

1099 Reporting Requirements Repealed

In a recent move by Congress, expanded 1099 reporting requirements were repealed in April, 2011.

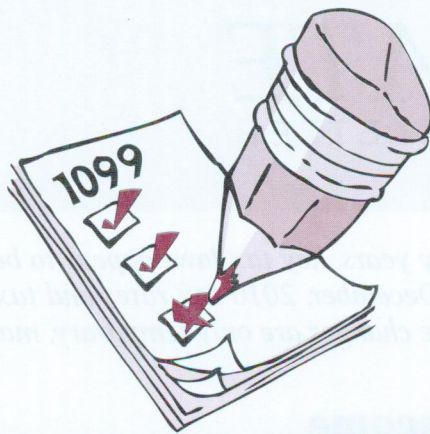
Background

Expanded 1099 reporting requirements were included in Health Care Reform legislation to help pay for the bill. The major changes were:

- New 1099 reporting requirements included payments made to corporations and payments made for property. This 1099 reporting was required for all businesses doing \$600 or more in business during a calendar year with a single vendor. The expanded reporting applied in 2012 and beyond.
- Starting in 2011, individuals who received rental income would issue 1099s to service providers for cumulative payments in excess of \$600.
- Penalties for non-filing and non-timely filing of 1099s was also increased. Most of the fines double per occurrence with the calendar-year maximum penalty increasing dramatically (now \$75,000 - \$500,000).

The Repeal

The repeal effectively eliminates the newly expanded 1099 reporting back to



the prior law. However, the higher penalties for late filing will stay in place.

What it Means

- You won't need to issue 1099s to corporate entities.
- Rental property owners are no longer subject to the expanded 1099 provisions. You should continue to file 1099s as done prior to the law change.
- Other filing requirements and increased penalties stay in place making timely filing of 1099s much more important.

Re-characterizing Roth IRAs

Now that anyone can convert IRAs into Roth IRAs by paying the tax regardless of your income levels a problem has come up.

Background

Unlike other forms of Individual Retirement Accounts (IRAs), Roth IRAs require you to pay tax on your contributions, but as long as you abide by the distribution rules your earnings are tax-free.

Losses After Conversion

Many people have converted their non-Roth IRAs into Roth IRAs, paid the tax at time of conversion, only to have the value of the account go down. This can be frustrating when you pay tax on a \$25,000 conversion only to have the value become \$15,000. The net result? You paid income tax on \$10,000 that no longer exists!

Roth IRA

Re-characterization to the Rescue

To address this concern, there is an opportunity to re-characterize your conversion back to your old IRA to avoid paying taxes on your post-Roth IRA conversion loses. Even better, you can opt to re-characterize your IRA conversion until you file your tax return. This means you could file an extension to buy more time to make sure your post-conversion Roth IRA account does not lose value.

Key Tax Extensions Provide Planning Opportunity

Many expiring tax provisions were extended with the passage of tax legislation in December, 2010. Some of these provisions provide a unique tax planning opportunity prior to the end of 2012. Chief among these are:

Tax Rates

Unless Congress acts, the 10% income tax bracket will be replaced with a 15% tax rate and the upper income tax rates will rise 3 to 3.6%.

Capital Gains Tax Rates

The minimum capital gains tax rate remains at 0% for those in the 10% and 15% income tax brackets, while the maximum capital gains tax rate stays at 15% through 2012. After this date, the 0% rate could revert to 10% with the maximum capital gains tax rate going up to 20%.

Ordinary Dividend Taxes

One of the more dramatic rate increases will occur after 2012 when ordinary dividends could once again be taxed as ordinary "income" (top tax rate of 39.6%). Currently these same dividends are taxed like capital gains with a minimum 0% tax and a maximum 15% tax rate.

Phase-outs Back

The tax provisions that eliminate some of your deductions and tax exemptions are now scheduled to be re-enacted after 2012. This means upper income taxpayers will be hit with two tax increases; one in the tax rate and one in the elimination of income deductions.

What does this mean for you?

Now is the time to review your situation and forecast different scenarios to ensure you are not caught by surprise if and when these tax changes occur.

IRS Announces Common Scams for 2011

Each year the Internal Revenue Service issues a list of the top tax scams. They call their list the "Dirty Dozen Tax Scams". While all of them are not applicable to the vast majority of taxpayers, here are some of the most common that are:

- △ **Identity Theft and Phishing.** Thieves pose as the IRS and attempt to steal your identity. Please remember the IRS never initiates contact via emails.
- △ **Filing False or Misleading Forms.** In this scenario, correct W-2s and 1099s are replaced with incorrect "cor-

rected returns". The false returns are then used to match against the filed tax return to lower tax or to claim an illegal refund. The IRS is also seeing false or erroneous returns being filed to claim illegal refunds.

- △ **Abuse of Charitable Organizations and Donations.** This includes attempts by donors to shield assets from tax by improperly controlling investments inside a charitable organization or by improperly sheltering income within a charity to avoid paying personal income tax.

- △ **Hiding Income Offshore.** Promoters of this scam solicit clients by advertising ways to move income out of the United States with the sole purpose of avoiding tax, often by hiding assets in offshore accounts.

- △ **Nontaxable Social Security with Exaggerated Withholding Credit.** By overstating withholdings and misreporting the "taxable" portion of Social Security taxpayers in this group look to avoid paying tax on Social Security benefits.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.