June 2013

Volume 6, Issue 1

Leslie A. Cesario, Ltd.
Monthly Newsletter

1313 Marengo Court • Naperville, Illinois 60564-9505 • (630) 961-9602 • Fax (630) 961-9953

Have a Financial Interest in or Signature Authority over a Foreign Financial Account? Better Read This!

Each U.S. person who has a financial interest in or signature or other authority over any foreign financial accounts (including bank, securities, or other types of financial accounts in a foreign country) must report that relationship to the U.S. government each calendar year if the aggregate value of these financial accounts exceeds $10,000 at any time during the calendar year.

The government uses this reporting mechanism as a means of uncovering hidden foreign accounts and ensuring that investment income earned in foreign countries by U.S. taxpayers is included on their U.S. tax returns. The Treasury Department has placed a new emphasis on foreign accounts, and taxpayers with a financial connection to a foreign country should determine whether or not they have a reporting requirement.

Reporting is accomplished by filing a "Report of Foreign Bank and Financial Accounts," more commonly referred to as FBAR, which is **due on or before June 30** of the succeeding year. No extensions are available for filing this form. In addition, taxpayers are generally required to answer "yes" or "no" to questions related to the foreign bank and financial accounts on their tax returns.

Penalties for failing to comply can be draconian. For non-willful violations, civil penalties up to $10,000 may be imposed. The penalty for willful violations is the greater of $100,000 or 50% of the account's balance at the time of the violation. A reasonable cause exception to the penalty is available for non-willful violations but not for willful violations.

Overlooked Accounts—Many taxpayers overlook the fact that they have a reporting requirement in such situations as:

- Family Accounts—Recent immigrants to the U.S. may still have parents or other family members residing in the "old" country, and those relatives may have included them on an account in a foreign country. This practice is common for some ethnic groups. The taxpayer may not really consider the account to be his or hers; nevertheless, it falls under the reporting requirement if he or she has signature or other authority over the account and its value exceeds $10,000.
- Inherited Accounts—Accounts in a foreign country and inherited accounts fall under the FBAR reporting requirement, even if the funds are subsequently transferred to the U.S. The FBAR rules state that reporting is required if at any time during the year the foreign account exceeds $10,000.
- Business Accounts—A corporate officer or Board member may have signature authority over a business account in a foreign country and may overlook the need to meet the FBAR reporting requirements.
- Foreign Financial Accounts—These financial accounts are maintained by foreign financial institutions and include other investment assets not held in accounts maintained by financial institutions. However, no reporting is required for interests that are held in a custodial account with a U.S. financial institution.

In addition to including any reportable foreign income on a tax return, the taxpayer must ensure that the foreign account questions are completed correctly on the tax return and that the FBAR form is filed, if required. If you have questions regarding this reporting requirement, please contact this office.

Don't Panic If You Receive an IRS Notice

A letter from the IRS will probably increase your heart rate a little. Don't panic; many of these letters can be dealt with simply and painlessly.

Each year, the IRS sends millions of letters and notices to taxpayers to request payment of taxes, notify them of a change to their account, or to 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 needs to be done to satisfy the inquiry.

However, the letters also have to advise you of your rights and other information required by law. Thus, these letters can become overly lengthy and sometimes difficult to understand. That is why it is important to either call this office immediately or forward a copy of the letter or notice so we can review and handle it accordingly.

Do not procrastinate or throw the letter in a drawer, hoping the issue will go away. Most of these letters are computer generated and, after a certain period of time, another letter will automatically be generated. And, as you might expect, each succeeding letter will become more aggressive and less easily dealt with.

Most importantly, don't automatically pay an amount the IRS is requesting unless you are positive you owe it. Quite often, you will not owe what is requested and it will be difficult to get your payment back. It is good practice to have this office review the notice prior to making any payment.

It is important to deal with any IRS correspondence promptly and correctly. This office can handle these matters for you, so please call for assistance.

Read this before Tossing Old Tax Records

Now that your taxes have been completed for 2012, you are probably wondering what old records can be discarded. If you are like most taxpayers, you have records from years ago that you are afraid to throw away. It would be helpful to understand why the records must be kept in the first place.

