The Tax Times

Wisconsin Society of Enrolled Agents

December 2011

Current Events

2012 Mileage Rates Announced

December 9th, the IRS announced that the mileage rates effective January 1st, 2012 would be the same as the current mileage rates. These mileage rates are as follows:

- Business Mileage – 55.5 cents
- Medical/ Moving Mileage – 23 cents
- Charitable Mileage – 14 cents

Now is the time to remind your clients about the contemporanous log requirement for taking business mileage . Let's hope they have done in correctly for 2011. Don't forget you will need to spilt 2011 mileage between January 1st through June 30th and July 1st through December 31st. It may be a good idea to pass this requirement onto your clients as well.

2012 Tax Benefits

In October, the IRS came out with some information on what we can expect for 2012 filing tax benefits. Keep in mind this information was released in October and it quite likely that some of it may change depending upon the games Congress tries to play before the end of the year. That is if they can stop bickering amoungst themselves and make any decisions at all. Anyway, here are some quick numbers to keep in mind for 2012.

- Personal Exemption Amount - $3,800
- Standard Deductions:
  - MFJ - $11,900
  - Single /MFS - $5,950
  - HOH - $8,700

Inside this issue:

2012 Tax Benefits, Continued

- Tax Bracket Threshholds increase
    - For MFJ 15% to 25% tax bracket is now $70,700 instead of 2011's $69,000
- Maximum Earned Income Credit - $5,891
- Maximum Earned Income Limit - $50,270, MFJ, three qualified dependents
- Foreign Earned Income Limitation - $95,100
- MAGI Lifetime Learning Credit Phase Out Increases - $104,000 MFJ and $52,000 Single and HOH
- Deductible MSA amounts increase
- Student Loan Interest Deduction for MFJ ONLY Increases – Begins at $125,000, complete phase out at $155,000
- Estate Tax Exclusion Amount - $5,120,000
- Gift Exclusion remains the same - $13,000

For full information on the 2012 tax benefits see Revenue Procedure 2011-52

House Passes Deal on Payroll Tax Cuts

Buzz on the hill recently concerned a Payroll Tax bill that passed GOP House on Tuesday, December 13th. This bill provided a way to pay for an extenstion of the current 2% reduction on the Employee contribution to Social Security for one year and a change in how Federal Unemployment benefits are handled. Ways to pay for this extension include freezes to federal employees wages, an increase in Medicare premiums for high income beneficiaries making over $85,000, no environmental review of aCanada to Texas oil pipeline, and a cut in emergency unemployment benefits from 73 weeks to 33 weeks amoung other things. Senate Majority Leader and the President have already voiced their opinion on this bill and neither plans on allowing to pass into law. Possible impact of nothing being passed by Congress, nothing short of chaos. To read more about this and form your own opinion go to http://www.huffingtonpost.com/2011/12/13/house-passes-payroll-tax-bill_n_1147021.html

Current Events, continued.

Wisconsin Federal Unemployment Rate Increases

Many of you probably already are aware that retroactive to January 1st, 2011 Wisconsin's Federal Unemployment rate has jumped to .009 from the .006 that it was originally reduced to in July and the normal .008 for January through June because the State of Wisconsin decided to borrow from Federal Unemployment to make up for what it couldn't afford out of it's own unemployment pool. The state will still be sending qualified employers a special assessment until the year 2014 to cover what they borrowed from Federal Unemployment in addition to the Federal rate hike.

Other Member News

At the next seminar if you see our President, Jeremy Burri, please congratulate him on the birth of his son. Congratulations, Jeremy !

Welcome New and Returning Members

We would like to officially welcome new and returning members! The following people have either just joined or renewed their membership with WSEA. If you see them at an upcoming seminar, please make them feel welcome!

Wilbert Bauer of Milwaukee

Dawn Grode of Burlington

Sharon King of River Falls

Korry Rowe of Oshkosh

2012 Scheduled Seminars by, Don Wollersheim, EA

We have a great line up for continuing education seminars for 2012. Mark your calendars now before the rush of tax season. (Check the article on continuing education requirements that takes effect January 1, 2012.)

Friday, January 13, 2012 will be held at the Holiday Inn, Fond du Lac.

This is the annual tax update seminar. Session A will feature David and Mary Mellem on Federal and State updates. They will be followed by the Wisconsin Department of Revenue on their update issues and Wisconsin Sales Tax.

