

BRENT FINANCIAL GROUP, LLC 2011 TAX NEWS

December 15, 2011



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To all our clients and their families,

When I was a young boy, it seemed like Christmas took forever to arrive. Now, not only does Christmas seem to come earlier every year, but tax season seems to come around much more quickly as well. Once again it is time for our annual tax newsletter.

You will see mostly familiar faces in our office this year; however, our receptionist Susan Niebuhr will have a new assistant, Judith Garrison. They will be handling telephone calls, appointments, and other client matters. Laurie Brent Schiavone and I will continue to provide tax and investment services, and our two Administrative Assistants, Kim Crose and Emily Oakhill, will keep things running smoothly with regard to investment paperwork and any related issues.

The members of our tax staff, Vee Miller, Tom Bridgman and Rose Sasso, look forward to preparing your returns. They have been attending numerous seminars to stay abreast of the latest tax law changes and, as always, will strive to provide the excellent service you have come to expect from Brent Financial Group.

Your continued business and trust are greatly appreciated, and if you have family or friends that need tax preparation services please have them call us, **as we are once again accepting new tax clients.**

On behalf of my entire staff, I wish each of you an enjoyable holiday season, and a healthy and prosperous 2012.

Our Looming U.S. Tax Mess

What would the end of the year be like without Congress delaying action on important tax issues until the last minute? This year, we face the possible expiration of many favorite tax breaks, some of which have been around for so long that you may have forgotten they were temporary.

Several popular deductions are currently set to expire after 2011, including the ability to deduct state and local sales tax in lieu of income tax, the deduction for Private Mortgage Insurance (PMI), the Tuition & Fees deduction, the \$250 "above the line" deduction for teachers' classroom expenses, and the home energy credit.

Many other provisions currently expire after 2012. These include the current tax brackets (including the lower rate for qualified dividends and capital gains), the American Opportunity education credit, the increased maximum child tax credit (\$1,000 **Please see *Tax Mess* on page 3**

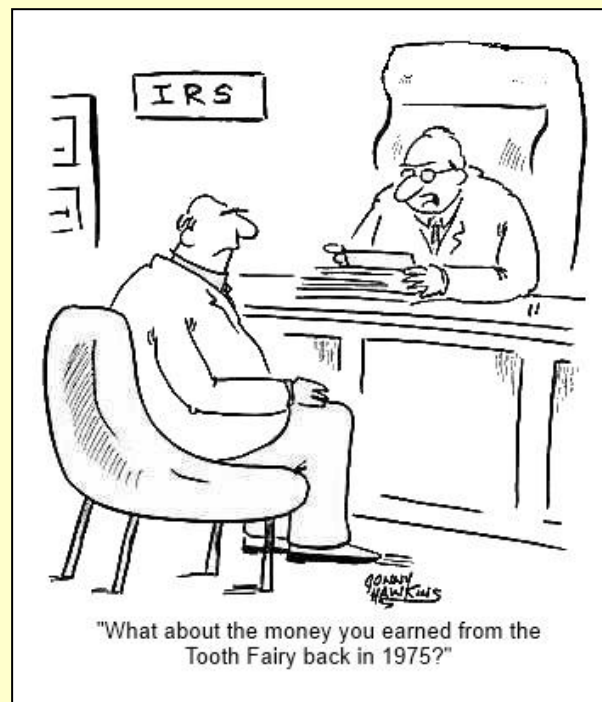
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Casualty and Disaster Losses may be Deductible

Mother Nature was restless this past year, from blizzards to earthquakes to hurricanes. If you were unfortunate enough to have lost business or personal property in a natural disaster, **you may have a deductible casualty loss** on your tax return this year. For tax purposes, a casualty is the damage, destruction or loss of your property from any sudden, unexpected, or unusual event such as a flood, hurricane, tornado, fire, earthquake or even volcanic eruption. A casualty does not include normal wear and tear or progressive deterioration, nor does it include events that are not unusual such as a pet knocking over an antique vase.

If you have experienced a casualty loss, you will need to determine what the property was worth before the event (its "fair market value") and what it was worth afterwards. The decline in value is your loss amount. The loss amount is reduced by \$100 plus the total of any insurance proceeds or other reimbursement you received. If the result is more



than 10% of your adjusted income, your loss may increase your itemized deductions. Casualty losses are usually claimed in the year that they occur, but when due to a federally declared disaster, they can sometimes be accelerated by claiming them as if they occurred in the prior year. ❖

Can You Walk Away?