Generally, we keep tax records for two basic reasons: (1) in case the IRS or a state agency decides to question the information reported on our tax returns, and (2) to keep track of the tax basis of our capital assets so that the tax liability can be minimized when we dispose of them.

With certain exceptions, the statute for assessing additional taxes is **three years** from the return due date or the date the return was filed, whichever is later. However, the statute of limitations for many states is one year longer than the federal law. In addition to lengthened state statutes clouding the recordkeeping issue, the federal three-year assessment period is extended to six years if a taxpayer omits from gross income an amount that is more than 25 percent of the income reported on a tax return. And, of course, the statutes don't begin running until a return has been filed. There is no limit where a taxpayer files a false or fraudulent return to evade taxes.

If an exception does not apply to you, for federal purposes, most of your tax records that are more than three years old can probably be discarded; add a year or so to that if you live in a state with a longer statute.

> ***Examples -*** *Sue filed her 2009 tax return before the due date of April 15, 2010. She will be able to dispose of most of the 2009 records safely after April 15, 2013. On the other hand, Don files his 2009 return on June 2, 2010. He needs to keep his records at least until June 2, 2013. In both cases, the taxpayers may opt to keep their records a year or two longer if their states have a statute of*

limitations longer than three years. Note: If a due date falls on a Saturday, Sunday or holiday, the due date becomes the next business day.

The big problem! The problem with the carte blanche discarding records for a particular year because the statute of limitations has expired is that many taxpayers combine their normal tax records and the records needed to substantiate the basis of capital assets. These need to be separated and the basis records should not be discarded before the statute expires for the year in which the asset is disposed. Thus, it makes more sense to keep those records separated by asset. The following are examples of records that fall into that category:

- Stock acquisition data - If you own stock in a corporation, keep the purchase records for at least four years after the year the stock is sold. This data will be needed to prove the amount of profit (or loss) you had on the sale.

- Stock and mutual fund statements (If you reinvest dividends) - Many taxpayers use the dividends they receive from stocks or mutual funds to buy more shares of the same stock or fund. The reinvested amounts add to the basis in the property and reduce gain when it is finally sold. Keep statements at least four years after the final sale.
- Tangible property purchase and improvement records - Keep records of home, investment, rental property, or business property acquisitions AND related capital improvements for at least four years after the underlying property is sold.

For example, when the large $250,000 and $500,000 home exclusion was passed into law several years back, homeowners became lax in maintaining home improvement records, thinking the large exclusions would cover any potential appreciation in the home's value. Now that the exclusion may not always be enough, records of home improvements are vital. Records can be important, so please use caution when discarding them.

If you have questions about whether or not to retain certain records? Give this office a call first; it is better to make sure, before discarding something that might be needed down the road.

Tax Tips for Students with a Summer Job

Many students hold a summer job during their time off from school. Here are some tax issues that should be considered when working a summer job.

1. **Completing Form W-4 When Starting a New Job –** This form is used by employers to determine the taxes that will be withheld from your paycheck. Taxpayers with multiple summer jobs will want to make sure all of their employers are withholding an adequate amount of taxes to cover their total income tax liability. Generally, a student who is claimed as a dependent of another with income only from summer and part-time employment can earn as much as $6,100 (the standard deduction amount) without being liable for income tax. However, if the student is a dependent and has other investment income, the tax determination becomes more complicated and subject to special rules.

2. **Tips –** If the student works as a waiter, camp counselor, or some other common summer jobs, the student may receive tips as part of the summer income. All tip income received is taxable income and is therefore subject to federal income tax. Employees are required to report tips of $20 or more received while working with any one employer in any given month. The reporting should be made in writing to the employer by the tenth day of the month following the receipt of tips. The IRS provides publication 1244 that can be used to record tips for a month on a daily basis. The employer withholds FICA (Social Security and health insurance) and

income taxes on these reported tips and then includes the tips and wages on the employee's W-2.

