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Useful Tax Tips

Kims Tax Service, LLC strives hard year round to provide you with most current and up to date information on various aspects of important tax topics with an objective to enable you to take full advantage in lowering your taxes and ensuring a larger refund.

This information has been put together considering the most common credits and deductions from various tax topics issued by IRS from time to time during 2010. This information will be updated to reflect any changes announced by IRS before the 2011 tax season.

Please give us a call if you do not find information on a subject of interest to you. We will do our best to get you the information. However, we recommend that you visit IRS website: www.irs.gov in order to find out more details on these topics and other miscellaneous credits and deductions (not included here).

Your suggestions are most welcome to further improve the quality of reported information.

Identity Theft

Please be prudent and do not become a victim of identify theft. Protect your personal information, e.g. name, social security number, driver ID and date of birth as well as bank account information.

The best way to detect identity theft is to monitor your accounts and bank statements each month, and check your credit report on a regular basis.

If you are a victim of identity theft, take the following four steps as soon as possible, and keep a record with the details of your conversations and copies of all correspondence

1. Place a fraud alert on your credit reports, and review your credit reports.
2. Close the accounts that you know, or believe, have been tampered with or opened fraudulently.
3. File a complaint with the Federal Trade Commission.
4. File a report with your local police or the police in the community where the identity theft took place.

www.ftc.gov provides detailed information to help you deter, detect, and defend against identity theft.

IRS Publication 17 – Your Federal Income Tax Guide

IRS Publication 17, Your Federal Income Tax, takes you step by step through each part of your individual Federal Income tax return. This comprehensive booklet explains the tax law in a way that will help you better understand your taxes so that you pay only as much as you owe and no more.

Publication 17, Your Federal Income Tax, is available on the IRS website at http://www.irs.gov and contains a wealth of information for individual taxpayers.

Facts about Filing Status

Here are eight factors about the five filing status options the IRS wants you to know so you can choose the best option for your situation.

- Your marital status on the last day of the year determines your marital status for the entire year.
- If more than one filing status applies to you, choose the one that gives you the lowest tax obligation.
- Single filing status generally applies to anyone who is unmarried, divorced or legally separated according to state low.
- A married couple may file a joint return together. The couple's filing status would be Married Filing Jointly.
- If your spouse died during the year and you did not remarry during 2011, usually you may still file a joint return with that spouse for the year of death.
- A married couple may elect to file their returns separately. Each person's filing status would generally be Married Filing Separately.
- Head of Household generally applies to taxpayers who are unmarried. You may also have paid more than half of maintaining a home for you and a qualifying person to qualify for this filing status.
- You may be able to choose Qualifying Widow(er) with Dependent Child as your filing status if your spouse died during 2011, you have a dependent child and you meet certain other conditions.

Six Important Facts about Dependents and Exemptions

Some tax rules affect every person who may have to file a federal income tax return – these rules include dependents and exemptions. Here are six important facts the IRS wants you to know about dependents and exemptions that will help you file your 2011 tax return.

1. Exemptions reduce your taxable income. There are two types of exemptions: personal exemptions and exemptions for dependents. For each exemption you can deduct $3,650 on your 2011 tax return.
2. Your spouse is never considered your dependent. On a joint return, you may claim one exemption for yourself and one for your spouse. If you're filing a separate return, you may claim the exemption for your spouse only if they had no gross income, are not filing a joint return, and were not the dependent of another taxpayer.
3. Exemptions for dependents. You generally can take an exemption for each of your dependents. A dependent is your qualifying child or qualifying relative. You must list the social security number of any dependent for whom you claim an exemption.
4. If someone else claims you as a dependent, you may still be required to file your own tax return. Whether you must file a return depends on several factors including the amount of your unearned, earned or gross income, your marital status, any special taxes you owe and any advance Earned Income Tax Credit payments you received.
5. If you are a dependent, you may not claim an exemption. If someone else – such as your parent – claims you as a dependent, you may not claim your personal exemption on your own tax return.
6. Some people cannot be claimed as your dependent. Generally, you may not claim a married person as a dependent if they file a joint return with their spouse. Also, to claim someone as a dependent, that

person must be a U.S. citizen, U.S. resident alien, U.S. national or resident of Canada or Mexico for some part of the year. There is an exception to this rule for certain adopted children

Important Tax Credits

In 2015, the tax payers can take advantage of several important tax credits. Ask us how? Schedule an appointment if you are interested to know the types of tax credits available. You may be able to claim them so as to receive a **LARGER REFUND**.

Earned Income Tax Credit (EITC)

The Earned Income Tax Credit is a financial boost for workers earning $48,362 or less a year. The IRS wants you to get what you earned also, if you are eligible.

1. Because you didn't qualify last year, doesn't mean you won't this year.
2. If you qualify, the credit could be worth up to $5,666.
3. If you eligible for EITC, you must file a federal income tax return and specifically claim the credit – even if you are not otherwise required to file.
4. You do not qualify for EITC if your filing status is Married Filing Separately.
5. You must have a valid Social Security Numbers.
6. You must have earned income.
7. Married couples and single people without children may qualify
8. Special rules apply to members of the U.S. Armed Forces in combat zones.
9. It's easy to determine whether you qualify.
10. Free help is available at VITA and IRS and IRS Taxpayer Assistance Centers to help you prepare and claim your EITC.

Facts about the Child Tax Credit

The Child Tax Credit is an important tax credit that may be worth as much as $1,000 per qualifying child depending upon your income. Here are 10 important facts from the IRS about this credit and how it may benefit your family.

1. Amount - With the Child Tax Credit, you may be able to reduce your federal income tax by up to $1,000 for each qualifying child under the age of 17.
2. Qualification - A qualifying child for this credit is someone who meets the qualifying criteria of six tests: age, relationship, support, dependent, citizenship, and residence.
3. Age Test - To qualify, a child must have been under age 17 – age 16 or younger – at the end of 2011.
4. Relationship Test - To claim a child for purposes of the Child Tax Credit, they must either be your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister or a descendant of any of these individuals, which includes your grandchild, niece or nephew. An adopted child is always treated as your own child. An adopted child includes a child lawfully placed with you for legal adoption.
5. Support Test - In order to claim a child for this credit, the child must not have provided more than half of their own support.
6. Dependent Test - You must claim the child as a dependent on your federal tax return.
7. Citizenship Test - To meet the citizenship test, the child must be a U.S. citizen, U.S. national, or U.S. resident alien.
8. Residence Test - The child must have lived with you for more than half of 2011 There are some exceptions to the residence test, which can be found in IRS Publication 972, Child Tax Credit.
9. Limitations - The credit is limited if your modified adjusted gross income is above a certain amount. The amount at which this phase-out begins varies depending on your filing status. For married taxpayers filing a joint return, the phase-out begins at $110,000. For married taxpayers filing a separate return, it begins at $55,000. For all other taxpayers, the phase-out begins at $75,000. In addition, the Child Tax

Credit is generally limited by the amount of the income tax you owe as well as any alternative minimum tax you owe.

10. Additional Child Tax Credit - If the amount of your Child Tax Credit is greater than the amount of income tax you owe, you may be able to claim the Additional Child Tax Credit.

Child and Dependent Care Credit

If you paid someone to care for your child, spouse, or dependent last year, you may be able to claim the Child and Dependent Care Credit on your federal income tax return. Below are 10 things the IRS wants you to know about claiming a credit for child and dependent care expenses.

