

July news from TravelTax

Note of thanks to Clients during Family Emergency

The last two plus months have been incredibly stressful for us. Joe's father had an unchecked gangrenous gallbladder that led to sepsis, dehydration and a hypotensive episode where he was unconscious for almost 6 hours. He initially showed stroke like symptoms during the first part of his recovery but made remarkable improvements toward the end. Joe's mother on the other hand has early Alzheimer's and needed a safe place to stay. Add the fact that Joe is an only child living 1200 miles away from his parents and you have the perfect storm. More than 9000 miles of driving were logged during this period and our resources were stretched as you would imagine. We are thankful to many of you that patiently waited for us to complete your work and were understanding of our dilemma.

Many things have happened on the tax scene since our last letter, so this month's will be longer than normal.

For Travelers and Staffing Agencies

Wage Recharacterization gets another twist

A common issue in industries that employ "travelers" is the interplay between wages and per diems often resulting in a low wage to accommodate the necessary reimbursements for transportation, lodging and meals. Many have asked us if the low wages are illegal and whether the IRS frowns upon the practice. In *Gagnon v United Technisource Inc* filed in the 5th circuit Court of Appeals, per diem payments were included in overtime calculations due to the fact that the wage plus the per diem approximated the fair market wage for similar professionals. The per diem arrangement was viewed as a scheme to recharacterize wages. The employer lost this case due to the fact that the per diem was treated on an hourly basis, increased as a longevity raise and offered as an optional structure of pay to the employee. We have always urged staffing agencies to avoid treating per diems this way.

More States Cross Reference Practice Licenses and Tax Returns

Oregon has now joined the ranks of states that are using professional practice license databases to cross reference tax returns. If you have a Oregon nurses license or other professional license, better to file a return even if it has all zero's

For Individuals

Home Buyers Credit Closing Date Extended

Congress recently extended the time necessary to close on a home that qualifies for the Credit. You still must have entered into a binding contract on or before April 30 but now, you have till September 30 to close on the transaction. If you have not already done so.

Snails beat the IRS on Home Buyers Payments. Expect audits

A Treasury review of home buyer's credit payments uncovered lots of abuse. The review showed that 4600 inmates filed tax returns claiming the credit and 1295 of them were approved. This also means that return processing for these claims will slow even more. Expect some audits in the next few years as well.

Getting a Tan- Pay the Tax

Tanning salons are now subject to a 10% federal tax. Good looking people with artificial tans now get to pay for healthcare reform. We may explore a new business line and form a subsidiary called TannerTax.

Haiti Relief Workers Get automatic Extensions for Filing and Paying

The law extends the deadline to October 15

Health Care Students with Loan Forgiveness Get a Break

Normally, loan forgiveness programs constitute income. But now, state loan forgiveness programs that are contingent on the graduate working in underserved environments are free of tax.

Same Sex Couples now Subject to Community Property Rules

States that practice a "community property" scheme in their tax and legal provisions for marriage are now applying the same policy to same sex couples. The IRS is acknowledging this treatment.

New HSA Contribution limits for 2011

The contribution limits for these reimbursement plans (for high deductible health plans) will rise to \$3050 for singles and \$6150 for couples

Community Service May be required for Education Credits

The American Recovery and Reinvestment Act contained a provision that requires the Treasury Department to study the feasibility of requiring community service as a prerequisite for receiving education credits. This is currently a study, but watch for it in the future.

For Businesses

Start up Expenses

The Small Business Jobs Act of 2010 is currently snaking through congress. One particular provision allows up to 10K of start up costs to be deducted phasing out after 60K of deductions. Current law allows 5K in start up expenditures with a 50K phase-out.

1099's for everyone

The Healthcare Reform act contained a provision that requires 1099's for most all payments between businesses that are not already recorded in credit/debit card transactions. The IRS is looking for help in how to implement this. Soon, credit card issues will have to report transaction amounts above a soon to be determined threshold to the IRS.

Hold on to that S Corp Filing

Tucked in that Healthcare Reform Bill was a revamp of S Corp taxation for "Personal Service Firms" where the principal asset is the reputation and skill of three or few workers. Under new provisions, S Corp profits with a focus in accounting, law, health etc will be subject to self employment tax on ALL profits and wages, eliminating the popular technique of selecting a modest salary and paying the rest in dividends. This tax is also extended to employee owners and their family members who are partners or shareholders in businesses that are not personal service firms. Just goes to show that politicians can't run businesses

The IRS Wants your Quick Books Files

The IRS now have the authority to request your Quick Books files if they deem it helpful to the audit. The IRS purchased a large number of licenses from Intuit in ramping this up.

States

All

The Council on State Taxation released its ranking of states tax administration. This is not a ranking of how much tax residents paid, but how effective their system is in resolving disputes and ensuring compliance. The top 10 best? In order, AK, DE, ID, MN,

MT, AZ, MS and WY (note that AK and WY do not have income taxes). The worst?
From the bottom up, CA, LA, FL, RI, AL, IL, NM and PA

Alabama

Continues to crack down on residency issues. If you have an Alabama drivers license, beware. You are still a resident for tax purposes despite not having a tax home there

California

Now recognizes the Mortgage Forgiveness Debt Relief provisions passed by congress. California also started their own First Time Home Buyers program that began May 2010

Colorado

Now allows deductions for 529 college savings contributions for adult students

Massachusetts

The MA Department of Revenue has determined that garage sale income is not taxable. That is not likely to stop people from hoarding junk in their garages.

New York

New York is considering the Sugar Sweetened Beverage Tax which would eliminate sales tax on diet drinks, but add taxes on sodas, beverages with syrups (Lemonade?) and any coffee/tea product with more than 10 calories per 8 ounces.

Rhode Island

Congratulations to Rhode Island which recently overhauled their personal income tax system. Tax brackets dropped from 5 to 3 and the highest tax rate dropped from 9.9 to 5.99. Honk your horn when you drive through on I-95!

Canadian / International News

Ontario provides tax relief for new sales tax

Ontario residents will receive 3 installments to offset new income taxes imposed under the revamped Harmonized Sales Tax.

US Treasury and Foreign Banks

The US Treasury is now starting to require foreign banks and investment houses issue statements to the IRS to report distributions and sales on behalf of US Citizens. This is reducing the number of foreign banks that will serve US Citizens

Up next month- we will provide a timeline for the changes implemented under the Health Reform Act

Have a Great Summer