3. **Cash Jobs –** Many students do odd jobs over the summer and are paid in cash. Just because the job is paid in cash does not mean that it is tax-free. Unfortunately, the income is taxable and may be subject to self-employment taxes (see below). These earnings include income from odd jobs like babysitting and lawn mowing.

4. **Self-Employment Tax –** When an individual works for an employer, the employer withholds FICA (Social Security taxes) and Medicare taxes from the employee's pay, matches the amount dollar for dollar, and remits the combined amount to the government. Self-employed workers are required to pay the combined employee and employer amounts themselves (referred to as self-employment tax) if their net earnings are $400 or more. This tax pays for their benefits under the Social Security system. Even if a worker is not liable for income tax, this 15.3% tax may apply.

5. **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.

6. **Newspaper Carrier or Distributor –** Special rules apply to services performed as a newspaper carrier or distributor. An individual is a direct seller and treated as self-employed for federal tax purposes under the following conditions:
    - The person is in the business of delivering newspapers;
    - All of the pay for these services directly relates to sales rather than to the number of hours worked; and
    - A written contract controls the delivery services and states that the distributor will not be treated as an employee for federal tax purposes.

7. **Newspaper Carriers or Distributors Under Age 18 –** Generally, newspaper carriers or distributors under age 18 are not subject to self-employment tax.

Please call this office if you have additional questions.

Tips for Students and Parents Paying College Expenses

Whether you're a recent high school graduate going to college for the first time or a returning student, paying for college can be a daunting financial task. The following are some tips about education tax benefits that can help offset some college costs for students and parents.

American Opportunity Credit—In many cases, this credit offers greater tax savings than other existing education tax breaks. Here are some key features of the credit:

- Tuition, related fees, books, and other required course materials generally qualify.
- The credit is equal to 100 percent of the first $2,000 spent and 25 percent of the next $2,000, which means that the full $2,500 credit may be available to a taxpayer who pays $4,000 or more in qualified expenses for an eligible student.
- You may qualify for this credit even if you have previously taken the Hope or Lifetime Learning credit.
- The full credit is available for taxpayers whose modified adjusted gross income (MAGI) is $80,000 or less (for married couples filing a joint return, the limit is

$160,000). The credit is phased out for taxpayers with incomes above these levels. These income limits are higher than those under the Lifetime Learning credit.

- Forty percent of the American Opportunity Credit is refundable, which means that even people who owe no tax can receive an annual payment of up to $1,000 for each eligible student. Other existing education-related credits and deductions do not provide a benefit to people who owe no tax. The refundable portion of the credit is not available to any student whose investment income is taxed at the parents' rate, which is commonly referred to as the kiddie tax.

Although most taxpayers who pay for post-secondary education qualify for the American Opportunity Credit, some do not. Limitations include a married person filing a separate return, regardless of income; joint filers whose MAGI is $180,000 or more; and, finally, single taxpayers, heads of household, and certain widows and widowers whose MAGI is $90,000 or more.

Some post-secondary education expenses do not qualify for the American Opportunity Credit. These include the expenses of a student who, as of the beginning of the tax year, has already completed the first four years of college, as this credit is only granted for the first four years of post-secondary education.

Lifetime Learning Credit—If a student does not qualify for the American Opportunity Credit, he or she may still qualify for the Lifetime Learning Credit. Key features of the credit include the following:

- The credit is available for all years of post-secondary education and for courses taken to acquire or improve job skills.
- There is no limit on the number of years that the Lifetime Learning Credit can be claimed for an eligible student.
- The credit amounts to $2,000 maximum per eligible student.
- The credit is non-refundable; thus, the maximum amount credited is limited to the amount of tax that must be paid on your return.
- The student does not need to be pursuing a degree or other recognized education credential to qualify for this credit.
- Qualified expenses include tuition and fees, course-related books, supplies, and equipment.
- The full credit is generally available to eligible taxpayers, in 2013, whose MAGI is less than $53,000, or $107,000 for married couples filing a joint return. Above these amounts, the credit quickly begins to phase out.