1. The care must have been provided for one or more qualifying persons. A qualifying person is your dependent child age 12 or younger when the care was provided. Additionally, your spouse and certain other individuals who are physically or mentally incapable of self-care may also be qualifying persons. You must identify each qualifying person on your tax return.
2. The care must have been provided so you – and your spouse if you are married filing jointly – could work or look for work.
3. You – and your spouse if you file jointly – must have earned income from wages, salaries, and tips, other taxable employee compensation or net earnings from self-employment. One spouse may be considered as having earned income if they were a full-time student or were physically or mentally unable to care for themselves.
4. The payments for care cannot be paid to your spouse, to the parent of your qualifying person; to someone you can claim as your dependent on your return, or to your child who will not be age 19 or older by the end of the year even if he or she is not your dependent. You must identify the care provider(s) on your tax return.
5. Your filing status must be single, married filing jointly, head of household or qualifying widow(er) with a dependent child.
6. The qualifying person must have lived with you for more than half of 2011. There are exceptions for the birth or death of a qualifying person, or a child of divorced or separated parents. See Publication 503, Child and Dependent Care Expenses.
7. The credit can be up to 35 percent of your qualifying expenses, depending upon your adjusted gross income.
8. For 2011, you may use up to $3,000 of expenses paid in a year for one qualifying individual or $6,000 for two or more qualifying individuals to figure the credit.
9. The qualifying expenses must be reduced by the amount of any dependent care benefits provided by your employer that you deduct or exclude from your income.
10. If you pay someone to come to your home and care for your dependent or spouse, you may be a household employer and may have to withhold and pay social security and Medicare tax and pay federal unemployment tax. See Publication 926, Household Employer's Tax Guide.

Facts about the Expanded Adoption Credit

You may be able to take a tax credit of up to $13,170 for qualified expenses paid to adopt an eligible child. The Affordable Care Act increased the amount of the credit and made it refundable, which means it can increase the amount of your refund. Here are seven things the IRS wants you to know about the expanded adoption credit.

1. Beginning in tax year 2011 the credit is refundable, meaning that you can get it even if you owe no tax.
2. For tax year 2011 you must file a paper tax return and Form 8839, Qualified Adoption Expenses, to get the credit and you must attach documents supporting the adoption.
3. Documents may include a final adoption decree, placement agreement from an authorized agency, court documents and the state’s determination for special needs children.

4. Qualified adoption expenses are reasonable and necessary expenses directly related to the legal adoption of the child. These expenses may include adoption fees, court costs, attorney fees and travel expenses.
5. An eligible child must be under 18 years old, or physically or mentally incapable of caring for himself or herself.
6. If your modified adjusted gross income is more than $182,520, your credit is reduced. If your modified AGI is $222,520 or more, you cannot take the credit.
7. Taxpayers claiming the credit will still be able to use IRS Free File to prepare their returns, but the returns must be printed and mailed to the IRS, along with all required documentation

Two Tax Credits to Help Pay Higher Education Costs

There are two federal tax credits available to help you offset the costs of higher education for yourself or your dependents. These are the American Opportunity Credit and the Lifetime Learning Credit.

1. The American Opportunity Credit can be up to $2,500 per eligible student
2. Lifetime Learning Credit can be up to $2,000 per eligible student

Four Credits That Can Pay You at Tax Time

You might be eligible for a valuable tax credit. A tax credit is a dollar-for-dollar reduction of taxes owed. Some credits are even refundable, which means you might receive a refund rather than owe any taxes at all. Here are four popular tax credits you should consider before filing your 2011 Federal Income Tax Return:

1. The Earned Income Tax Credit is a refundable credit for certain people who work and have earned income from wages, self-employment or farming. Income, age and the number of qualifying children determine the amount of the credit. EITC reduces the amount of tax you owe and may also give you a refund. For more information see IRS Publication 596, Earned Income Credit.

2. The Child and Dependent Care Credit is for expenses paid for the care of your qualifying children under age 13, or for a disabled spouse or dependent, to enable you to work or look for work. For more information, see IRS Publication 503, Child and Dependent Care Expenses.

3. The Child Tax Credit is for people who have a qualifying child. The maximum amount of the credit is $1,000 for each qualifying child. This credit can be claimed in addition to the credit for child and dependent care expenses. For more information on the Child Tax Credit, see IRS Publication 972, Child Tax Credit.

4. The Retirement Savings Contributions Credit, also known as the Saver's Credit, is designed to help low-to-moderate income workers save for retirement. You may qualify if your income is below a certain limit and you contribute to an IRA or workplace retirement plan, such as a 401(k) plan. The Saver's Credit is available in addition to any other tax savings that apply. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

There are other credits available to eligible taxpayers. Since many qualifications and limitations apply to the various tax credits, taxpayers should carefully check their tax form instructions, the listed publications

Get Credit for Your Retirement Savings Contributions

To be eligible for the credit you must have been born before January 2, 1993, you cannot have been a full-time student during the calendar year and cannot be claimed as a dependent on another person's return. Income Limits:

- Single, married filing separately, or qualifying widow(er), with income up to $27,750
- Head of Household with income up to $41,625

- Married Filing Jointly, with incomes up to $55,500

Making Work Pay Credit

Many working taxpayers are eligible for the Making Work Pay Tax Credit, except if modified adjusted gross income is $95,000 for individuals or $190,000 if married filing jointly or more, you can be claimed as a dependent on someone else return, you do not have a valid social security number or you are a nonresident alien.

Get Credit for Making Your Home Energy Efficient or Buying Energy-Efficient Products

The IRS reminds homeowners that they still have time this year to make energy-saving and green-energy home improvements and qualify for either of two home energy credits.

The Non business Energy Property Credit is aimed at homeowners installing energy efficient improvements such as insulation, new windows and furnaces. The credit is more limited than in the past years, but can still provide substantial tax savings.

The 2011 credit rate is 10 percent of the cost of qualified energy efficiency improvements. Energy efficiency improvements include adding insulation, energy-efficient exterior windows and doors and certain roofs. The cost of installing these items does not count.
The credit can also be claimed for the cost of residential energy property, including labor costs for installation. Residential energy property includes certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass fuel.
The credit has a lifetime limit of $500, of which only $200 may be used for windows. If the total of non business energy property credits taken in prior years since 2005 is more than $500, the credit may not be claimed in 2011.

Qualifying improvements must be placed into service to the taxpayer’s principal residence located in the United States before January 1, 2012.

Homeowners going green should also check out the Residential Energy Efficient Property Credit, designed to spur investment in alternative energy equipment.

The credit equals 30 percent of what a homeowner spends on qualifying property such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines, and fuel cell property.

No cap exists on the amount of credit available except for fuel cell property.
Generally, labor costs are included when figuring this credit.

Not all energy-efficient improvements qualify for these tax credits, so homeowners should check the manufacturer’s tax credit certification statement before they purchase. Taxpayers can normally rely on this certification statement which can usually be found on the manufacturer’s website or with the product packaging.

First time Homebuyer Credit

Please ascertain if you still qualify for first time homebuyer credit. However please note that a dependent is not eligible to claim this credit.

Summer Day Camp Expenses May Qualify for a Tax Credit

Along with the lazy, hazy days of summer come some extra expenses, including summer day camp. But, the IRS has some good news for parents: those added expenses may help you qualify for a tax credit.
Many parents who work or are looking for work must arrange for care of their children under 13 years of age during the school vacation.
Here are five facts the IRS wants you to know about a tax credit available for child care expenses. The Child and Dependent Care Credit is available for expenses incurred during the summer and throughout the rest of the year.