Session B is the annual tax basics review presented by Pat Handlos and Don Wollersheim. This session will cover who must file, filing status, dependents, reporting of income, Schedules A and B, IRAs and other current basic update issues. RTRPs must begin their continuing education requirements and pass the RTRP exam before the end of 2013. This is a great course for those return preparers as well as a great introduction to tax terminology for your front line staff.

Thursday, May 24 and Friday, May 25, 2012 is the continuing education in conjunction with the WSEA annual meeting. This event will be held at the Brookfield Suites in Brookfield.

Thursday, May 24 will feature Mark Miller, Internal Revenue Service legal counsel, doing a presentation on Marital Property issues. Some issues are unique to Wisconsin and Mark is certainly the expert in this area. This is a must-see topic for Wisconsin tax preparers. Mark will be followed by Julianne Molek covering issues with forgiven debt. Again, in this economic time, forgiven debt is a valuable presentation.

The Thursday topics will be followed by the WSEA Annual Meeting and Annual Banquet. Watch for the announcements which will include our special deal on the banquet and as always, please remember to bring an item for our auction, which helps support our organization.

On Friday, May 25 Katie Jansen will be giving an eight hour presentation on Employee/Independent contractors along with covering the rules on the more common 1099 forms. Katie co-presented this topic this past fall and is very knowledgeable on the topic. This provides a much needed review on a high audit risk area.

Robin Mueller will speak on Social Security tax and benefit issues in a 5 hour presentation. Following the Social Security topic, robin will also do a three hour ethics presentation. Robin's 8 hours will qualify for required Wisconsin Insurance Intermediary continuing education.

The joint Wisconsin/Minnesota Enrolled agents Seminar will be held on Thursday, September 20 and Friday, September 21 at the Days Hotel in La Crosse.

Beanna Whitlock will be the one and only speaker for Thursday. With the opportunity to see Beanna do a presentation, no one would attend a competing presentation. If you haven't seen Beanna in action, this is one you don't want to miss. The topic will be announced at a later date.

On Friday, Amy King will be doing a special presentation: "Step by Step Audit Procedure Workshop". This workshop will walk you through the original client contact to the final settlement. An Audit Rep Kit will be required for this presentation which will cost an additional $8.00. In order to attend this seminar early registration is also a requirement.

The second choice for topics on Friday will be four hours each on Schedules C and E. This will be a line by line walk through of each of the forms. Presenters will be Don Wollersheim from Wisconsin and Linda Ferwerda from Minnesota.

I am sure you are all aware of the ambiguity during the implementation of the RTRP licensing and requirements. A PTIN for 2012 is a temporary license for 2012 only. At this point in time, the IRS says that a temporary 2012 RTRP will be required to complete required education requirements during 2012 in order to renew for the 2013 season. Don't let preparers in your office get caught with a lack of education credits at the end of 2012.

Dave's Corner – OPR Disciplinary Actions by, David Fayram, EA

The following individuals have been suspended from practice before the Internal Revenue Service.

Dennis R. Letourneau, Attorney
St. Louis Park, Minnesota
Suspended by decision in expedited proceeding under section 10.82 (suspension of attorney license).
Indefinite from April 22, 2011

Edward F. Rooney, Attorney
Minneapolis, Minnesota
Reinstated to practice before the IRS as of June 17, 2011

Timothy L. Baldwin, Attorney
Milwaukee, Wisconsin
Suspended by decision on appeal for violations of section 10.51 (willful failure to timely file Federal income tax returns for 2002-2006, and failure to file a Federal income tax return for 2007).
Indefinite from June 2, 2011

"Suspended by decision on appeal for violations of section 10.51 (willful failure to timely file Federal income tax returns for 2002-2006, and failure to file a Federal income tax return for 2007)."

Leonard V. Brady, Attorney
Brookfield, Wisconsin
Suspended by default decision in expedited proceeding under section 10.82 (revocation of attorney license).
Indefinite from April 26, 2011

Scott H. Fisher, Attorney
Greenville, Wisconsin
Suspended by default decision in expedited proceeding under section 10.82 (revocation of attorney license).
Indefinite from April 26, 2011

John E. Netti, Jr., Attorney
Dubuque, Iowa
Suspended by default decision in expedited proceeding under section 10.82 (suspension of attorney license).
Indefinite from July 14, 2011

Stephen M. Compton, Attorney
Janesville, Wisconsin
Suspended by default decision in expedited proceeding under section 10.82 (suspension of attorney license).
Indefinite from August 11, 2011

Dave's Corner – OPR Disciplinary Actions by, David Fayram, EA

Harvey J. Goldstein, Attorney
Fox Point, Wisconsin
Suspended by default decision in expedited proceeding under section 10.82 (suspension of attorney license).
Indefinite from August 11, 2011

"Suspended by default decision in expedited proceeding under section 10.82 (suspension of attorney license)."

