Filing an Amended Return

The IRS allows you to file an amended tax return to correct your filing status, your income or to add deductions or credits you may have missed. Amended returns must be filed within three years of the original return.

Amended returns are filed using Form 1040X, Amended U.S. Individual Income Tax Return. This form can be filed to correct previously filed Forms 1040, 1040A, or 1040EZ. An amended return cannot be filed electronically. It must be filed by a paper form.

Generally, you do not need to file an amended return due to math errors. The IRS will automatically make that correction. Also, you do not have to file an amended return because you forgot to attach tax forms, such as W-2s or schedules. The IRS normally will send a request for those.

You must file Form 1040X within three years from the date you filed your original return or within two years from the date you paid the tax, whichever is later.

If you need to amend more than one tax return, you will have to file a separate form for each one and mail them in separate envelopes.

If you are filing to claim an additional refund, we will need to wait until you have received your original refund before filing Form 1040X. You may cash that check while waiting for any additional refund.

If you owe additional tax, it is best to file the amended return and pay the tax before the due date of the original return to limit interest and penalty charges that could accrue on your account. Interest is charged on any tax not paid by the due date of the original return.

Your state tax liability may be affected by a change made on your federal return.

Need a break from tax time? Try your hand at this puzzle.

PK Tax Services, L.L.C.
Pat Kolodziej, CPA, MST
627 Arlington Lane
South Elgin, IL 60177
patk@pktaxservices.com
www.pktaxservices.com
847.858.5074

				5				2
	1				6	9		
		8	7			4		
6			8	2				1
5								3
8				7	5			9
		4			3	2		
		9	2				8	
2				9				

UP to-the MINUTE
Timely Tax Tips
SUMMER 2011

Taxation of Social Security Benefits

Many seniors are surprised to find out that sometimes their social security benefits are taxed, depending on how much other income they have for the year. Social Security benefits are taxed when a taxpayer's adjusted gross income plus one-half of the social security benefits exceed a predetermined "base amount." Then, the taxpayer is required to report up to 50% of benefits received. A different threshold applies to taxpayers with higher incomes. These taxpayers must pay tax on their benefits if their income exceeds an "adjusted base amount," requiring these taxpayers to include in income up to 85% of the benefits received.

The "base amount" is as follows:

- $32,000 for married taxpayers filing a joint return;
- $0 for certain married taxpayers filing separately;
- $25,000 for all other taxpayers.

The "adjusted base amount" is as follows:

- $44,000 for married taxpayers filing a joint return;
- $0 for certain married taxpayers filing separately;
- $34,000 for all other taxpayers.

If you Receive an IRS Notice

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

Don't panic. I can help you deal with many of these letters simply and painlessly. *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.

Each letter and notice offers specific instructions on what you are being asked to do, such as pay an amount by a certain deadline or send further information.

If you receive a correction notice, you should compare it with the information on your return.

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.

If you do not agree with the correction the IRS made, it is important that you respond as requested. I can help you prepare 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. It will take the IRS about 30 days to respond.

It's important that you keep copies of any correspondence with your records.

What is a Tax Lien?

A federal tax lien gives the IRS a legal claim to a taxpayer's property for the amount of an unpaid tax debt. Filing a Notice of Federal Tax Lien is necessary to establish priority rights against other creditors. Usually the government is not the only creditor to whom the taxpayer owes money.

A lien informs the public that the U.S. government has a claim against all property, and any rights to property, of the taxpayer. This includes property owned at the time the notice of lien is filed and any property acquired afterwards. A lien can affect your credit rating; therefore, it is critical for you to arrange for payment of taxes as quickly as possible.

Tax liens generally are filed with the recorder or clerk of the county where a taxpayer's assets are located.

Corporate Tax Reform

Center stage in Congress

The President and leading Members of Congress have stated that fundamental tax reform is a major policy objective for the next two years. The primary change under consideration is corporate tax reform.

The United States has watched while almost all of the other major industrialized countries have cut their corporate tax rates. ***This has left the U.S. with the second highest corporate rate in the industrialized world, 35%.*** Only Japan's is higher at 39.5 percent.