1. The cost of day camp may count as an expense towards the child and dependent care credit.
2. Expenses for overnight camps do not qualify.
3. Whether your childcare provider is a sitter at your home or a daycare facility outside the home, you'll get some tax benefit if you qualify for the credit.
4. The credit can be up to 35 percent of your qualifying expenses, depending on your income.
5. You may use up to $3,000 of the unreimbursed expenses paid in a year for one qualifying individual or $6,000 for two or more qualifying individuals to figure the credit.

Tax Benefits for Parents

Did you know that your children may help you qualify for some tax benefits? Here are 10 tax benefits the IRS wants parents to consider when filing their tax returns this year

1. Dependents In most cases, a child can be claimed as a dependent in the year they were born.
2. Child Tax Credit
3. Child and Dependent Care Credit You may be able to claim the credit if you pay someone to care for your child under age 13 so that you can work or look for work.
4. Earned Income Tax Credit The EITC is a benefit for certain people who work and have earned income
5. Adoption Credit You may be able to take a tax credit for qualifying expenses paid to adopt an eligible child.
6. Children with Earned Income: If your child has income earned from working they may be required to file a tax return.
7. Children with Investment Income Under certain circumstances a child's investment income may be taxed at the parent's tax rate.
8. Higher Education Credits Education tax credits can help offset the costs of education.
9. Student loan Interest You may be able to deduct interest you pay on a qualified student loan
10. Self-employed health insurance deduction If you were self-employed and paid for health insurance, you may be able to deduct any premiums you paid for coverage after March 29, 2011, for any child of yours who was under age 27 at the end of 2011, even if the child was not your dependent.

What Parents Should Know about Their Child's Investment Income

Parents need to be aware of the tax rules that affect their children's investment income. Here are four facts from the IRS that will help parents determine whether their child's investment income will be taxed at the parents' rate or the child's rate:

1. Investment Income Children with investment income may have part or all of this income taxed at their parents' tax rate rather than at the child's rate. Investment income includes interest, dividends, capital gains and other unearned income.
2. Age Requirement The child's tax must be figured using the parents' rates if the child has investment income of more than $1,900 and meets one of three age requirements for 2011:
   - Was under age 18 at the end of the year,
   - Was age 18 at the end of the year and did not have earned income that was more than half of his or her support, or
   - Was a full-time student over age 18 and under age 24 at the end of the year and did not have earned income that was more than half of his or her support.

3. Form 8615 To figure the child's tax using the parents' rate for the child's return, fill out Form 8615, Tax for Certain Children Who Have Investment Income of More Than $1,900, and attach it to the child's federal income tax return.
4. Form 8814 when certain conditions are met, a parent may be able to avoid having to file a tax return for the child by including the child's income on the parent's tax return. In this situation, the parent would file Form 8814, Parents' Election to Report Child's Interest and Dividends.

Tax Benefits for Disabled Taxpayers

Taxpayers with disabilities and parents of children with disabilities may qualify for a number of IRS tax credits and benefits. Listed below are seven tax credits and other benefits which are available if you or someone else listed on your federal tax return is disabled.

1. Standard Deduction Taxpayers who are legally blind may be entitled to a higher standard deduction on their tax return.
2. Gross Income Certain disability-related payments, Veterans Administration disability benefits, and Supplemental Security Income are excluded from gross income.
3. Impairment-Related Work Expenses Employees who have a physical or mental disability limiting their employment may be able to claim business expenses in connection with their workplace. The expenses must be necessary for the taxpayer to work.
4. Credit for the Elderly or Disabled This credit is generally available to certain taxpayers who are 65 and older as well as to certain disabled taxpayers who are younger than 65 and are retired on permanent and total disability.
5. Medical Expenses If you itemize your deductions using Form 1040, Schedule A, you may be able to deduct medical expenses. See IRS Publication 502, Medical and Dental Expenses.
6. Earned Income Tax Credit EITC is available to disabled taxpayers as well as to the parents of a child with a disability .If you retired on disability, taxable benefits you receive under your employer's disability retirement plan are considered earned income until you reach minimum retirement age. The EITC is a tax credit that not only reduces a taxpayer's tax liability but may also result in a refund. Many working individuals with a disability who have no qualifying children, but are older than 25 and younger than 65 do -- in fact -- qualify for EITC. Additionally, if the taxpayer's child is disabled, the age limitation for the EITC is waived. The EITC has no effect on certain public benefits. Any refund you receive because of the EITC will not be considered income when determining whether you are eligible for benefit programs such as Supplemental Security Income and Medicaid.
7. Child or Dependent Care Credit Taxpayers who pay someone to care for their dependent or spouse so they can work or look for work may be entitled to claim this credit. There is no age limit if the taxpayer's spouse or dependent is unable to care for themselves.

For more information on tax credits and benefits available to disabled taxpayers, see Publication 3966, Living and Working with Disabilities or Publication 907, Tax Highlights for Persons with Disabilities.

Taxable or Non-Taxable Income

Generally, most income you receive is considered taxable but there are situations when certain types of income are partially taxed or not taxed at all.

To help taxpayers understand the differences between taxable and non-taxable income, the Internal Revenue Service offers these common examples of items not included as taxable income:

- Adoption Expense Reimbursements for qualifying expenses
- Child support payments
- Gifts, bequests and inheritances
- Workers' compensation benefits
- Meals and Lodging for the convenience of your employer

- Compensatory Damages awarded for physical injury or physical sickness
- Welfare Benefits
- Cash Rebates from a dealer or manufacturer

Some income may be taxable under certain circumstances, but not taxable in other situations. Examples of items that may or may not be included in your taxable income are:

- Life Insurance If you surrender a life insurance policy for cash, you must include in income any proceeds that are more than the cost of the life insurance policy. Life insurance proceeds, which were paid to you because of the insured person's death, are not taxable unless the policy was turned over to you for a price.

- Scholarship or Fellowship Grant If you are a candidate for a degree, you can exclude amounts you receive as a qualified scholarship or fellowship. Amounts used for room and board do not qualify.

- Non-cash Income Taxable income may be in a form other than cash. One example of this is bartering, which is an exchange of property or services. The fair market value of goods and services exchanged is fully taxable and must be included as income on Form 1040 of both parties.

All other items—including income such as wages, salaries, tips and unemployment compensation — are fully taxable and must be included in your income unless it is specifically excluded by law.

These examples are not all-inclusive. For more details refer to Publication 525, Taxable and Nontaxable Income.

Are Your Social Security Benefits Taxable?

The Social Security benefits you received in 2011 may be taxable. You should receive a Form SSA-1099 which will show the total amount of your benefits. The information provided on this statement along with the following seven facts from the IRS will help you determine whether or not your benefits are taxable.

1. How much – if any – of your Social Security benefits are taxable depends on your total income and marital status.
2. Generally, if Social Security benefits were your only income for 2011, your benefits are not taxable and you probably do not need to file a federal income tax return.
3. If you received income from other sources, your benefits will not be taxed unless your modified adjusted gross income is more than the base amount for your filing status.
4. Your taxable benefits and modified adjusted gross income are figured on a worksheet in the Form 1040A or Form 1040 Instruction booklet.
5. You can do the following quick computation to determine whether some of your benefits may be taxable:
   • First, add one-half of the total Social Security benefits you received to all your other income, including any tax exempt interest and other exclusions from income.
   • Then, compare this total to the base amount for your filing status. If the total is more than your base amount, some of your benefits may be taxable.
6. The 2011 base amounts are:
   • $32,000 for married couples filing jointly.
   • $25,000 for single, head of household, qualifying widow/widower with a dependent child, or married individuals filing separately who did not live with their spouses at any time during the year.
   • $0 for married persons filing separately who lived together during the year.
7. For additional information on the taxability of Social Security benefits, see IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits. Publication 915 is available on IRS website.

