductible.
- A qualified purchase price reduction given by a seller.
- Cancellation of qualified principal residence indebtedness.
- Debt canceled in a Title 11 bankruptcy case.
- Debt canceled during insolvency.
- Cancellation of qualified farm indebtedness.
- Cancellation of qualified real property business indebtedness.

Work with Tax on Wheels at (803) 732-4288 to determine the facts of your situation. It's important to let your tax professional know if any of your debt has been forgiven, even if you do not receive a Form 1099-C.

South Carolina Enforces Tax Law by Jailing Tax Cheats

Some South Carolina residents are finding out the hard way what tax professionals have known for a long time; the state is frequently much more aggressive in enforcing tax law than the federal government.

There have been a string of recent arrests made by the South Carolina Department of Revenue for egregious but fairly common activities going back as far as 2007. I would expect that many of these people had pretty much considered themselves to have "gotten away" with these alleged crimes committed years earlier. If you think the tax laws are not enforced vigorously you might want to read some of the details by visiting our blog located on our website at: http://taxonwheels.com/blog/2012/07/south-carolina-jails-tax-cheats/ .

There is no statute of limitations when it comes to tax fraud or failure to file and the Department of Revenue can go back as far as they want to prosecute these offenders, even for relatively small amounts of money. Even if there is no money involved the state can and will bring a case against taxpayers who do not file a tax return when required. And I would imagine that as soon as these unfortunate souls have settled their cases with the Department of Revenue these taxpayers will be getting some friendly correspondence from the IRS reminding them of their federal tax obligations.

In the past, we could expect to see a single annual press conference where one or two individuals were arrested and paraded before the public and that would pretty much be it until next year. But the Department has been on a tear this summer. Rarely this summer has a week gone by that a handful of individuals haven't been arrested. We don't know if they are all of a sudden arresting a lot more people or simply doing a better job of informing the public about the people who get arrested for tax charges. But anybody who has unfiled tax returns or fraudulent tax returns in their past probably should be very worried at this point. If you know someone who may need assistance please feel free to have them call Tax On Wheels, LLC at 803 732-4288.

Roth IRA and Traditional IRA

What's the difference?

An individual retirement arrangement (IRA) is a retirement plan that could provide tax advantages as you save for retirement. Most taxpayers can contribute up to $5,000 or the actual amount of earned income to either a traditional IRA or a Roth IRA. If you're age 50 or older, you may be able to contribute up to $6,000.

The similarities pretty much end there. The traditional IRA is similar to a 401(k), where the money you put into the account is "before tax." This means that the tax advantage with a traditional IRA is that you get a "tax break" immediately. However, when you begin to take distributions during retirement, they will be taxed. Another caveat of a traditional IRA is that you are required to take minimum distributions at age 70 ½ or you will be faced with penalties.

With a Roth IRA, the contributions are made with "after tax" money. When you begin to take distributions during retirement, they will be tax-free. The tax advantage with a Roth IRA is that you get a "tax break" later in life.

Unlike a traditional IRA, there are no minimum required distributions. These are just some of the basics when it comes to IRAs and taxes.

Consult with with Tax on Wheels at (803) 732-4288 to determine which account makes the most sense for you.

Withdrawing Money from a Retirement Account

How will the distribution affect your taxes?

We all know how important it is to save for retirement, but exactly how do withdrawals from our retirement accounts affect our tax situation? When times are tough, your first instinct may be to take funds out of your retirement account, but depending on your situation you may be subject to a penalty. The funds you withdraw from a traditional IRA or other qualified retirement plan before age 59 ½ are called "early" distributions. These distributions can be subject to a 10 percent early withdrawal penalty in addition to the income tax on the amount withdrawn.

Following are some exceptions to the 10 percent early withdrawal penalty:

- You received a distribution from a retirement plan (other than an IRA) after leaving a job and are age 55.
- You have unreimbursed medical expenses that are more than 7.5 percent of your adjusted gross income.
- The distributions are not more than the cost of your medical insurance (IRA only).
- You are disabled.
- You are a beneficiary of a deceased plan participant or IRA owner.
- You are receiving distributions in the form of an annuity.
- The distributions are not more than your qualified higher education expenses (IRA only).
- You use the distributions to buy, build or rebuild a first home (IRA only, and limited to $10,000).
- The distribution is due to an IRS levy.

Distributions you rollover to another IRA or qualified retirement plan are not subject to the additional 10 percent tax; however, you must complete the rollover within 60 days after the day you received the distribution. The amount you rollover is generally taxed when the new plan makes a distribution to you or the beneficiary. There are many caveats when it comes to retirement plans; therefore, contacting your tax or investment advisor would be a wise decision. Early distributions must be reported to the IRS. Your distribution should be reported on Form 1099-R. If you choose to make a withdrawal from your retirement plan, be sure you contact Tax on Wheels at (803) 732-4288.

Quik *Tips*

1 The maximum 401(k) contribution limit was raised to $17,000 for 2012..

2 The Lifelong Learning Credit offers a maximum benefit per family of 2,000.

3 The Payroll Tax Cut was extended to the end of 2012 and lowers a worker's social security tax withholding rate to 4.2 percent. Self-employed individuals will also benefit from a comparable rate reduction in the social security portion of the self-employment tax from 12.4 percent to 10.4 percent.

4 For 2012, the standard mileage rate for the cost of operating your car, van, pickup or panel truck for each mile of business use is 55.5 cents per mile.

5 The HSA annual deductible contribution limit for 2012 is $3,100 for individuals and $6,250 for families.

6 The maximum net self-employment earnings subject to the social security part of the self-employment tax is $110,100 for 2012.

7 In general, taxpayers are allowed to deduct up to $2,500 in student loan interest they pay during the year.