Dave's Corner – EA Survives OPR Censure, David J. Fayram, EA

Introduction

The Director of the Office of Professional Responsibility (OPR) has authority to "censure, suspend, or disbar" any practitioner from practice before the IRS if the practitioner is shown to be incompetent or disreputable after a hearing.[1] The term "censure" is defined as "a public reprimand." The terms "incompetent" and 'disreputable" are defined at sections 10.51 and 10.52 of Circular 230.

Section 10.51 contains a nonexclusive list of eighteen items. Examples include conviction of a violation of the Federal tax laws; conviction of a crime involving dishonesty or breach of trust; and willfully failing to make a Federal tax return. Every single one of the eighteen items requires a willful violation of a known duty.[2] Section 10.52 expands the definition slightly to include violations of Circular 230 itself through recklessness or gross incompetence.[3]

Marco Frank, EA[4]

On August 30, 2011 I called on the telephone one Marco Frank, an EA, a NAEA member, and a NTPI Fellow, after noticing that he had been "censured by consent for admitted violation of § 10.22 for failure to exercise due diligence in the preparation of client tax returns." Mr. Frank agreed to tell his side of the story after I said that I was working on an article for the WSEA newsletter. Mr. Frank seemed a straight-forward and personable individual — one who had just been through two years of hell.

Mr. Frank had a tax return preparation practice for many years. He used cheap software intended for use by individuals to prepare single returns. Apparently the software publisher discovered this and refused to sell him more software. The next tax season he bought commercial tax return preparation software from a different vendor. At first he was unfamiliar with the software and was not using it correctly.

That was when the problem taxpayer walked in. Mr. Frank acknowledges that he did not prepare the return correctly because he did not know how to use the software. The Federal examination of this particular return started in 2008. Mr. Frank entered his appearance for the taxpayer under a power of attorney. This continued until it began to appear both that the return was incorrectly prepared and that the taxpayer had not told the truth to Mr. Frank. At that time the taxpayer hired an attorney to replace Mr. Frank as his representative.

Mr. Frank realized that he might have a problem with return preparer penalties and tried to discuss this with the revenue agent on at least three occasions. The revenue agent refused to discuss the audit in any way (because a power of attorney was lacking), did not inform him of the outcome of the examination, did not tell him the preparer penalties were proposed, and did not inform him that the case had been submitted to OPR. The only testimony considered in all of this was that provided by the taxpayer and his attorney!

Dave's Corner – EA Survives OPR Censure, David J. Fayram, EA

IRS Policy Concerning Preparer Rights

Are tax return preparers bereft of any rights in situations such as this? Probably so. The problem is that the conflicts between two sets of rights have been resolved against tax return preparers. On the one hand, before the government imposes substantial penalties which might also severely damage the professional reputation of the preparer; it should be sure that the penalties are justified. At a minimum, the subject of the penalties should have the opportunity to discover the basis of the penalties and to be heard regarding any defenses he or she might have. On the other hand, the IRS has a clear obligation not to disclose taxpayer information — the very information which must be used to establish the penalties. This conflict has not been clearly addressed by statutes or regulations.

Some small relief might be available at paragraph 20.1.6 of the Internal Revenue Manual (IRM).[5] The important definition of "willful" appears there:

> Preparers are considered to have acted willfully if they disregard information provided (or add information not provided) by the taxpayer or other persons in an attempt to wrongfully reduce tax. It is not necessary to prove that the preparer acted with a bad purpose or evil motive in order to establish willfulness.[6]

Examiners have some rules they are supposed to follow with respect to return preparer penalties.[7] For every audit, they must determine if the potential for these penalties exists and fill out a form if it does. They are admonished as follows regarding interviews on this subject:

> During income tax examinations, all discussions relating to return preparer penalties with any party will be limited to the development of facts to determine the applicability of a penalty. Penalties will not be proposed against a return preparer in the presence of the underlying taxpayer.[8]

The IRM takes the incredible position that the return preparer case must be conducted independent of and without regard to the determination on the underlying income tax case.[9] This despite the fact that the penalty will be based on the return! The following contradictory statement appears in the very next paragraph, "However, if the return preparer case is inseparable from the income tax examination, both cases may be completed simultaneously."

