

# Sauppé Tax News

Brought to you by  
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## 2011 and 2012 Tax Changes

### Special points of interest:

- Expiring Breaks
- AMT Revisited
- Education Credits
- Dependents Defined

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As of this printing, most of the changes this year are minor. Of course, Congress still has time to act and change the rules for 2011 and beyond.

Next year is guaranteed to have changes even if Congress does not pass any new laws. A number of items that are still in existence in 2011, but will NOT be available in 2012 unless Congress extends them, are the following:

1. Sales Tax Deduction. If you itemize, you can still deduct EITHER sales tax or state and local income tax this year. For 2012, you will only be allowed to deduct state and local income taxes. Therefore, if you are considering purchasing a car or other large ticket item, you may want to make the purchase before 1/1/12, unless there are other reasons to wait.
2. Educator Expense Deduction. Full time teachers may still deduct up to \$250 of classroom supplies they purchase with their own funds on their 2011 returns. Again, this deduction is scheduled to expire 1/1/12, so if you are a teacher, you may want to buy those supplies before the end of the year.

3. Tuition and Fees Deduction. If you are not eligible for the education credits, you may be able to utilize the tuition and fees deduction for 2011, but not in 2012. For more information on Education credits, see the article on page 5.
4. Direct transfer from your IRA to a charity. For those age 70 ½ or older, you can request your IRA sponsor to send money (up to \$100,000) directly to a qualified charity of your choice. This distribution is non-taxable to you, but you cannot take a charitable deduction for this amount unless you have made non-deductible contributions to the IRA. Any donations made in this manner can count towards your required minimum distribution.
5. The social security tax deduction from your paycheck will go back up to 6.2% (from 4.2% in 2011) on 1/1/12. Therefore, don't be surprised to see a drop in your net paychecks after that date.

Some changes are also taking place in our office. As we already announced, we have created a website for our business. The URL is [www.sauppetax.com](http://www.sauppetax.com).

This site will allow you to easily access information about our firm and about important tax issues. For example, if you have forgotten how to get to our office, you can use the Mapquest link on our site to obtain accurate directions.

If you misplace the prefilled questionnaire sent with this newsletter, you will be able to easily download a blank one from the web site. You will no longer have to wait for us to send you another one.

Speaking of the questionnaire, you will find that the format has changed this year. The questions needed to get a good picture of your tax situation can now be found on the back of the form. On our web site you can find explanations for all the questions we are asking this year. This should help you fill out the form and allow us to prepare a complete and accurate return for you.

Under "Helpful Links" you will find a link to the Salvation Army Donation Guide to assist you in valuing those non-monetary donations you have made to a qualified charity.

You now have the ability to have a video conference with us by using Skype (our contact info is [Sauppe.tax](mailto:Sauppe.tax)). See page 2 for more details.

## 2011 Dual Mileage Rate

The IRS has once again dictated two different standard mileage rates for the year. (This also happened in 2008). The rate for the first half of 2011 (January 1st through June 30th) is 51 cents per mile. The rate for the second half of 2011 (July 1st through December 31st) is 55.5 cents per mile. What this means for those of you who take a vehicle deduction is that you will have to provide mileage information for each half of the year. Of course, since you should have a log book with your daily mileage noted, it should not be a problem to

calculate the two parts. Our annual questionnaire has space to show both sets of numbers.

With the proliferation of smartphones and tablets, you may want to consider using an Apple or Android app to track your mileage. There are a number of apps on the market, such as MileagePad, MileageLog (which uses your GPS enabled device to make input even easier), Mileage Tracker, or Mileage Ledger (for multiple vehicles). *This article is NOT endorsing any of these products, just informing you that products are available.*

## Energy Credits in 2011

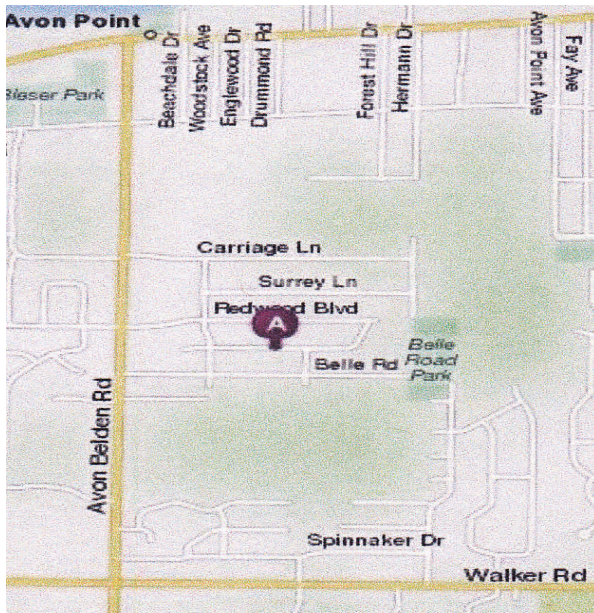
Many of you took advantage of the generous energy credits available in 2009 and 2010. The credits are still available in 2011 albeit in a less generous amount.