Rental Income and Expenses

You generally must include in your gross income all amounts you receive as rent. Rental income is any payment you receive for the use of or occupation of property. Expenses of renting property can be deducted from your gross rental income. You generally deduct your rental expenses in the year you pay them. Publication 527, Residential Rental Property, includes information on the expenses you can deduct if you rent property

If You Are Missing a W-2

Before you file your 2011 tax return, you should make sure you have all the needed documents including all your Forms W-2. You should receive a Form W-2, Wage and Tax Statement, from each of your employers. Employers have until January 31, 2011 to send you a 2011 Form W-2 earnings statement.

If you haven't received your W-2, follow these four steps:

1. Contact your employer If you have not received your W-2; contact your employer to inquire if and when the W-2 was mailed. If it was mailed, it may have been returned to the employer because of an incorrect or incomplete address. After contacting the employer, allow a reasonable amount of time for them to resend or to issue the W-2.
2. Contact the IRS If you do not receive your W-2 by February 14th; contact the IRS for assistance at 800-829-1040. When you call, you must provide your name, address, city and state, including zip code, Social Security number, phone number and have the following information:
   • Employer's name, address, city and state, including zip code and phone number
   • Dates of employment
   • An estimate of the wages you earned, the federal income tax withheld, and when you worked for that employer during 2011. The estimate should be based on year-to-date information from your final pay stub or leave-and-earnings statement, if possible.
3. File your return You still must file your tax return or request an extension to file April 16, 2012, even if you do not receive your Form W-2. If you have not received your Form W-2 by the due date, and have completed steps 1 and 2, you may use Form 4852, Substitute for Form W-2, Wage and Tax Statement. Attach Form 4852 to the return, estimating income and withholding taxes as accurately as possible. There may be a delay in any refund due while the information is verified.
4. File a Form 1040X On occasion, you may receive your missing W-2 after you filed your return using Form 4852, and the information may be different from what you reported on your return. If this happens, you must amend your return by filing a Form 1040X, Amended U.S. Individual Income Tax Return.

Six Facts about Choosing the Standard or Itemized Deductions

When filing your federal income tax return, taxpayers can choose to either take the standard deduction or to itemize their deductions. The IRS has put together the following the following facts to help you choose the method that gives you the lowest tax.

Whether to itemize deductions on your tax return depends on how much you spent on certain expenses last year. Money paid for medical care, mortgage interest, taxes, charitable contributions, casualty losses and miscellaneous deductions can reduce your taxes. If the total amount spent on those categories is more than your standard deduction, you can usually benefit by itemizing.

1. Standard deduction amounts are based on your filing status and are subject to inflation adjustments each year. For 2011, they are:

   Single $5,700
   Married Filing Jointly $11,400
   Head of Household $8,400

Married Filing Separately $5,700
Qualifying Widow(er) $11,400

2. Some taxpayers have different standard deductions.
3. Limited itemized deductions: Your itemized deductions are no longer limited because of your adjusted gross income.
4. Married Filing Separately: When a married couple files separate returns and one spouse itemizes deductions, the other spouse cannot claim the standard deduction and therefore must itemize to claim their allowable deductions.
5. Some taxpayers are not eligible for the standard deduction**:** They include nonresident aliens, dual-status aliens and individuals who file returns for periods of less than 12 months due to a change in accounting periods.

Medical and Dental Expenses

You may deduct only the amount by which your total medical care expenses for the year exceed 7.5 percent of your adjusted gross income.

Home Mortgage Interest, Real Estate Taxes and Insurance Premium

Generally, home mortgage interest is any interest you pay on a loan secured by your home (main home or second home). The loan may be a mortgage to buy your home, a second mortgage, a line of credit, or a home equity loan.

Real estate taxes paid on your primary and second residence are, generally, deductible. Therefore, you can also deduct real estate taxes shown separately on Mortgage Interest Statement, Form 1098.

Usually, home insurance is a part of the mortgage interest. You can deduct home insurance premium if you pay it separately and is not included in your mortgage interest statement. For more details, see IRS Publication 936.

Deducting Charitable Contributions

Charitable contributions made to qualified organizations may help lower your tax bill. The IRS has put together the following eight tips to help ensure your contributions pay off on your tax return.

1. If your goal is a legitimate tax deduction, then you must be giving to a qualified organization. Also, you cannot deduct contributions made to specific individuals, political organizations and candidates. See IRS Publication 526, Charitable Contributions, for rules on what constitutes a qualified organization.
2. To deduct a charitable contribution, you must file Form 1040 and itemize deductions on Schedule A.
3. If you receive a benefit because of your contribution such as merchandise, tickets to a ball game or other goods and services, then you can deduct only the amount that exceeds the fair market value of the benefit received.
4. Donations of stock or other non-cash property are usually valued at the fair market value of the property. Clothing and household items must generally be in good used condition or better to be deductible. Special rules apply to vehicle donations.
5. Fair market value is generally the price at which property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the relevant facts.
6. Regardless of the amount, to deduct a contribution of cash, check, or other monetary gift, you must maintain a bank record, payroll deduction records or a written communication from the organization containing the name of the organization, the date of the contribution and amount of the contribution. For text message donations, a telephone bill will meet the record-keeping requirement if it shows the name of the receiving organization, the date of the contribution, and the amount given.
7. To claim a deduction for contributions of cash or property equaling $250 or more you must have a bank

record, payroll deduction records or a written acknowledgment from the qualified organization showing the amount of the cash and a description of any property contributed, and whether the organization provided any goods or services in exchange for the gift. One document may satisfy both the written communication requirement for monetary gifts and the written acknowledgement requirement for all contributions of $250 or more. If your total deduction for all noncash contributions for the year is over $500, you must complete and attach IRS Form 8283, Noncash Charitable Contributions, to your return.
8. Taxpayers donating an item or a group of similar items valued at more than $5,000 must also complete Section B of Form 8283, which generally requires an appraisal by a qualified appraiser.

When preparing to file your federal tax return, don't forget your contributions to charitable organizations. Your donations could add up to a sizeable tax deduction if you itemize your deductions. Make sure that you have proper receipts for all charitable contributions.

The deduction for charitable contributions is generally limited to 50% of adjusted gross income, but in some cases 20% and 30% limits may apply

Employee Business Expenses

If you itemize deductions and are an employee, you may be able to deduct certain work-related expenses. The IRS has put together the following facts to help you determine which expenses may be deducted as an employee business expense. Expenses that qualify for an itemized deduction include:

- Business travel away from home
- Business use of car
- Business meals and entertainment
- Travel
- Use of your home
- Education
- Supplies
- Tools
- Miscellaneous expenses

You must keep records to prove the business expenses you deduct. For general information on recordkeeping, see IRS Publication 552.

Consider Home Office Deduction

Whether you are self-employed or an employee, if you use a portion of your home for business, you may be able to take a home office deduction. Here are six things the IRS wants you to know about the Home Office deduction

1. 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, or
- as a place to meet or deal with patients, clients or customers in the normal course of your business, or
- in any connection with your trade or business where the business portion of your home is a separate structure not attached to your home.

2. For certain storage use, rental use, or daycare-facility use, you are required to use the property regularly but not exclusively.

3. Generally, 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.

4. There are special rules for qualified daycare providers and for persons storing business inventory or product samples.

Taking Early Distribution from Retirement Plans

Early distributions from Individual Retirement Plans before you reach age 59-1/2 must be reported to IRS as they are subject to an additional tax of 10%.