There is almost unanimous bipartisan agreement that the U.S. corporate tax rate is hurting America's global competitiveness. As a result, Congress has held hearings recently to consider legislation to reform corporate taxes by lowering the rate and changing the way the United States taxes the income of its multinational companies.

IRS Scraps Two-year Window

For equitable innocent spouse relief

Reversing course on the issue, IRS says it will no longer deny an individual's request for equitable innocent spouse relief under Code Section 6015(f) because the request was filed more than two years after IRS first acted to collect the liability from the individual. An individual will be eligible to have the IRS consider a request for equitable relief if the individual's request was filed with the IRS during the time period when the IRS could collect the tax liability or the time period for a refund payment of the liability, whichever period applies.

Background.

Each spouse is jointly and severally liable for the tax, interest, and penalties (other than the civil fraud penalty) arising from a joint return. Code Sec. 6015(f) allows relief to a requesting spouse if, among other conditions, taking into account all the facts and circumstances, it is inequitable to hold the individual liable. To be eligible for innocent spouse relief or separate liability relief, the Code explicitly provides that the requesting spouse must elect relief not later than the date that is two years after the date that IRS has begun collection activities with respect to the individual making the election. A spouse requesting relief must do so by filing Form 8857 or a similar statement with IRS no later than two years from the date of the first collection activity against the requesting spouse for the joint tax liability.

Two-year limit eliminated.

IRS will amend the regulations to provide that individuals requesting equitable relief don't have to submit a request for equitable relief within two years of the IRS's first collection activity against the requesting spouse with respect to the joint tax liability.

Trade Group for Self-Employed

Urges extension of health insurance deductions

If you are self-employed, you were able to deduct premiums paid for medical and dental insurance for you, your spouse, and your dependents from your 2010 self-employment taxes. This tax break was seen as leveling the playing field between self-employed taxpayers and payroll employees, who get an exclusion for premiums paid under employer-funded health insurance plans. The problem is, this tax benefit expired at the end of 2010 and it is unclear whether Congress will extend it.

The National Association for the Self-Employed (NASE), a nonprofit trade group based in Washington, D.C., has asked Congress to make the deduction permanent, or at least extend it for two years.

The one-year deduction saved self-employed business owners approximately $456.71 to $968.14 in taxes.

Sales Taxes at an All-Time High

A new report by the Tax Foundation has found that the average sales tax rate has hit an all-time high—a whopping 9.64%, up a full percentage point in just one year.

Vertex, Inc., which tracks this information, combined local and state taxes and even Indian reservation levies to come up with the real number for the combined burden for state and local taxes. Vertex's stated average is probably higher than what Americans pay on average because the company calculated separately the average sales tax levied by states, by counties, by municipalities and by special districts such as business improvement zones and Indian tribes, and added them together.

Arizona tops the list of total taxes with 13.725%, while taxpayers in Chicago and Los Angeles pay a combined total of around 9.75%. California has the highest statewide sales tax rate, 7.25%, followed by five states at 7%, including Indiana, Mississippi, New Jersey, Rhode Island and Tennessee.

Expanded Form 1099

Information reporting has been repealed

Both houses of Congress put aside their differences and repealed the requirement that businesses report to the IRS all payments over $600. The provision, originally enacted to fund the health care bill, would have required any business that pays another business or individual more than $600 for goods or services in a year to file a Form 1099. The requirement was set to go into effect in 2012.

Congress also repealed the rental expense reporting requirement that went into effect in 2011. Under that rule, all taxpayers with rental property would've been required to report any expenses paid on the rental property in excess of $600 per year.

Both reporting provisions were criticized for the huge burden they would have put on small businesses and taxpayers with rental property. Even though both the House and the Senate and the Democrats and Republicans all agreed the reporting provisions had to go, Congress spent two years debating how to make up the tax revenue lost by repeal. They finally agreed on a revenue raiser that requires people to return overpayments of health care subsidies if their incomes exceed 400 percent of the poverty level. Although the President was not in favor of this offset, he accepted it in the end and signed the repeal bill.