Only one type of education credit can be claimed per student in the same tax year. However, if you're the parent of two children attending college, you can claim the American Opportunity Credit for one student and the Lifetime Learning Credit for the other. Note, however, that the Lifetime Learning Credit's $2,000 cap applies on a per tax return basis.

The credit is claimed on the return of the individual who claims the student's exemption. For example, if a student's parents are divorced and the father pays the tuition but the mother claims the student's exemption, the mother would receive the credit, even though the father made the payments.

Student loan interest deduction—Other than certain home mortgage interest, personal interest that you pay is generally not deductible. However, you may be able to deduct interest paid on a qualified student loan during the year. It can reduce the amount of your income subject to tax by up to $2,500, even without itemizing deductions. However, if your MAGI exceeds $75,000 ($155,000 if married filing a joint return), the student loan interest deduction is not allowed. If you're married and filing separately, the deduction is not permitted, regardless of income level.

Determining the most beneficial education tax credit and applying other education expense strategies can be complicated and requires planning in advance. For assistance with these and other tax planning issues, please give this office a call.

Convert Unused Property Into a Tax Deduction

When you give away items like clothing, appliances, vehicles, and other goods to a qualified charity, your generosity can add up to a tax write-off if you itemize your deductions. The amount of your deduction is generally the donated property's "fair market value." The IRS definition of fair market value (FMV) is "the price a willing buyer would pay and a willing seller would accept for an item, when neither party is compelled to buy or sell and both parties have reasonable knowledge of the relevant facts."

Below are guidelines to help determine FMV for the most common types of noncash donations (miscellaneous personal items) that have decreased in value since they were acquired:

- **Used Clothing:** The IRS provides no set formula for valuing clothing items. However, keep in mind that the FMV of used clothing and other personal items is usually much less than what you paid for them.

- **Household Goods:** The value of used household goods (e.g., furniture and appliances) is also much less than their original cost. If the property is worn, inoperable, or out of style, it may have little or no market value. However, photographs, purchase receipts, and newspaper ads describing similar property should help support a valuation.

- **Cars and Other Vehicles:** The deduction is limited for motor vehicles (as well as for boats and airplanes) contributed to a charity for which the claimed value exceeds $500 by making it dependent upon the charity's use of the vehicle and imposing higher substantiation requirements.

  If the charity sells the vehicle without any "significant intervening use" (actual, significant use of the vehicle to substantially further the organization's regularly conducted activities) or "material improvement" (e.g., major repairs), the donor's charitable deduction cannot exceed the gross proceeds from the charity's sale. The charity will issue form 1098-C which includes details of the sale.

  Where significant intervening use occurs, the deductible amount is the FMV of the vehicle. The "Blue Book" value is a good place to start in determining the vehicle's FMV. However, Blue Book values generally assume the car to be in good condition and allowances must be made for the actual condition of the vehicle.

Noncash contributions must be properly documented with a contemporaneous written acknowledgment from the charity if the total deduction claimed for a donation is valued at $250 or more. The acknowledgment must be obtained on or before the earlier of the date the tax return is filed, or the extended due date for the return. It must include the name of the charity, a description (but not value) of the donation, and one of the following:

- A statement that no goods or services were provided by the charity in return for the contribution, if that is the case;
- A description and good faith estimate of the value of goods or services, if any, that the charity provided in return for the contribution; or
- A statement that goods or services that the charity provided in return for the contribution consisted entirely of intangible religious benefits, if that is the case.

If the FMV of the donation claimed is greater than $5,000, a written appraisal must be made by a qualified appraiser no more than 60 days before a vehicle or other similar property is contributed. The appraisal must be received before the extended due date of the return on which the deduction is claimed. In addition, Section B of IRS Form 8283 must be completed, including the signature of an authorized official of the charity.
If you have questions about how this tax provision might apply to your specific tax situation, please give this office a call.

How to Create a Progress Invoice from an Estimate

Not using progress invoices? Maybe you should be.

The U.S. economy may be picking up, but your customers are probably still being very careful with expenditures. If your company's finances will allow it, you can help them out on sizable jobs by using progress invoicing, also known as partial billing or progress billing.