IRA Contributions

Contributions to IRA must be made before the last date of tax returns established by IRS. You may be able to deduct some or all of your contributions to your IRA. You may also be eligible for the Savers Credit formally known as the Retirement Savings Contributions Credit. Contribution to your traditional IRA is generally the smaller of the following amounts: $5,000 or $6,000 for taxpayers who were 50 or older at the end of 2011 or the amount of your taxable compensation for the year.   You must be under age 70 1/2 at the end of the tax year in order to contribute to a traditional IRA

Important Facts about Capital Gains and Losses

Here are ten facts from the IRS about gains and losses and how they can affect your Federal income tax return.

1. Almost everything you own and use for personal purposes, pleasure or investment is a capital asset.
2. When you sell a capital asset, the difference between the amount you sell it for and your basis – which is usually what you paid for it – is a capital gain or a capital loss.
3. You must report all capital gains.
4. You may deduct capital losses only on investment property, not on property held for personal use.
5. Capital gains and losses are classified as long-term or short-term, depending on how long you hold the property before you sell it. If you hold it more than one year, your capital gain or loss is long-term. If you hold it one year or less, your capital gain or loss is short-term.
6. If you have long-term gains in excess of your long-term losses, you have a net capital gain to the extent your net long-term capital gain is more than your net short-term capital loss, if any.
7. The tax rates that apply to net capital gain are generally lower than the tax rates that apply to other income. For 2011, the maximum capital gains rate for most people is 15%. For lower-income individuals, the rate may be 0% on some or all of the net capital gain. Special types of net capital gain can be taxed at 25% or 28%.
8. If your capital losses exceed your capital gains, the excess can be deducted on your tax return and used to reduce other income, such as wages, up to an annual limit of $3,000, or $1,500 if you are married filing separately.
9. If your total net capital loss is more than the yearly limit on capital loss deductions, you can carry over the unused part to the next year and treat it as if you incurred it in that next year.
10. Capital gains and losses are reported on Schedule D, Capital Gains and Losses

To File or Not to File

As a tax payer, you must file a tax return if your income is above a certain level. The amount varies depending on filing status, age and the type of income you receive. Even if you don't have to file, here are several reasons why you may want to file.

Federal Income Tax Withheld: Get money back if Federal Income Tax was withheld from your pay
Making Work Pay Credit: You may be able to take this credit if you had earned income from work.
Earned Income Tax Credit: You may qualify for EITC if you worked but did not earn a lot of money, EITC is a refundable tax credit; which means you could qualify for a tax refund.
Additional Child Tax Credit: This refundable credit may be available to you if you have at least one qualifying child and you did not get the full amount of the Child Tax Credit
American Opportunity Credit: The maximum credit per student is $2,500 and the first four years of postsecondary education qualify.
First-Time Homebuyer Credit: The credit is a maximum of $8,000 or $4,000 if your filing status is married filing separately.
Health Coverage Tax Credit: Certain individuals, who are receiving Trade Adjustment Assistance, Reemployment Trade Adjustment Assistance, or pension benefit payments from the Pension Benefit Guaranty Corporation, may be eligible for a Health Coverage Tax Credit worth 80 percent of monthly health insurance premiums when you file your tax return.

Electronic Filing

In 2011, 99 million people – 70 percent of all individual taxpayers – used IRS e-file to electronically transmit their tax returns to the IRS. It's safe, it's easy to use and it's time for you to try it. According to IRS, taxpayers who combine e-file and direct deposit can get their refunds in as few as 10 days. Approximately three out of every four individual tax returns were filed electronically. Now, e-file no longer is the exception, **it's the norm**. Therefore by choosing e file option this year you will join the millions of taxpayers who are already saving time and money to file their tax returns electronically.

- It's easy
- It's fast
- It's safe
- It's accurate
- No more second-guessing your self
- You'll get your refund faster
- There are more payment options
- You'll know the IRS received your return within 24 hours of filing (in most cases)
- You'll have peace of mind.

Choose Direct Deposit

Direct Deposit is the fastest, safest way to receive your tax refund. An e-filed tax return means a fast refund. Taxpayers who combine e-file and Direct Deposit can get their refunds in as few as 10 days.

- Direct Deposit Puts Your Money in your Pocket …………… Faster
- Direct Deposit is secure.
- Direct Deposit is convenient
- Direct Deposit is easy
- Direct Deposit offers options.

Status of Your Refund

If you already filed your federal tax return and are due a refund, you have several options to check on your refund. Log on to www.irs.gov and click Where's My Refund?

How to Get Your Prior Year Tax Information from the IRS

There are three options for obtaining free copies of your federal tax return information – on the web, by phone or by mail.

1. The IRS does not charge a fee for transcripts, which are presently available for the current tax year as well as the past three tax years.
2. A tax return transcript shows most line items from your tax return as it was originally filed, including any accompanying forms and schedules. It does not reflect any changes made after the return was filed.
3. A tax account transcript shows any later adjustments either you or the IRS made after the tax return was filed. This transcript shows basic data – including marital status, type of return filed, adjusted gross income and taxable income.
4. To request transcript on line go to Order a Transcript on IRS website or call 800-908-9946 to order by phone; you can also get copies in person by visiting nearest IRS office in your area.
5. To request a 1040, 1040A or 1040EZ tax return transcript through the mail, complete IRS Form 4506T-EZ, Short Form Request for Individual Tax Return Transcript.
6. If you order online or by phone, you should receive your tax return transcript within 5 to 10 days from the time the IRS receives your request.
7. If you still need an actual copy of a previously processed tax return, it will cost $57 for each tax year that you order. Please allow 60 days for actual copies of your return.

Visit IRS Website

Don't wait in line; go online because the IRS website has a wealth of free information and online tax support. Here are the top 10 reasons to visit www.irs.gov.

1. If you find yourself working on your tax return over the weekend, there's no need to wait to get a form or an answer to a question – visit the IRS website anytime.
2. Use Free File: Let Free File do the hard work for you with brand-name tax software or online fill able forms.
3. Try IRS e-file: After 21 years, IRS e-file has become the safe, easy and most common way to file a tax return. Over 99 million people - use IRS e-file.
4. Check the status of your tax refund. Whether you chose direct deposit or asked the IRS to mail you a check, you can check the status of your refund through: Where's My Refund?
5. Find out how to make payments electronically. You can authorize an electronic funds withdrawal, use a credit or debit card, or enroll in the U.S. Treasury's Electronic Federal Tax Payment System to pay your federal taxes. Electronic payment options are a convenient, safe and secure way to pay taxes.
6. Find out if you qualify for the Earned Income Tax Credit. EITC is a tax credit for many people who earned less than $49,000. Find out if you are eligible by answering some questions and providing basic income information using the EITC Assistant.
7. Get tax forms and publications. You can view and download tax forms and publications any hour of the day or night.
8. Calculate the right amount of withholding on your W-4. The IRS Withholding Calculator will help you ensure that you don't have too much or too little income tax withheld from your pay.
9. Request a payment agreement. Paying your taxes in full and on time avoids unnecessary penalties and interest. However, if you cannot pay your balance in full you may be eligible to use the Online Payment Agreement Application to request an installment agreement.
10. Get information about the latest tax law changes. Learn about tax law changes that may affect your tax return. Special sections of the website highlight changes that affect individual or business taxpayers

Visit an IRS Taxpayer Assistance Center

When you believe your tax issue cannot be handled online or by phone, visit IRS Tax Assistance Center in person for face-to-face tax assistance. IRS offers Multilingual Assistance in over 150 languages.

