S. J. Meyer & Associates, Inc., CPAs
370 Huls Drive, Clayton, Ohio 45315
937-832-5209
www.sjmeyer.com

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Reminder: Second estimated tax payment due June 15

June 15, 2011, is the due date for making your second installment of 2011 individual estimated tax. Your check to the United States Treasury should be accompanied by Form 1040-ES. June 15 is also the due date for calendar-year corporations to make their second quarter 2011 estimated tax payment.

Tax breaks can help when disaster strikes

Recent events here and abroad are reminders that disasters can occur at any time – often with staggering human and financial costs. If you're an unlucky victim of a disaster, you may receive help from insurance and federal disaster aid. But the tax code also offers some relief. You may be able to take an itemized deduction for part of your loss. In tax terms, it's a "casualty loss," and it can also apply to events such as a car crash, a house fire, or theft. Here are the basics.

- The loss or damage must be due to an unexpected and sudden event. Losses due to slow deterioration over the years, such as rot, rust, or insect damage, don't qualify.
- Your tax deduction won't equal your total loss. You must subtract any insurance or other reimbursement. Then you must also deduct $100 for each loss and 10% of your adjusted gross income.
- Your loss may also be limited by your adjusted basis in the property. That's generally what you paid for it, plus or minus any improvements or previous losses.
- In a widespread disaster, the area may be classified a "Presidentially declared disaster area." If that happens, you have a special option. You can claim your casualty loss against the current year's taxes. Or you can amend the previous year's return and claim your loss against that year's taxes. That usually generates a faster refund, but it may change the amount of your deduction.

If you suffer a casualty loss, please contact us. We'll explain the rules and help you claim the maximum possible tax benefit.

Tax tips for your vacation home

Planning to rent out your vacation getaway? When it comes to taking advantage of the tax benefits, timing is an important factor. Here are two points to remember.

- **The fourteen-day-or-ten-percent test.** The IRS applies this test to determine if you use your vacation home as a personal residence. If you stay in the home more than 14 days or 10% of the total days it's rented in a calendar year (whichever is greater), the general rule is you're using it as your home.

  Why does it matter? Because treating a vacation home as your personal residence affects your rental deductions. You'd include all the rent you receive as income on your tax return. But related expenses are generally limited to the amount of that income, meaning you can't offset other income with a loss. Note that time spent in your vacation home by family members and certain others can count as personal use.
- **The less-than-fifteen exception.** Rent out your vacation home for less than 15 days during the taxable year, and the income is yours, tax-free. You don't even have to report it on your return. Just be aware that any expenses related to the rental are nondeductible. If you itemize, you can still deduct qualified mortgage interest and real estate taxes on your vacation home.

Other tax rules, such as passive activity and capital gains reporting, can also impact the decision to rent out your vacation home. Give us a call before you put up that "For Rent" sign. We'll be happy to review your options under the tax rules.

"Tax Freedom Day" came later in 2011

"Tax Freedom Day" fell on April 12 in 2011, three days later than in 2010. According to the Tax Foundation, all the money earned by taxpayers in the first 102 days of 2011 will go to pay their federal, state, and local taxes.

Another statistic from the Tax Foundation: If the government were to collect enough taxes to fund all spending for 2011 (with no deficit), Tax Freedom Day would be May 23, 2011. That's 41 more days of work to provide the additional $1.48 trillion of revenue needed.

IRS raises threshold for imposing tax liens

The IRS recently announced that it will adjust its use of tax liens to collect back taxes. A federal tax lien gives the IRS a claim on a delinquent taxpayer's property for unpaid taxes.

This change means the IRS won't use a tax lien unless at least $10,000 in back taxes is owed; the previous threshold had been $5,000.

In addition, the IRS says it will "withdraw" more tax liens once the back taxes have been paid. A withdrawal removes the lien from the taxpayer's credit record, whereas a lien "release" as previously used left the lien on the credit record for at least seven years. Having a tax lien on a taxpayer's credit record can knock 100 points off the individual's credit score.

The IRS estimates that the new rules mean that "tens of thousands of people won't be burdened by liens."

Put midyear tax planning on your summer schedule

Don't forget to put a little tax planning on your busy summer agenda. A midyear tax review is a great way to save tax dollars and time. To get together for a check of your 2011 tax situation, give us a call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.