Foreclosures and Cancelled Debt

If you are saddled with a huge mortgage or crushing credit card debt, the opportunity to walk away from some or all of your obligation may seem very enticing. You may have heard people praising the benefits of restructuring debt, arranging a short sale of a house, or executing a "strategic default." However, the government will not let you escape from your troubles *quite* that easily.

Generally, any debt cancelled or forgiven by your lender will result in taxable income to you. This includes debt eliminated due to a bank foreclosure on your property. The IRS treats debt forgiveness as if the lender gave you the money (that is, income) which you used to pay off the debt.



Cancelled debt usually is treated as additional taxable income

However, there are some avenues for relief. You may be eligible to exclude some of your cancelled debt from income if you can prove you were insolvent, you filed for Chapter 11 bankruptcy, or if the debt related to your principle residence, business real estate, or a farm. Ask your preparer for more information. ❖

Tax Mess from page 1

instead of \$500), “marriage penalty” relief, higher levels of Earned Income Tax Credit, and the relaxed eligibility criteria for the \$2,500 student loan interest deduction.

There’s more: the reduction of personal exemptions and itemized deductions for middle-income taxpayers could return, the increased amounts for the dependent care credit could disappear, and employers might not be able to offer non-taxable tuition payment assistance. The Alternative Minimum Tax lurks as well. Congress “patched” AMT for 2011, lessening its bite, but it threatens to hit many more taxpayers in 2012.

Another 2011 special provision was the 2% reduction in the Social Security tax for employees



Use our checklist and worksheets to prepare for your appointment. See page 4.

and self-employed individuals—also scheduled to disappear come December 31. It’s far too early to guess what Congress will do, but the uncertain economy and the general disagreement over tax issues makes it more likely that some of the benefits that have been in place over the last decade may not get extended. ❖

The Less Generous 2011 Home Energy Credit

For the past few years, taxpayers have been able to claim a tax credit for making certain energy efficient improvements to their homes. The credit was extended to 2011, but at much lower levels than previously. The maximum energy credit you can receive has been reduced to \$500. **That means if you received over \$500 in energy credits between 2006 and 2010, you are not eligible for any additional credit.**

If you are eligible for a 2011 credit, you can potentially benefit by installing insulation (materials only), certain types of roof, exterior doors and windows, a furnace, boiler, water heater, air conditioner, heat pump, biomass stove, or advanced main air circulating fan. Some categories are limited as to how much of a credit you can receive: \$200 for windows, \$150 for furnaces and boilers, \$300 for air conditioners, air source heat pumps, water heaters, and biomass stoves, and \$50 for a circulating fan. Materials must be used in your existing, principle residence, and installed by December 31. The qualifications for each category are listed on energystar.gov.

A 30% tax credit for geothermal heat pumps, small wind turbines, and solar energy systems remains in effect through 2016. Systems must be installed in your principal residence or second home, whether existing or newly constructed. A similar 30% credit for residential fuel cells applies only to your principal residence. ❖

Retirees Who Move Can Face a Big State Tax Bill

If you are a former public employee currently receiving (or eligible for) a New York State or Federal pension and are considering moving to another state, don’t overlook the state income tax costs in your calculation. New York State does not tax your NYS or Federal pensions, and additionally excludes up to \$20,000 of other retirement income, including other pensions and IRA distributions. Other states vary widely as to how generously they treat retirement income, so ask your tax preparer about the tax consequences *before* it is time to prepare your return. ❖

Rules for Charitable Contributions

You probably donate to organizations because you support their cause, not because you get a tax deduction, but saving some money on your taxes can be icing on the cake. However, if you want to claim a deduction, you have to know the rules to stay out of trouble with the IRS.

You can donate money to whomever you choose, but only donations to qualified charities can be deducted on your tax return. Donations to specific individuals or to political organizations do not qualify. There are also many non-profit organizations that are not charities, such as fraternal organizations and special interest groups. Charities usually will let you know up front when donations are tax deductible; if you have any doubt, ask them.

In order to claim a deduction for a donation, regardless of the amount, you must have either a written receipt from the organization or a bank record (like a cancelled check, credit card statement, or cellular phone bill). If any single donation is \$250 or more, you must also have a written "charitable acknowledgement" in order to claim the deduction. This is a statement about whether or not the organization provided any goods or services in exchange for your payment.

If you donate an item worth more than \$5,000, you generally must have the item appraised to claim a deduction.

Some charitable events are both a donation and a purchase, such as a fund-raising dinner. In such cases, the charity will tell you how much, if any, of your cost is deductible.

Some types of purchases, even from charities, are never deductible. Such expenses include fundraiser purchases (like gift-wrap and candy bars), the cost of raffle tickets (even if you don't win), and membership dues where you receive benefits. Donations of your time are also not deductible, although you can deduct mileage you incur for the charity if you keep a mileage log. ❖



Did You See Your Attorney This Year?