- If you have you received a letter or notice and need face-to-face assistance to understand the next step? No appointment is necessary – just walk in
- .Free Federal Tax Return for those whose income is less than $49,000.
- Form 2290, Heavy Highway Vehicle Use Tax Return
- To Obtain Individual Taxpayer Identification Number
- To Make Payments
- To Obtain Tax Forms
- For Alien Clearance
- Tax Return and Tax Account Transcripts. Federal tax return transcripts are free and are generally available for the current and past three years
- IRS has an appeals system for people who do not agree with the results of an examination of their tax returns or with other adjustments to their tax liability. Find out how we can help!

Taxpayers looking for free basic income tax preparation assistance may qualify for IRS sponsored community-based, volunteer tax return preparation programs.

Tax Scams to Avoid

Hiding income offshore, identity theft and return preparer fraud topped the IRS's list of tax scams in 2011. Here are five year-round scams every taxpayer should know about.

1. Hiding Income Offshore
2. Phishing
3. Return Preparer Fraud
4. Filing False or Misleading Forms
5. Frivolous Arguments

For the full list of 2011 Dirty Dozen tax scams or to find out how to report suspected tax fraud, visit www.irs.gov.

Tax Refunds

If you are expecting a refund from IRS, you may find this information useful

- Refund Options
- Receive Tax Refund in Separate Accounts
- Returns Filed Electronically – refund is faster than paper filing
- Paper Return Processing Time usually 6 to 8 weeks
- Check Refund Status Online
- Check status by Phone by calling IRS
- Delayed Refund
- Larger than Expected Refund
- Smaller than Expected Refund
- Missing Refund

Need More Time to File

If you can't meet the April filing deadline AND need more time to file your tax return, you can get an automatic six month extension from the IRS. Here are important things you need to know about filing an extension. We will be glad to help you in this respect.

1. File on time even if you can’t pay
2. Extra time to file: An extension will give you extra time to get your paperwork to the IRS, but it does not extend the time you have to pay any tax due. You will owe interest on any amount not paid by the April 16 deadline, plus you may owe penalties.
3. Form to file Request an extension to file by submitting Form 4868
4. E-file extension You can e-file an extension request using tax preparation software with your own computer or by going to a tax preparer that has the software
5. Traditional Free File and Free File Fill able Forms
6. Electronic funds withdrawal

Tips for Last Minutes Filers

With the tax filing deadline close at hand, here are some tips for taxpayers still working on their tax returns.

- Consider filing electronically
- Review SS or tax ID numbers
- Double-check your figures and check the tax tables
- Sign, date and mail your return
- Choose Direct Deposit
- File an extension
- Review your return … one more time to assure accuracy of reported information
- How to make a Payment – Make the check payable to "United States Treasury"
- Visit the IRS Website for additional information

Avoid Common Errors

Errors made on tax returns may delay the processing of your return. Avoiding these common errors will help ensure your refund arrives on time.

- Incorrect or missing social security numbers
- Incorrect or misspelling of dependent's last
- Filing status
- Math errors
- Computation errors
- Incorrect bank account numbers for Direct Deposit
- Forgetting to sign and date the return
- Incorrect Adjusted Gross Income

Make Tax Filing a Breeze - Tips to Avoid Tax Time Street

Tax preparation shouldn’t be so stressful. The IRS has put together these tips to help make your tax filing experience a breeze this year.

- Don’t Procrastinate
- Visit IRS Online – In 2011, more than 304 million visits were made to www.irs.gov.
- Use Free File – Let Free File do the hard work for you
- Try IRS e-file – IRS e-file has become the safe, easy and most common way to file a tax return.
- File Your Return Electronically. Join the millions of tax years who file electronically for faster refunds
- Don't Panic if You Can't Pay - pay it installments
- Request an Extension of Time to File if you are unable to file by April 16, 2011.

- We are here to help you in several ways

Need More Time to Pay Your Taxes

Taxpayers who owe taxes may be relieved to know that there are some options for those who owe and can't afford to pay the full amount right away. Here are the top 10 things the IRS wants you to know if you need more time to pay your taxes.

1. Taxpayers who are unable to pay all taxes due are encouraged to pay as much as possible. By paying as much as possible now, the amount of interest and penalties owed will be less.

2. Based on the circumstances, a taxpayer could qualify for an extension of time to pay, an installment agreement, temporary delay or an Offer in Compromise.

3. If you cannot pay the full amount, taxpayers should immediately call the number or write to the address on the bill they receive.

4. You may want to consider financing the full payment of your tax liability through a loan. The interest rate and fees charged by a bank or credit card company are usually lower than interest and penalties imposed by the Internal Revenue Code.

5. If you cannot pay in full immediately, you may qualify for a short amount of additional time, up to 120 days, to pay in full. No fee is charged for this type of payment arrangement and this option may minimize the amount of penalties and interest you incur.

6. You may also want to consider an installment agreement. This arrangement allows you to make monthly payments after a one-time fee of $105 is paid. If you choose to pay through a Direct Debit from your bank account, the fee is reduced to $52. Lower-income taxpayers may qualify for a reduced fee of $43.

7. To apply for an installment agreement you can use the Online Payment Agreement application available on the IRS website; file a Form 9465, Installment Agreement Request; or call the IRS at the telephone number shown on your bill.

8. In some cases, a taxpayer may qualify for an offer in compromise, an agreement between the taxpayer and the IRS that settles the taxpayer's tax liabilities for less than the full amount owed. Generally, an offer will not be accepted if the IRS believes that the liability can be paid in full as a lump sum or through a payment agreement.

9. Even if you set up an installment agreement, the IRS may still file a Notice of Federal Tax Lien to secure the government's interest until you make the final payment.

10. It is important to respond to an IRS notice. If you do not pay your tax liability in full or make an alternative payment arrangement, the IRS is entitled to take collection action.

Making Federal Tax Payments

Are you making a payment with your federal tax return this year? If so, here are 10 important things the IRS wants you to know about making tax payments correctly.
1. Never send cash!
2. If you file electronically, you can file and pay in a single step by authorizing an electronic funds withdrawal via tax preparation software or a tax professional.
3. Whether you file a paper return or electronically, you can pay by phone or online using a credit or debit card.

4. Electronic payment options provide an alternative to paying taxes or user fees by check or money order. You can make payments 24 hours a day, seven days a week. Visit the IRS website at http://www.irs.gov and search e-pay, or refer to Publication 3611, IRS e-File Electronic Payments for more details.
5. If you itemize, you may be able to deduct the convenience fee charged for paying individual income taxes with a credit or debit card as a miscellaneous itemized deduction on Form 1040, Schedule A, Itemized Deductions. The deduction is subject to the 2 percent limit.
6. Enclose your payment with your return but do not staple it to the form.
7. If you pay by check or money order, make sure it is payable to the “United States Treasury.”
8. Always provide your correct name, address, Social Security number listed first on the tax form, daytime telephone number, tax year and form number on the front of your check or money order.
9. Complete and include Form 1040-V, Payment Voucher, when mailing your payment to the IRS. Double-check the IRS mailing address. This will help the IRS process your payment accurately and efficiently.
10. For more information, call 800-829-4477 and select TeleTax Topic 158, Ensuring Proper Credit of Payments. You can also find out more in Publication 17, Your Federal Income Tax and Form 1040-V, both available at http://www.irs.gov.

Three Ways to Pay Your Federal Income Tax (Payment Options)

If you owe taxes but can’t pay the full amount by the April 16 deadline you should still file your return on time and pay as much as you can to avoid penalties and interest. You should also contact the IRS to ask about alternative payment options. Here are three alternative payment options you may want to consider:

1. Additional Time to Pay
2. Installment Agreement
3. Pay by Credit or Debit Card
4. Authorize IRS to withdraw money from your bank account

Injured Spouse Relief

If you file a joint return and all or part of your refund is applied against your spouses’ past-due federal tax, state income tax, child or spousal support or federal nontax debt, such as a student loan, you may be entitled to injured spouse relief.