The first thing to keep in mind is if you have already taken energy credits totaling \$500 or more for years 2006, 2007, 2009, and 2010 combined, you are not eligible for any additional credits in 2011. The maximum lifetime credit has been reduced to \$500 this year.

However, if you have not utilized the full \$500 (perhaps you took \$300 in 2006 but nothing since then), you would be eligible for an additional credit on

your 2011 return. As in the past, if you want to take this credit you must provide this office with the invoice AND the certification from the installer or manufacturer showing that the item qualifies for the credit.

Please note the above discussion centers on the "regular" energy credits available for energy efficient windows, doors, insulation, HVAC systems, etc. The additional credits available for geothermal, solar, and wind turbine home installations have different rules and caps, and will be available until December 31, 2016. More information on energy credits can be found at [www.energystar.gov](http://www.energystar.gov).



## BRINGING IN YOUR PAPERWORK

Once again, there are three ways to provide us with your tax paperwork.

You may send your paperwork by US postal mail (or UPS, Fedex, etc.). We will review the paperwork, contact you with questions, and send the completed returns back to you.

You may drop off your paperwork with no appointment necessary in our locking drop box located by the front door. (See the picture below the map). You can access this box 24 hours a day, seven days a week, and we check the box every day. Again, we will contact you with questions, and send the completed return back to you.

You can schedule an appointment to review your taxes in person. Call our office at **440-933-3178** or e-mail us at [admin@sauppetax.com](mailto:admin@sauppetax.com) to schedule your appointment. We have day, evening, and Saturday appointments available.

No matter what method you use, your completed questionnaire must be included.

This year, you may also send your paperwork and set up a Skype chat if you have items you would like to discuss but do not want to meet at our office. Our Skype name is **Sauppe.tax**. You must set up a time for this chat by calling or e-mailing ahead of time for an appointment as we will not have Skype on all day.

**Just a reminder—our driving directions have changed. The traffic light that used to be located at Redwood Blvd. and Route 83 has been removed. You will no longer be able to use that as a reference point. Watch for the pedestrian crosswalk sign and the left turn lanes to find Redwood.**

## Alternative Minimum Tax or AMT

Yes, there was an article on the AMT in last year's newsletter. But unfortunately the issue hasn't gone away. Because of the last minute patch passed by Congress in December 2010, the AMT threshold amounts were increased for 2010 AND 2011, so hopefully you will not be impacted this year. The 2011 threshold amounts are:

Married Filing Joint — \$74,450

SINGLE or Head of Household — \$48,450

Married Filing Separate — \$37,225

However, unless Congress acts, the 2012 thresholds will revert to the 2000 threshold amounts which were:

MFJ- \$45,000

SINGLE or HOH- \$33,750

MFS- \$22,500

As you can see this is a big difference. It has been estimated that if the AMT thresholds are allowed to be reset to the 2000 amounts, some 20 million households

could face this tax increase.

When our office prepares your tax return, we basically prepare it twice—once under the regular rules and once under the AMT rules. You are required to pay whichever tax is higher. To see if you were subject to the AMT in 2010, look at Line 45 on page 2 of the 1040 form. If this line is blank, you were NOT subject to the AMT for 2010 because your regular tax was as much or more than the AMT.

If there is a number on Line

45, this is the amount by which your AMT tax exceeded your regular tax.

Some of you may also have Form 6251 included in your tax packet. This form is used to calculate your AMT that is then transferred over to Line 45 of the 1040. If the form is included in your packet, you may want to review it to try to understand what items are used in the calculation of your AMT. If you don't have this form in your packet, you can easily download it from the IRS website at [www.irs.gov](http://www.irs.gov).

## Earned Income Tax Credit

The Earned Income Tax Credit (EITC for short) is a refundable credit for certain lower income people. The credit can apply whether you have children or not, depending on your adjusted gross income and income sources.