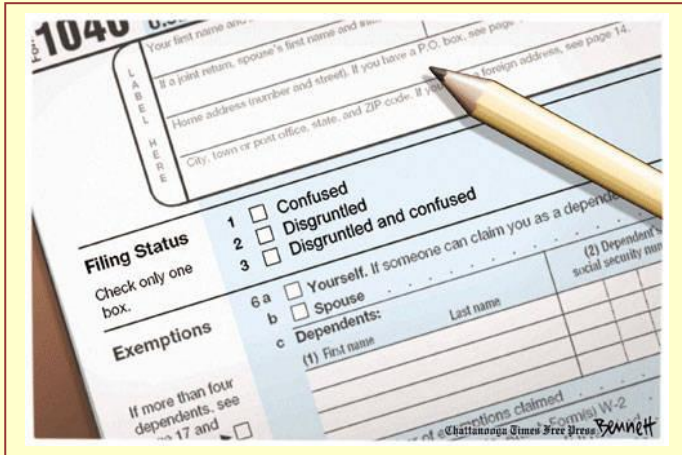
You should be aware that many situations for which you might consult a lawyer may have tax consequences. **If you changed your will, gave away money or property, set up a trust, separated or divorced, added someone to the deed for your house (or were added to someone else's deed), or had any other legal activity, it is very important to let us know**

immediately. In fact, it often will be to your advantage to speak with us *before* you finalize any legal change. ❖

2012 Tax Deadline

Tuesday, April 17, 2012

is the last day to timely file your return, or to file an extension with an estimated payment of taxes owed.



“Over the Counter” Medicines and Your Flex Accounts

In the good old days (before 2010), it was possible to purchase over-the-counter (OTC) medications such as aspirin or allergy medicine and receive reimbursement through your employer-provided medical flexible spending account (FSA). **Congress eliminated that tax break for 2011**, so only medications obtained via a doctor’s prescription will qualify. (There is a special exception for insulin.) If you regularly take an OTC medication and have an FSA plan, you may want to talk to your

doctor about getting a prescription so that your expense can be reimbursed. (Remember to check with your plan provider as to what documentation will need to be provided.) ❖

Tax Checklist & Worksheets

Accompanying this newsletter, you will find our short checklist to aid you in organizing your records before your appointment. **An expanded version is available on our website**, and we encourage you to print it to make sure no aspect of your taxes is overlooked. On our website you will also find additional worksheets for clients with specific situations. We have specific sheets for real estate professionals, direct sellers (Avon, Mary Kay, Tupperware, etc.), educators (teachers, aides, principals), law enforcement professionals, daycare providers, and landlords, as well as worksheets for a business home office, business professional deductions, and business vehicle, travel & entertainment expenses.

Visit **BrentFinancial.com** and click on “Tax Services” on the left-hand side. ❖

Myth Busted: Are Your Medical Benefits Taxable?



After Congress passed the Health Care Reform Act this past summer, some people became convinced that value of your health care coverage will be taxable to you. **Many alarmist email messages have been circulating on this topic, but the concern is not warranted.**

It is true that if you receive medical insurance through your employer, the value of that coverage must be reported on your 2012 W-2 (the requirement is optional for employers in 2011). However, that coverage value is informational for the IRS (and for you) and the IRS will not be taxing you on it. The data will be used to facilitate enforcement of the so-called “Cadillac Tax” that will be imposed on *insurance companies* (not individuals) beginning in 2018. If you receive an email message on this topic urging you to forward it to everyone that you know, do your friends a favor and simply delete it. ❖

For more information, please read <http://www.snopes.com/politics/taxes/HR3590.asp>

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Beware of Email Scams

Crooks and scam artists are very inventive, and the IRS has been a popular target for “phishing” – email messages that appear to come from a legitimate organization in order to trick you into revealing sensitive personal information. While the IRS does occasionally use email, sensitive tax information is always sent via an old-fashioned paper letter. If you receive an unexpected email that appears to be from the IRS (or any financial institution), don't reply to it or click on any links or attachments. The IRS requests that you forward suspicious email messages that appear to be from the IRS to **phishing@irs.gov** for investigation. Other suspicious emails can be sent to the US Computer Readiness Team at **phishing-report@us-cert.gov**.

Brent Financial Group does use a secure email system for sending sensitive email messages, and it does require you click on a link or attachment to access. If you have any questions about the legitimacy of any email that appears to be from us, please call our office! ❖

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IMPORTANT INFORMATION ENCLOSED
PLEASE OPEN IMMEDIATELY