Here are seven facts the IRS wants you to know about claiming injured spouse relief:

1. To be considered an injured spouse, you must have made and reported tax payments, such as federal income tax withheld from wages or estimated tax payments, or claimed a refundable tax credit, such as the earned income credit or additional child tax credit on the joint return, and not be legally obligated to pay the past-due amount.

2. If you live in a community property state, special rules apply. For more information about the factors used to determine whether you are subject to community property laws, see IRS Publication 555, Community Property.

3. If you filed a joint return and you're not responsible for the debt, but you are entitled to a portion of the refund you may request your portion of the refund by filing Form 8379, Injured Spouse Allocation.

4. You may file form 8379 along with your original tax return or your may file it by itself after you are notified of an offset.

5. You can file the Form 8379 electronically. If you file a paper tax return you can include Form 8379 with your return, write "INJURED SPOUSE" at the top left corner of the Form 1040, 1040A, or 1040EZ. IRS will process your allocation request before an offset occurs.

6. If you are filing Form 8379 by itself, it must show both spouses' social security numbers in the same order as they appeared on your income tax return. You, the "injured" spouse, must sign the form.

7. Do not use Form 8379 if you are claiming innocent spouse relief. Instead, file Form 8857, Request for Innocent Spouse Relief. This relief from a joint liability applies only in certain limited circumstances. IRS Publication 971, Innocent Spouse Relief, explains who may qualify, and how to request this relief.

Innocent Spouse Relief

Unfortunately, in marriage and life, everything is not always "Happily Ever After". If that is the case, you must meet certain conditions in order to qualify for Spousal Relief.

You must meet **all** of the following conditions to qualify for **"innocent spouse relief"**:
You filed a joint return, which has an understatement of tax, directly related to your spouse's erroneous items. Any income omitted from the joint return is an erroneous item. Deductions, credits, and property bases are erroneous items if they are incorrectly reported on the joint return
You establish that at the time you signed the joint return you did not know, and had no reason to know, that there was an understatement of tax, and
Taking into account all the facts and circumstances, it would be unfair to hold you liable for the understatement of tax
To qualify for **"separation of liability relief"** you must have filed a joint return and must meet **one** of the following requirements at the time you request relief:
You are divorced or legally separated from the spouse with whom you filed the joint return for which you are requesting relief
You are widowed, or
You have not been a member of the same household as the spouse with whom you filed the joint return at any time during the 12-month period ending on the date you file Form 8857 (PDF), *Request for Innocent Spouse Relief*

There are three types of relief from joint and several liability for spouses who filed joint returns:

1. **Innocent Spouse Relief** provides you relief from additional tax you owe if your spouse or former spouse failed to report income, reported income improperly or claimed improper deductions or credits.
2. **Separation of Liability Relief** provides for the allocation of additional tax owed between you and your spouse or former spouse because an item was not reported properly on a joint return. The tax allocated to you is the amount for which you are responsible.
3. **Equitable Relief** may apply when you do not qualify for innocent spouse relief or separation of liability relief for something not reported properly on a joint return and generally attributable to your spouse. You may also qualify for equitable relief if the correct amount of tax was reported on your joint return but the tax remains unpaid.

NOTE: You must request relief no later than 2 years after the date the IRS first attempted to collect the tax from you, regardless of the type of relief you are seeking.

Mortgage Debt Forgiveness

If you are a homeowner whose mortgage debt is partly or entirely forgiven during tax years 2007 through 2012, you may be able to claim special tax relief and exclude the debt forgiven from your income. Here are 10 facts the IRS wants you to know about Mortgage Debt Forgiveness.

1. 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 of debt forgiven on your principal residence.

2. The limit is $1 million for a married person filing a separate return.

3. You may exclude debt reduced through mortgage restructuring, as well as mortgage debt forgiven in a foreclosure.

4. To qualify, the debt must have been used to buy, build or substantially improve your principal residence and be secured by that residence.

5. Refinanced debt proceeds used for the purpose of substantially improving your principal residence also qualify for the exclusion.

6. Proceeds of refinanced debt used for other purposes – for example, to pay off credit card debt – do not qualify for the exclusion.

7. If you qualify, claim the special exclusion by filling out Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, and attach it to your federal income tax return for the tax year in which the qualified debt was forgiven.

8. Debt forgiven on second homes, rental property, business property, credit cards or car loans do not qualify for the tax relief provision. In some cases, however, other tax relief provisions – such as insolvency – may be applicable. IRS Form 982 provides more details about these provisions.

9. If your debt is reduced or eliminated you normally will receive a year-end statement, Form 1099-C, Cancellation of Debt, from your lender. By law, this form must show the amount of debt forgiven and the fair market value of any property foreclosed.

10. Examine the Form 1099-C carefully. Notify the lender immediately if any of the information shown is incorrect. You should pay particular attention to the amount of debt forgiven in Box 2 as well as the value listed for your home in Box 7

Facts about Bartering

In today's economy, small business owners sometimes look to the oldest form of commerce – the exchange of goods and services, or bartering. The IRS wants to remind small business owners that the fair market value of property or services received through barter is taxable income.

Bartering is the trading of one product or service for another. Usually there is no exchange of cash. However, the fair market value of the goods and services exchanged must be reported as income by both parties.

Here are four facts about bartering that the IRS wants small business owners to be aware of:

1. Barter Exchange A barter exchange functions primarily as the organizer of a marketplace where members buy and sell products and services among themselves. Whether this activity operates out of a physical office or is internet based, a barter exchange is generally required to issue Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, annually to their clients or members and to the IRS.

2. Barter Income Barter dollars or trade dollars are identical to real dollars for tax reporting. If you conduct any direct barter - barter for another's products or services - you will have to report the fair market value of the products or services you received on your tax return.

3. Taxes Income from bartering is taxable in the year it is performed. Bartering may result in liabilities for income tax, self-employment tax, employment tax, or excise tax. Your barter activities may result in ordinary business income, capital gains or capital losses, or you may have a nondeductible personal loss.

4. Reporting The rules for reporting barter transactions may vary depending on which form of bartering takes place. Generally, you report this type of business income on Form 1040, Schedule C Profit or Loss from Business, or other business returns such as Form 1065 for Partnerships, Form 1120 for Corporations, or Form 1120-S for Small Business Corporations.

Alternative Minimum Tax

The Alternative Minimum Tax attempts to ensure that anyone who benefits from certain tax advantages pays at least a minimum amount of tax. The AMT provides an alternative set of rules for calculating your income tax. In general, these rules should determine the minimum amount of tax that someone with your income should be required to pay. If your regular tax falls below this minimum, you have to make up the difference by paying alternative minimum tax. The AMT exemption amounts are set by law for each filing status. For tax year 2011, Congress raised the AMT exemption amounts to the following levels:

- $72,450 for a married couple filing a joint return and qualifying widows and widowers;
- $47,450 for singles and heads of household;
- $36,225 for a married person filing separately.
- The minimum AMT exemption amount for a child whose unearned income is taxed at the parents' tax rate has increased to $6,700 for 2011.

If You Receive an IRS Notice

Each year, the Internal Revenue Service sends millions of letters and notices to taxpayers for a variety of reasons. Here are eight things to know about IRS notices – just in case one shows up in your mailbox.

