

## Reporting Casualty Losses

*Were you hit by bad weather?*

From tornados to earthquakes to hurricanes, it was one busy summer for Mother Nature. Unfortunately, this means that a lot of taxpayers experienced destruction. If you're one of them, the loss of business or personal property may provide a deduction on your individual income tax return, but first you need to determine if the loss qualifies for a deduction.

A casualty is defined as the damage, destruction or loss of property resulting from an identifiable event that is sudden, unexpected or unusual. Events that could produce a casualty loss include floods, fires, earthquakes, tornados or terrorist attacks. Events that aren't unusual, such as a pet knocking over an antique vase, would not qualify as a casualty loss.

If you have experienced a casualty loss, you'll need to figure out what the lost property was worth; this is the fair market value. You also need to know the change in value of the property before the event compared to after the event. If the decline in value is less than your cost, then the smaller amount is used to determine the loss.

This amount is decreased by any insurance or other reimbursement you receive on the property. Sometimes reimbursements can actually lead to income from the casualty instead of a loss, in which case different rules may apply limiting the reporting of that income to the IRS.

The loss after insurance reimbursement is reduced by \$100 and reported on Schedule A, Itemized Deductions. The aggregate total of all casualty losses will be reduced by 10 percent of your adjusted gross income.

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

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UP *to-the*  
MINUTE  
TIMELY TAX TIPS

SUMMER 2012

## Supreme Court Upholds Individual Mandate in Health Care Act

On June 28, 2012, the Supreme Court upheld the individual mandate in the Patient Protection and Affordable Care Act (PPACA)-- President Obama's signature health care legislation. That mandate generally requires most U.S. citizens and legal residents maintain minimum essential health insurance coverage for tax years ending after Dec. 31,

2013, or pay a penalty.

The Supreme Court found that the mandate did not pass muster under the Constitution's Commerce Clause (the authority to regulate interstate commerce) or the Necessary and Proper Clause (as an integral part of otherwise legitimate legislation). However, the Court's 5-4 majority

opinion, authored by Chief Justice Roberts, concluded that the mandate was a valid exercise of the Constitution's Tax Clause (the authority to tax). Accordingly, President Obama's landmark health care reform, while still controversial and sure to remain a hotly debated political issue, has been legitimized as a valid law.

## Are Your Child Care Expenses Deductible?

There is a credit for child and dependent care expenses offered on your individual tax return. The credit can be up to 35 percent of your qualifying expenses, depending upon your adjusted gross income.

To be eligible, the person receiving the care must be a qualifying person—either your dependent child under the age of 13 or certain other individuals who are physically or mentally incapable of self-care. If you are divorced or separated, only the custodial parent can claim this credit.

The care must have been provided while you (and your spouse) are either working or looking for work.

If you are married, you must file a joint return in order to qualify for the credit. In order to claim the credit, you (and your spouse) must have earned income from wages, salaries, tips or net earnings from self-employment. One spouse can be exempt from having earned income if he or she was a full-time student or was physically or mentally unable to care for himself/herself. Additionally, expenses must be paid to a qualified caregiver. Spouses, dependents and children under the age of 19 are not qualified caregivers. At the end of the year, most caregivers will provide a statement with their federal employer ID number (EIN) or social

security number (SSN), full name, address and amount paid. All of this information is necessary for your tax return. If you do not receive a statement at the end of the year with this information, you should request it prior to your tax appointment.

If your employer provides a dependent care benefit, the amount of dependent care expense claimed must be reduced by the benefit you receive. If you pay someone to come to your home and provide care, you may be considered a household employer. Please contact your tax professional for guidance.

## Do You Work From Home?

### Consider a home-office deduction

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, as a place you meet your clients, or in connection with your business, where the business portion of your home is a separate structure not attached to your home.

For the most part, 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.

It's important to note that there are special rules for qualified daycare providers and for persons storing business inventory or product samples in their home.

## Self Employed Consultants

### Do you sell good door-to-door?

Picking up a second job to supplement household income in a tough economy is becoming more common. Many Americans are choosing to become consultants who visit homes to sell make-up, jewelry, candles, kitchen utensils and food products. Some may not realize the tax implications of becoming a sole proprietor and what they need to do to file taxes.