Unfortunately, this credit has been popular with thieves and scammers and it is estimated that \$10 to \$12 billion dollars have been paid improperly under this program.

To curtail some of the fraud, the IRS is requiring tax preparers to take extra steps to ensure any client of theirs claiming the EITC is actually qualified to receive the credit.

If your return included the EITC last year, you will find additional paperwork in your packet that must be completed and returned to this office in order for us to take the EITC on your 2011 return.

If you did not claim the EITC on your 2010 return, but are eligible for it on the 2011 return, we will send you the necessary paperwork request before finalizing your 2011 return.

Thank you for your understanding as we comply with the new IRS requirements.



## Who Qualifies as a Dependent?

Who qualifies to be a dependent on your tax return? This is an important question because it

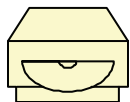
impacts not only the amount of personal exemptions you are entitled to claim, but may determine whether you can claim head of household status, education credits, child care credits, and if you are eligible for the Earned Income Credit.

There are two definitions of dependents. In either case, the person must be a citizen of the United States or a resident alien, and cannot be filing a joint return with someone else (except under limited circumstances).

The first set of dependents are Qualifying Children. To be eligible in this area, the person must be your biological child, your legally adopted child, a stepchild, a foster child, a sibling or stepsibling or the descendants of any of those. The child must be younger than you, and under age 19, OR under age 24 and a full time student for at least 5 months during the year. The child must also reside with you for more than 1/2 of the year. The amount of income the child has does not come into play UNLESS you are not paying more than 1/2 of his or her support.

The other definition of a dependent is a Qualifying Relative. This can include your child who does not fit into the Qualifying Child category for whatever reason, but it can also include parents, aunts, uncles, etc. For a Qualifying Relative, income does matter. The person must have income below the personal exemption amount which is \$3,700 for 2011 in order to qualify as your dependent. The person must also be a relative or a member of your household, and again you must be providing over one half of his or her support. If you have a relative or member of your household to whom you are providing more than 10% of his or her support under a multiple support agreement, no one person is providing more than 50% of the support, and the other people providing support have signed off on Form 2120 allowing you to claim the dependency exemption, you may also claim this individual even though you don't meet the 50% test.

No dependency exemption can be "split". A person can only be claimed on one return each year. Children who are claimed as a dependent on their parents' federal return cannot claim themselves on their own federal return. If the parents file separate returns for whatever reason, the child can only be claimed on one return. In the case of divorce, the custodial parent is usually given the right to claim the child unless he or she gives up that right by signing Form 8332.



## Tax CD's

All of you should have received a CD last year with your completed personal income tax returns. This CD contained a pdf file of your 2010 personal income tax returns as well as a pdf file of the paperwork you sent us to complete those returns. If you would like to have your 2011 information added to this CD, simply return last year's CD with your 2011 paperwork and we will "make it so". If you do not return the CD, we will not provide a new one unless you request one in writing. Thank you for your understanding.





For those of you who live in Ohio,

you may have seen ads or public service announcements regarding Ohio's Use Tax Amnesty program. Even if you don't live in Ohio, you should still read this article as every state that has a sales tax also has a use tax rule.

Basically, use tax is owed to the state by residents who did NOT pay sales tax on a qualifying purchase. For example, you make a purchase from Amazon (the online retailer). If Amazon does not charge you sales tax on this purchase, and if it is an item that would be subject to sales tax if you had purchased it from a local retailer, you are responsible for paying use tax at the

same rate as the sales tax that would have been paid.

Here is an example. I buy a blouse from Amazon. They charge me \$15 for the shirt. Had I bought it at the local J C Penney store, I would have paid \$15.94 including sales tax (based on the current Lorain County Ohio rates). I therefore owe Ohio 94 cents in use tax. This tax is normally reported and paid on my Ohio income tax return.

Keep in mind that just because you buy online does not automatically mean you owe use tax. For example, if I had bought that same blouse from JCP.com (J C Penney's online website), I would have been charged \$15.94. JCP.com would have collected the sales tax and remitted it to

## Use Tax and You

Ohio for me. JCP.com is required to collect this tax because they already have a physical presence in Ohio and must collect sales tax on all Ohio sales (in store and online).

For years, we have asked you whether you made online purchases without sales tax (question #3 on the 2011 questionnaire). This question allows us to determine if you owe sales tax. If you answer yes to this question, you need to include the receipts for all these online purchases so we can properly calculate the use tax due. We appreciate your cooperation.