You could, of course, simply create invoices for smaller chunks of the job as they come. A smarter way is to build estimates for the entire job or sequential phases so your customer can see the big picture. You can still use progress invoicing to start collecting funds one segment at a time.

How to Proceed
First, be sure you have progress invoicing turned on. Go to **Edit | Preferences | Jobs & Estimates | Company Preferences** and make sure the **Yes** button is filled in next to the questions about estimates and progress invoicing.

Now create your estimate (*these instructions are for QuickBooks Premier 2013; your steps may vary slightly*). Go to **Customers | Create Estimates**. When you've entered all of the items you want to include in this phase of your project, click the **Create Invoice** button. This window will open:

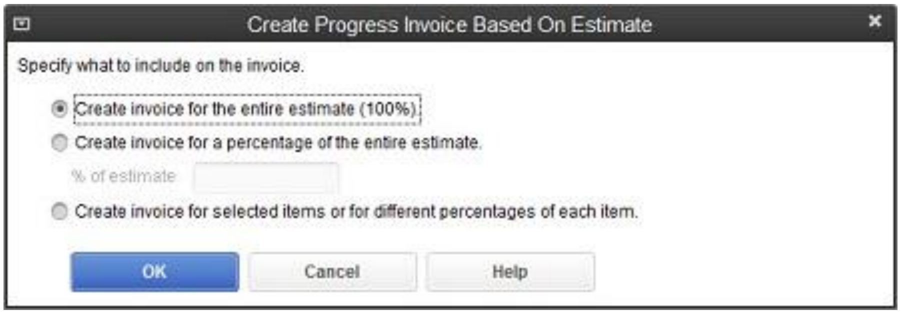

Figure 1: You can decide how many of your estimate items will be included on your progress invoice.

By clicking one of these buttons, you can bill the customer 100 percent of what's due on the invoice or just a percentage. But let's say you and your customer have agreed that payment will be due in pre-defined stages, so click the third button and select one or more of the line items. Click **OK**. QuickBooks will display a new window that lets you select items and/or percentages of amounts due.

In our example here, we're going to invoice the customer for two items, the blueprints and floor plans. So we selected the button next to **Show Quantity and Rate** and entered the full estimated quantity for each item in the **QTY** columns (if you chose **Show Percentage**, new columns would appear). It would look like this:

Specify Invoice Amounts for Items on Estimate

Progress Invoice for: Abercrombie, Kristy:Family Room

For each item below, specify the quantity, rate, amount or % of the estimate amount to have on the invoice.

Show Quantity and Rate | Show Percentage

OK | Cancel | Help

ITEM	EST QTY	EST RATE	EST AMT	PRIOR QTY	PRIOR AMT	QTY	U/M	RATE	AMOUNT	TAX
Blueprints	8	90.00	720.00	0		8		90.00	720.00	Non
Concrete ...	8	75.00	600.00	0		0		75.00	0.00	Non
Floor Plans	5	80.00	400.00	0		5		80.00	400.00	Non
Cabinets -...	1	2,100.00	2,100.00	0		0		2,100.00	0.00	Tax
Cabinets:...	1	1,500.00	1,500.00	0		0		1,500.00	0.00	Tax
Subs:Duct...	16	40.00	640.00	0		0		40.00	0.00	Non
Subs:Dry...	12	35.00	420.00	0		0		35.00	0.00	Non
								Total (w/ taxes)	1,120.00	

Note: All items will transfer to the invoice. The quantities and amount will be as you indicated. Although items with a zero amount display on screen, they can be set not to print from the Jobs and Estimates Preferences.

Figure 2: You can select specific items or percentages for your progress invoice.

Click **OK**. QuickBooks will return to your progress invoice, which you can save and print or email to your customer. Your original estimate will remain unchanged.

*Tip: If you don't want any of the zero amounts to appear on the progress invoice, go to **Edit | Preferences | Jobs & Estimates | Company Preferences** and make sure there's a check mark in the box next to **Don't print items that have zero amount**.*

Following Up
When you want to bill for another set of items on this estimate, simply repeat these steps.