1. Don’t panic. Many of these letters can be dealt with simply and painlessly.
2. There are a number of reasons why the IRS might send you a notice. Notices may request payment of taxes, notify you of changes to your account, or request additional information. The notice you receive normally covers a very specific issue about your account or tax return.
3. Each letter and notice offers specific instructions on what you are asked to do to satisfy the inquiry.
4. If you receive a correction notice, you should review the correspondence and compare it with the information on your return.
5. If you agree with the correction to your account, then usually no reply is necessary unless a payment is due or the notice directs otherwise.
6. If you do not agree with the correction the IRS made, it is important that you respond as requested. You should send a written explanation of why you disagree and include any documents and information you want the IRS to consider, along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the upper left-hand corner of the notice. Allow at least 30 days for a response.
7. Most correspondence can be handled without calling or visiting an IRS office. However, if you have questions, call the telephone number in the upper right-hand corner of the notice. Have a copy of your tax return and the correspondence available when you call to help us respond to your inquiry.
8. It’s important that you keep copies of any correspondence with your records.

Facts on Penalties

When it comes to filing a tax return – or not filing one - the IRS can assess a penalty if you fail to file, fail to pay or both. Here are eight important points the IRS wants you to know about the two different penalties you may face if you do not file or pay timely.

1. If you do not file by the deadline, you might face a failure-to-file penalty. If you do not pay by the due date, you could face a failure-to-pay penalty.

2. The failure-to-file penalty is generally more than the failure-to-pay penalty. So if you cannot pay all the taxes you owe, you should still file your tax return on time and explore other payment options in the

meantime. The IRS will work with you.

3. The penalty for filing late is usually 5 percent of the unpaid taxes for each month or part of a month that a return is late. This penalty will not exceed 25 percent of your unpaid taxes.

4. If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $135 or 100 percent of the unpaid tax.

5. If you do not pay your taxes by the due date, you will generally have to pay a failure-to-pay penalty of ½ of 1 percent of your unpaid taxes for each month or part of a month after the due date that the taxes are not paid. This penalty can be as much as 25 percent of your unpaid taxes.

6. If you timely filed a request for an extension of time to file and you paid at least 90 percent of your actual tax liability by the original due date, you will not be faced with a failure-to-pay penalty if the remaining balance is paid by the extended due date.

7. If both the failure-to-file penalty and the failure-to-pay penalty apply in any month, the 5 percent failure-to-file penalty is reduced by the failure-to-pay penalty. However, if you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $135 or 100% of the unpaid tax.

8. You will not have to pay a failure-to-file or failure-to-pay penalty if you can show that you failed to file or pay on time because of reasonable cause and not because of willful neglect.

Recently Married Taxpayers

If you have recently gotten married or plan to get married in the near future, there are some useful tips which will help you to avoid stress at tax time

Changed Your Name Due to Marriage or Divorce

If you changed your name as a result of a recent marriage or divorce you'll want to take the necessary steps to ensure the name on your tax return matches the name registered with the Social Security Administration. A mismatch between the name shown on your tax return and the SSA records can cause problems in the processing of your return and may even delay your refund. Here are five tips from the IRS for recently married or divorced taxpayers who have a name change.

1. If you took your spouse's last name or if both spouses hyphenate their last names, you may run into complications if you don't notify the SSA. When newlyweds file a tax return using their new last names, IRS computers can't match the new name with their Social Security Number.
2. If you were recently divorced and changed back to your previous last name, you'll also need to notify the SSA of this name change.
3. Informing the SSA of a name change is easy; you'll just need to file a Form SS-5, Application for a Social Security Card at your local SSA office and provide a recently issued document as proof of your legal name change.
4. Form SS-5 is available on website of SSA at http://www.socialsecurity.gov. Your new card will have the same number as your previous card, but will show your new name.
5. If you adopted your spouse's children after getting married, you'll want to make sure the children have an SSN. Taxpayers must provide an SSN for each dependent claimed on a tax return. For adopted children without SSNs, the parents can apply for an Adoption Taxpayer Identification Number – or ATIN – by filing Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions with the IRS. The ATIN is a temporary number used in place of an SSN on the tax return

Tax Tips for Job Seekers

Many taxpayers spend time during the summer months updating their résumé and attending career fairs. The Internal Revenue Service reminds job seekers that you may be able to deduct some of the expenses on your tax return. Here are seven things the IRS wants you to know about deducting costs related to your job search:

1. To qualify for a deduction, the expenses must be spent on a job search in your current occupation. You may not deduct expenses you incur while looking for a job in a new occupation.
2. You can deduct employment and outplacement agency fees you pay while looking for a job in your present occupation. If your employer pays you back in a later year for employment agency fees, you must include the amount you receive in your gross income, up to the amount of your tax benefit in the earlier year.
3. You can deduct amounts you spend for preparing and mailing copies of your résumé to prospective employers as long as you are looking for a new job in your present occupation.
4. If you travel to an area to look for a new job in your present occupation, you may be able to deduct travel expenses to and from the area. You can only deduct the travel expenses if the trip is primarily to look for a new job. The amount of time you spend on personal activity compared to the amount of time you spend looking for work is important in determining whether the trip is primarily personal or is primarily to look for a new job.
5. You cannot deduct job search expenses if there was a substantial break between the end of your last job and the time you begin looking for a new one.
6. You cannot deduct job search expenses if you are looking for a job for the first time.
7. The amount of job search expenses that you can claim on your tax return is limited. You can claim the amount that is more than 2 percent of your adjusted gross income. You figure your deduction on Schedule A.

Students Starting a Summer Job

School's out and many students will be starting summer jobs. The Internal Revenue Service reminds students that not all the money you earn may make it to your pocket. That's because your employer must withhold taxes. Here are six things the IRS wants students to be aware of when they start a summer job.

1. When you first start a new job you must fill out a Form W-4, Employee's Withholding Allowance Certificate. This form is used by employers to determine the amount of tax that will be withheld from your paycheck. If you have multiple summer jobs, make sure all your employers are withholding an adequate amount of taxes to cover your total income tax liability. To make sure your withholding is correct; use the Withholding Calculator on www.irs.gov.

2. Whether you are working as a waiter or a camp counselor, you may receive tips as part of your summer income. All tips you receive are taxable income and are therefore subject to federal income tax.

3. Many students do odd jobs over the summer to make extra cash. Earnings you receive from self-employment – including jobs like baby-sitting and lawn mowing – are subject to income tax.

4. If you have net earnings of $400 or more from self-employment, you will also have to pay self-employment tax. This tax pays for your benefits under the Social Security system. Social Security and Medicare benefits are available to individuals who are self-employed the same as they are to wage earners who have Social Security tax and Medicare tax withheld from their wages. The self-employment tax is figured on Form 1040, Schedule SE.

5. Food and lodging allowances paid to ROTC students participating in advanced training are not taxable. However, active duty pay – such as pay received during summer advanced camp – is taxable.

6. Special rules apply to services you perform as a newspaper carrier or distributor. You are a direct seller and treated as self-employed for federal tax purposes if you meet the following conditions:

- You are in the business of delivering newspapers.
- All your pay for these services directly relates to sales rather than to the number of hours worked.

• You perform the delivery services under a written contract which states that you will not be treated as an employee for federal tax purposes.

Points to Keep in Mind When Choosing a Tax Preparer

Here are a few points to keep in mind when choosing someone else to prepare your return:

- Check the person's qualifications.
- Check on the preparer's history.
- Find out about their service fees.
- Make sure the tax preparer is accessible.
- Provide all records and receipts needed to prepare your return.
- Never sign a blank return; avoid tax preparers that ask you to sign a blank tax form.
- Review the entire return before signing it.
- Make sure the preparer signs the form and includes their PTIN.