Ohio is currently offering an amnesty program to allow Ohio consumers and business to "catch up" on their use tax obligations if they have not been

paying the required use tax already. Using this amnesty program will probably allow you to eliminate any liability for use tax due on purchases prior to January 1, 2009 as well as interest and penalties on any use tax you do pay under the program. If you need to take advantage of the amnesty program, contact this office as soon as possible.

A final note—many people ask why should I bother for 94 cents. However, as we become more and more comfortable with shopping online, our potential use tax liability will continue to grow. And as the states continue to struggle financially in these tough economic times, they are looking to ferret out all unpaid use tax and collect the tax along with the penalties and interest



## Checklist



Here is a recap of the items to include in your tax paperwork. This is NOT an all inclusive list, but simply a guideline to assist you in gathering your paperwork

- ☐ Completed questionnaire (front and back).
- ☐ All W-2's and 1099's including 1099INT, 1099DIV, 1099B, 1099MISC, and 1099R.
- ☐ Real estate tax bills paid in 2011 if not included in your monthly mortgage payment.
- ☐ All 1098's and K-1's received.
- ☐ Most recent statement or billing notice from your residence and work cities, if applicable (i.e. CCA or RITA).
- ☐ Recap of charitable donations segregated by monetary and non-monetary. Be sure to include all required written acknowledgements.
- ☐ Information on child care expenses paid.
- ☐ Any form 1098T's you received from colleges attended by you or your dependents along with the billing statements and details on any other education expenses incurred.
- ☐ Recap of medical bills (if you believe they may exceed 7.5% of your adjusted gross income).
- ☐ Recap of income and expenses (if self-employed or job expenses if an employee).
- ☐ Recap of rental income and expenses (if you own rental property). Please indicate number of days the home was rented, days used by you or a family member, and number of days empty.
- ☐ Settlement statements for any homes bought, sold, or refinanced during the year.
- ☐ Certification statements and invoices for any energy efficient improvements you made to your home.
- ☐ Your 5498 statements (IRA valuation statements) if you have contributed to or made distributions from any retirement plan during the year as well as the year end statements for these accounts.
- ☐ Your CD from last year.
- ☐ Any other tax related paperwork you received or that you think may be relevant.

## Education Credits Revisited



We talked in depth about Education credits in our 2009 newsletter, but felt it was important to revisit this topic again.

There can be a lot of confusion about the various education credits, deductions, and incentives out there for higher education and what expenses do and do not qualify for each one.

For 2011, there is the American Opportunity Credit, the Lifetime Learning Credit, the Tuition and Fees Deduction, the US Savings Bond Exclusion, the Student Loan Interest Deduction, penalty free IRA distributions, and the Education Savings Account. But which one to use for what?

As anyone who has sent a child to college knows, there are lots and lots of expenses especially that first year. After all, the dorm room has to be set up just so! You pay a large sum for tuition and room and board every semester or quarter. Let's not forget the cost of all those textbooks. The tuition more than likely qualifies for all the credits or deductions, while the room and board more than likely does not (but you can use distributions from an Education Savings Account to pay for that) and the room set up costs definitely do not. And what about the fees you pay for the student health center or the student fitness center?

Fortunately, the college or university is required to track which fees are eligible for the American Opportunity Credit or the Lifetime Learning Credit, and report this information on the 1098T form they must send to every student. Unfortunately, the college or university can report this information in one of two ways—either reporting the qualified

tuition and fees paid for the student OR reporting the qualified tuition and fees billed to the student. But your credit calculation can only take into account what was paid during the calendar year. If the 1098T shows tuition billed for the January quarter, you could have paid this in either December or January.

In order to determine which is the best incentive for your particular situation, this office needs to have accurate and complete information on all items that factor into the decision. These items include:

- The aforementioned 1098T from the college or university
- The actual billing statements from the college or university with notations showing your payments (dates and amounts)
- The receipts for any books or fees paid that were not listed on the billing statement.
- Any 1099Q's you received for distributions taken from an Education Savings Account
- The amount of any scholarship money the student received if this information is not shown on the 1098T

Once we have this information, our office will review your tax picture and determine if you are eligible for the American Opportunity Credit (up to a \$2,500 reduction of your taxes), the Lifetime Learning Credit (up to a \$2,000 reduction of your taxes), the Tuition and Fees deduction (up to \$4,000 reduction off your taxable income), and whether you have a taxable distribution from an Education Savings Account.