Here’s an easy way to determine how much (if any) of the estimate has been invoiced. Go to the **Customer Center** and select the customer. Click the arrow next to the **Show** field and select **Estimates**. Any estimate that has a zero in the **OPEN BALANCE** column has been completely billed.

QuickBooks provides a report that tells you where you are with all of your progress invoices. Go to **Reports | Jobs, Time & Mileage | Job Progress Invoices vs. Estimates**. Your report will include the progress invoice you just created:

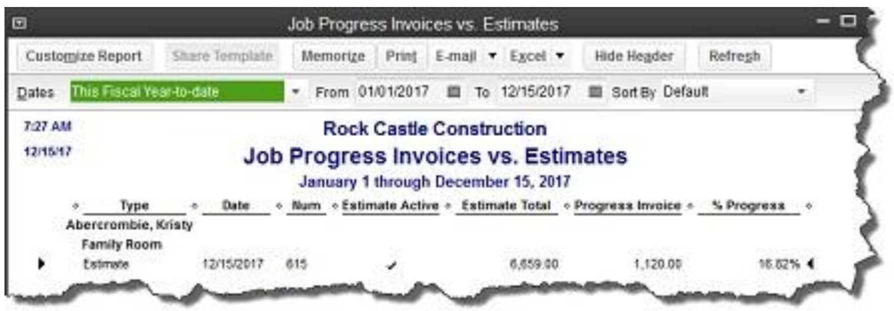

Figure 3: You can see what percentage of each estimate has been included on a progress invoice in this report.

More Options
What if you determine that you won’t have one or more of the items on the estimate? QuickBooks lets you quickly generate a purchase order. With your estimate open, click **Create Purchase Order** to select the item(s) needed and generate the form. You can also click **Create Sales Order** if one is necessary.

Estimates provide a useful way to fine-tune your bookkeeping and inform your customers about impending costs. They can also be confusing if you don’t keep up with them. We can help you determine when they’re a good idea and how to keep them organized. QuickBooks provides good tools here, but they require some administrative control.

Tax Tips for the Well-traveled Businessperson

As you probably already know, food and lodging expenses can be deducted when you are away from home for business purposes. This may be particularly beneficial to self-employed individuals who travel extensively. Like everything in the tax law, there are certain rules to follow. Travel, meal, and entertainment expenses must be “ordinary” and “necessary” in carrying on your trade or business and must be “directly related to” or “associated with” the active conduct of that business.

Lodging - Travel expenses are deductible only if the individuals are away from their "tax home" for more than one business day. That usually means their regular place of business.

The IRS requires that lodging expenses be substantiated by records or other evidence. Some travel expenses of less than $75 can be documented by records including diaries, logs, and expense reports, but lodging documentation generally needs to be verified with actual receipts. The lodging records must include the amount, date, and place. In addition, the reason for the trip must also be included somewhere in the documentation for the trip expenses. If meal expenses are included in the hotel bill, they must be separated out and included with meal expenses, which have limitations.

Meal Expenses - Meal expenses are deductible only if the trip is overnight or long enough that there is a need to stop for sleep or rest to properly perform one's duties. The amount of the meal expenses must be substantiated by receipts unless the expense is less than $75, in which case it can be documented by records including diaries, logs, and expense reports. Meal expenses are deductible up to an amount not considered "lavish" (i.e., reasonable under the circumstances).

When traveling, it is not uncommon to share a meal with others and pick up the tab. Your meal is always deductible, but the cost of the other individuals sharing the meal are only deducible if actual business discussions were conducted during the meal and you can show that there was anticipation of a specific business benefit from the meal (even if the benefit does not materialize). Goodwill-generating quiet business meals "in an atmosphere conducive to business" are not deductible.