Your first step when starting a business is to open a separate business checking account. It will be easier to track your deductible expenses if they are not commingled with your personal expenses. If you incurred expenses prior to opening your business, keep them separate from your other expenses. Special tax treatment applies to start-up expenses.

It's also important to keep track of your mileage, because you might be able to deduct it on your tax return. If you are self-employed and maintain an eligible office in your home, you can deduct the mileage to and from your client's or customer's place of business, as well as between jobs. Work with your accountant to determine the best choice for your business.

## Special Tax Benefits for Armed Forces Personnel

Military personnel and their families face unique life challenges with their duties, expenses and transitions. The IRS wants active members of the U.S. Armed Forces to be aware of all the special tax benefits that are available to them.

### Ten of those special tax benefits:

- 1. Moving Expenses** If you are a member of the Armed Forces on active duty and you move because of a permanent change of station, you may be able to deduct some of your unreimbursed moving expenses.
- 2. Combat Pay** If you serve in a combat zone as an enlisted person or as a warrant officer for any part of a month, all your military pay received for military service during that month is not taxable. For officers, the monthly exclusion is capped at the highest enlisted pay, plus any hostile fire or imminent danger pay received. You can also elect to include your nontaxable combat pay in your "earned income" for purposes of claiming the Earned Income Tax Credit.
- 3. Extension of Deadlines** The deadline for filing tax returns, paying taxes, filing claims for refund, and taking other actions with the IRS is automatically

extended for qualifying members of the military.

- 4. Uniform Cost and Upkeep** If military regulations prohibit you from wearing certain uniforms when off duty, you can deduct the cost and upkeep of those uniforms, but you must reduce your expenses by any allowance or reimbursement you receive.

- 5. Joint Returns** Generally, joint income tax returns must be signed by both spouses. However, when one spouse is unavailable due to military duty, a power of attorney may be used to file a joint return.

- 6. Travel to Reserve Duty** If you are a member of the US Armed Forces Reserves, you can deduct unreimbursed travel expenses for traveling more than 100 miles away from home to perform your reserve duties.

- 7. ROTC Students** Subsistence 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.

- 8. Transitioning Back to Civilian Life** You may be able to deduct some costs you incur while looking for a new job. Expenses may include travel, resume preparation fees, and outplacement agency fees. Moving expenses may be deductible if your move is closely related to the start of work at a new job location, and you meet certain tests.

- 9. Tax Help** Most military installations offer free tax filing and preparation assistance during and/or after the tax filing season.

- 10. Tax Information** IRS Publication 3, Armed Forces' Tax Guide, is an excellent resource as it summarizes many important military-related tax topics. Publication 3 can be downloaded from IRS.gov.

## Tips as Income - Know the Tax Implications

Many taxpayers are getting summer jobs at golf courses, restaurants or festivals where they will be receiving tips. These employees need to be aware of the tax consequences associated with this type of payment.

Tips are income. All cash tips you receive directly from customers, tips added to credit cards and your share of any tips you receive under a tip-splitting arrangement with fellow employees are considered income.

Tips are taxable. Tips are subject to federal income, social security

and Medicare taxes. The value of noncash tips, such as tickets, passes or other items of value, are also income and subject to tax.

Tip off your employer. If you receive \$20 or more in tips in any one month, you should report all of your tips to your employer. Your employer is required to withhold federal income, social security and Medicare taxes on the reported tips.

### Pat's Pick



We've been seeing very strange weather lately so your phone might be your best friend during a crisis; if you have the right apps.

#### Flashlight

Turn your phone into a flashlight. If you are caught in a disaster and the power goes out, this app can be invaluable.

#### Radio Police Scanner

During a disaster, everyone hears rumors but you need to know what's happening. The answer may be found on police band radio, which you can pick up using a free app on your phone.

#### Life360

In a disaster the top priority is finding your family. The family GPS tracking system can help you find your loved ones anywhere, get safety alerts to them, or call for help with the tap of a button.

#### Dropbox

Storing copies of your most important files in a Dropbox account allows you to access them even if your computer doesn't survive the storm.

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