All three of the tax incentives require you to file a joint return if you are married and living with your spouse to be eligible for the credits. You must also be taking the student as a dependent on your return. There are also income limitations which may reduce or eliminate the credits for you. We will factor all of these restrictions into our calculations.

Earlier we mentioned three other incentives that we would like to elaborate on. The Student Loan Interest deduction may apply if you take out a student loan and begin making payments which include interest. Again, there are income limitations which may restrict this deduction. Often this does not come into play until after the student has graduated.

The US Savings Bond Exclusion will allow a taxpayer or spouse to exclude the interest on bonds cashed in during the year and used to pay qualified higher education expenses IF the taxpayer or spouse bought the bond after 1989 and was age 24 or more before the bond's issue date. No one other than the taxpayer and spouse can be listed as co-owners of the bond. So bonds in your children's names will not qualify.

Finally, any taxpayer may withdraw up to the amount of qualified education expenses paid during the year from their IRA and avoid the 10% penalty normally imposed if they are under 59 ½. Keep in mind the amounts will still be subject to tax. This distribution is allowed even if you do not claim the student as your dependent.

## Your W-2

You may see a few changes on your W-2 this year. No employer is required to report information on the cost of health insurance provided to employees in 2011, but many employers may choose to do this on a voluntary basis. All employers who issue more than 250 W-2's will be required to report this in 2013 on the 2012 W-2. If your employer does report the information this year, it will be shown in Box 12 with a code of DD. Please be aware this amount is NOT taxable and is shown in Box 12 for information purposes only.



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 Phone/fax 440-933-3178 e-mail admin@sauppétax.com

*Specializing in personal  
 and small business taxes*

## Our Pledge to You



- We will provide you with top notch tax preparation service.
- We will prepare your federal, primary state, and city (if applicable) returns based on the information you provide.
- We will file your federal and state returns electronically as required. If you prefer to mail a paper return, you must notify us of your intent when you submit your tax paperwork, and you will be required to include a waiver request with your mailed return (which we will provide).
- We will gladly answer questions for you throughout the year regarding tax situations you may encounter. Please keep in mind that tax season is a very busy time for us. If you have questions, it may be better to ask them outside of tax season so we can give a full and complete answer.
- We will represent you before the IRS when questions arise about your return. However, you must send us copies of any notices you receive from the IRS, the state, or city regarding your returns. We do not automatically receive copies of these notices and cannot assist you with them, without first reviewing the information in the notice.
- We will explore every available tax break for which you may be eligible and keep up with all the new tax laws to see how they may impact you.

However, keep in mind that there are some limitations to the services we can offer. We CANNOT do the following:

1. File any extension request form without the required authorization from you (Form 8878 for a personal extension).
2. Maintain your tax paperwork indefinitely in our files (we only keep 5 years of records).
3. Track cost basis on your portfolio investments. However, for an additional fee we will try to calculate cost basis if you provide us all pertinent data in a timely fashion.
4. Prepare returns other than those mentioned above unless you have requested this in writing.
5. Give you financial or legal advice except indirectly as it relates to your tax situation.
6. Place a value on non-monetary items donated by you to a charity.
7. Discuss your tax information with anyone without your express written permission. The IRS requires a very specific disclosure notice be completed anytime a disclosure is required. A verbal request or written note from you is NOT sufficient. This includes a request to fax or e-mail information to a third party.

**First Time Homebuyer in 2008**—Just a reminder that if you were a first time homebuyer in 2008 and received the \$7,500 tax credit that year, you will be repaying part of this credit on your 2011 tax return. This does NOT apply to those people who received the 2009 credit (first time or long time).

**Charity Begins at Home** —Don't forget to obtain all the necessary acknowledgements for your charitable donations. This includes, but is not limited to, letters from the charities for single donations over \$250.

**Useful Web Sites**— You may want to check out these websites:

duckduckgo.com — search engine without all the tracking

evernote.com — manage your lists and remember everything!

Howstuffworks.com — need to know how something works? Here is where you can find out.

oyc.yale.edu - ever wanted to take a course at Yale? You can now by visiting this website and it's free.

usps.com - find a zip code, calculate postage, put a hold on your mail, change your address, order shipping supplies, and more

Instructionsheets.com - directory to hundreds of instruction sheets

NOTE—We cannot be held responsible for the accuracy or reliability of any information found on these sites.

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