

Word to the *Wise*



A Newsletter for Clients and Friends of Wouch, Maloney & Co., LLP

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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.

Steve Wouch has been published in Construction Executive Magazine. You can read Steve's article in the May 2011 edition of Construction Executive Magazine titled "The Tax Burden: Why Contractors Should Be Angry (And Do Something About It)". Visit our website at www.wm-cpa.com to read this article.

Going Green?

If you would like to read **Word to the Wise** in electronic format, please visit our website at www.wm-cpa.com and click on Information Resources

Congratulations Hal!

Hal S. Margolit, CPA, MST, Tax Manager at Wouch, Maloney & Co., has been re-elected as Treasurer of Habitat for Humanity of Bucks County.

At the Habitat, Hal has the general responsibility for overseeing the finances of the organization and making sure the organization is in compliance with its tax and financial reporting obligations.

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.
- 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.

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.

"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.