> ***Example** - **Away-From-Home Meals -** Margaret's employer sent her on a five-day business trip to Minneapolis to make a sales presentation to MM&M, Inc. Margaret received no reimbursement for her meals during the trip. Margaret ate alone on the first three days away, at a total cost of $180. On the fourth night, she met a friend for dinner and paid the tab of $120. The next day, she invited Marty, a purchase representative for MM&M, Inc., to dinner. Their dinner followed a full day of discussion about MM&M's latest order from Margaret. Margaret paid for dinner that night too, for a total of $150. Margaret's deductible meal expense is $180 for the trip (50% x ($180 [meals alone] + $60 [her portion of dinner with her friend] + $120 [meal with Marty]).*

Meal expense substantiation includes the following:

- the cost of the meal;
- date, time, and place;
- business purpose; and
- names of guests and business relationship.

Instead of keeping records of the actual cost of meal expenses, a "standard meal allowance" ranging from $46 to $71 can generally be used. The standard meal allowance depends on the locality and is set by the U.S. General Services Agency (www.gsa.gov). It is also known as the federal M&IE (meals and incidental expenses) rate.

The deduction for unreimbursed business meals, regardless of the record-keeping method, is limited to 50% of the cost that would otherwise be deductible.

Traveling Companion – Sometimes a business traveler will take a companion, such as a spouse or friend, on a business trip for company. When it comes to deducting a companion's travel costs for business, the rules are very restrictive. Generally, you cannot deduct the companion's travel costs unless the companion is a bona fide employee of the business. This requirement prevents deductibility in most cases.

Even if your companion is an employee, his or her presence must be for a bona fide business purpose. Generally, a companion's presence must be "necessary" to meet the bona fide purpose test, and just being "helpful" does not meet the requirement. Being there for goodwill purposes such as serving as a hostess is generally insufficient to satisfy a business purpose. An exception to that rule would be if your companion's presence is necessary to care for a serious medical condition that you have.

If your companion's presence does meet the bona fide business purpose rule, then the normal deductions for business travel away from home can be claimed. These include the costs of transportation, meals, and lodging, and incidental costs such as dry cleaning, phone calls, etc.

But all is not lost if your companion does not meet the qualifications. You may still be able to deduct a substantial portion of the trip's costs. This is because the rules don't require you to allocate 50% of your travel costs to your companion. You need only allocate to him or her any additional costs that are incurred. For example, the single rate for a room is not so different than the cost for double occupancy. If you were driving, no allocation would be required because the cost would be fully deductible even if your companion did not accompany you. If you used public transportation, only your cost would be deductible. Any meals and separate costs incurred by your companion would not be deductible.

Travel expenses and documentation can be tricky. If you have any questions that may apply to your specific circumstances, please give this office a call.

Tax Breaks for Charity Volunteers

If you volunteer your time for a charity, you may qualify for tax breaks. Although no tax deduction is allowed for the value of services performed for a charity, some deductions are permitted for out-of-pocket costs incurred while performing the services. The normal deduction limits and substantiation rules also apply. The following are some examples:

- Away-from-home travel expenses while performing services for a charity, including out-of-pocket roundtrip travel cost, taxi fares, and other costs of transportation between the airport or station and hotel, plus lodging and meals are allowed at 100%. Unlike other areas of taxes, meals are not subject to the 50% limitation. These expenses are only deductible if there is no significant element of personal pleasure associated with the travel, or if your services for a charity do not involve lobbying activities. Any "significant element of personal pleasure" negates a deduction (i.e., not even partial deduction is allowed). Significant personal pleasure is assumed if the taxpayer has only minor duties and is not required to perform any duties for the charity for major portions of the away-from-home stay.
- The cost of entertaining others on behalf of a charity, such as wining and dining a potential large contributor are allowed at 100 % (but the cost of your own entertainment or meal is not deductible).
- If you use your car while performing services for a charitable organization, you may deduct your actual unreimbursed expenses directly attributable to the services, such as gas and oil costs, or you may deduct a flat 14 cents per mile for the charitable use of your car. You may also deduct parking fees and tolls.

- You can deduct the cost of the uniform you wear when doing volunteer work for the charity, as long as the uniform has no general utility. The cost of cleaning the uniform can also be deducted.

No charitable deduction is allowed for a contribution of $250 or more unless the contribution is substantiated with a written acknowledgment from the charitable organization. To verify your contribution:

- Get written documentation from the charity about the nature of your volunteering activity and the need to pay for related expenses. For example, if you travel out-of-town as a volunteer, request a letter from the charity explaining why you're needed at the out-of-town location.
- Submit a statement of expenses if you are out-of-pocket for substantial amounts, and preferably, a copy of the receipts to the charity. Also, arrange for the charity to acknowledge the amount of the contribution in writing.
- Maintain detailed records of your out-of-pocket expenses, including receipts and a written record of the time, place, amount and charitable purpose of the expense.

Please call this office if you have questions related to your volunteer expenses or any other charitable contributions.

Behind on Your Taxes—Want a Fresh Start?

If you are unfortunate enough to have an unpaid tax liability and wish to put end the constant stream of correspondence from the IRS, there are several possible solutions to help you deal with the circumstances and take advantage of the IRS's Fresh Start initiative.

Establish An Installment Agreement—If you are unable to pay your tax liability immediately, a payment plan can be arranged, allowing you to pay the liability over a number of years. Under the new "Fresh Start" program, the IRS recently expanded access to streamlined installment agreements. Now, individual taxpayers who owe up to $50,000 can pay via monthly direct debit payments for up to 72 months (six years). While the IRS generally will not need a financial statement, they may request certain financial information from the taxpayer. Conditions that must be met in order to qualify for an installment agreement include the following:

- Installment payments must be made in full and on time.
- All future tax returns must be filed on time.
- Enough withholding or estimated tax payments must be made so that no tax is due with timely filed future returns.

Owe more than $50,000—If the amount you owe is in excess of $50,000 or it is impossible for you to pay off the debt within six years, you can still apply for an installment agreement, but you will be required to supply the IRS with a financial statement.

User Fees—The IRS charges a user fee of $105 ($52 if the taxpayer makes the payment by electronic payment withdrawal) for setting up the installment agreement. A reduced fee of $43 applies to lower income taxpayers.

Interest & Penalties—Taxpayers will also be charged interest at the current rate (which recently has been 3% annually), compounded daily, and a late payment penalty, usually 0.5% of the balance due per month. However, the penalty is reduced to 0.25% when the IRS approves the agreement for an individual taxpayer who timely filed the return and did not receive a levy notice.

1. **Offers in Compromise**—If it is reasonably clear that you are unable to pay the entire liability, you can apply for an Offer in Compromise. An Offer in Compromise is an agreement that allows taxpayers to settle their tax debt for less than the full amount. The IRS Fresh Start program expanded and streamlined the OIC program. The IRS now has greater flexibility when analyzing a taxpayer's ability to pay, making the offer program available to a larger group of taxpayers.

Generally, the IRS will accept an offer if it represents the most that the agency can expect to collect within a reasonable period of time. The IRS will not accept an offer if it believes that the taxpayer can pay the amount owed in full as a lump sum or through a payment agreement. The IRS considers several factors, including the taxpayer's income and assets, when making a decision regarding the taxpayer's ability to pay.

Tax Liens—The IRS Fresh Start program increased the amount that taxpayers can owe before the IRS generally will file a Notice of Federal Tax Lien. That amount is now $10,000. However, in certain cases, the IRS may still file a lien notice on amounts less than $10,000.

When a taxpayer meets certain requirements and pays off his or her tax debt, the IRS may withdraw a filed Notice of Federal Tax Lien. Taxpayers must request that this withdrawal in writing using the appropriate IRS form.

Some taxpayers may qualify to have their lien notice withdrawn if they are paying their tax debt through a Direct Debit installment agreement. Taxpayers need to request the withdrawal in writing using the appropriate IRS form.

If a taxpayer defaults on the Direct Debit Installment Agreement, the IRS may file a new Notice of Federal Tax Lien and resume collection actions.

If you would like assistance with getting your IRS back tax liabilities in order, please call this office for an appointment so that we can explore options for which you may qualify based on your situation.