There is a paragraph concerning affidavits which describes in detail the information the government would be trying to prove.[10] Affidavits are not usually used in return preparer cases.

If IRS employees initiate contact with third parties, then the preparer should be given reasonable notice in advance that third parties may be contacted.[11] If third parties actually are contacted, then the identity of these parties must be provided to the preparer upon request.

One thing is absolutely clear: when preparer penalties are asserted, a referral to the Office of Professional Responsibility is mandatory.[12]

Dave's Corner – EA Survives OPR Censure, David J. Fayram, EA

In summary, the IRM does not clearly address the conflict of rights between taxpayers and preparers. Basically the policy simply wishes the problem away, or, more accurately, dumps it in the lap of the examining agent. This agent will probably want to keep their job and will not want to take the slightest chance of violating taxpayer rights, which are clearly defined.

Mr. Frank's defense

Given the dismal state of affairs described above, how might Mr. Frank have defended himself at this stage? One could start by reading the rules for examining agents. The requirement that discussions should be limited to the facts concerning the penalties implies that there will be "discussions." The requirement that examiners determine if return preparer violations exist, also implies some contact with the return preparer.

The taxpayer probably waived confidentiality with respect to the tax return preparer because all of the information on the return was disclosed to the return preparer already. The fact that the return preparer has the return and the information it contains and that the taxpayer already consented to this possession means that there will be no new disclosure of taxpayer information by discussing the return with the preparer.

Mr. Frank might have presented these arguments to the examiner's supervisor, complete with IRM references, in an attempt to be heard. If this failed, Mr. Frank could have presented his arguments in writing in the form of a letter using the format described for affidavits. This letter would have been included with the file when it was sent to OPR and might have deflected the attack from the taxpayer.

Finally, he could have demanded to know if third-party (that is, the taxpayer) contacts were made and their identities under IRC section 7602(c). Answers by taxpayers to routine questions about preparer penalties do not trigger the notice requirements. However, any follow-up questions *do* impose a notice requirement. Specific questions should have been asked about taxpayer contacts and notice requirements. This would be especially so if Mr. Frank had not received the notice.

The story continues …

The case was referred to the OPR and Mr. Frank hired an attorney. They had a falling out when it appeared that Mr. Frank would be suspended from practice and the attorney suggested that Mr. Frank claim that the problem was caused by his poor vision. This would have required that Mr. Frank make untrue statements as he did not think the problem was caused by poor vision. Mr. Frank refused to participate in this and fired the attorney. From that point on, he represented himself.

The OPR referral happened after tax season in 2009. Mr. Frank continued electronic filing for 2010. During 2011 he was found unsuitable for electronic filing because of the pending complaint at OPR. He had to file returns on paper using Form 8948 for the 2011 season.

Mr. Frank was never granted access to the administrative file for the examination and he never found out how it came out. The OPR claimed that the taxpayer accused Mr. Frank of inciting the taxpayer to file a false return and that Mr. Frank prepared fraudulent 1099s. Mr. Frank was incredulous at this and vehemently denied the accusations. He admitted that the return was incorrectly prepared because he did not understand the software, but maintained that it was an honest mistake. He subsequently discovered the mistake on his own and used the software correctly after that.

In retrospect, at the time he discovered the error, he should have looked back at all his returns to find which ones were wrong because he had an obligation under Circular 230 to inform these clients of the error.[13] I do not know if OPR raised this issue or if Mr. Frank had complied with this requirement. If he had done this, it certainly would have given him some ammunition to use against the preparer penalties. The OPR referral might not have happened if he had been able to stop the preparer penalties during the examination.

By 2011, Mr. Frank was exhausted by the continual stress of dealing with the issue. He agreed to the preparer penalties. He also agreed to public censure in order to end the matter even though he still maintains that he was not "willful" as censure requires under Circular 230. He retained his EA designation throughout and the OPR agreed that he was "suitable" for efiling. Mr. Frank must have been elated that the whole mess was finally over.

Conclusions

I have become concerned lately about computer software. Mr. Frank used his software incorrectly and paid a heavy price. What if he had used the software correctly and the software produced the incorrect returns? Would the IRS still hold the preparer responsible for the computations? In the past I just assumed it would not. Now I am not so sure.

During the fall of 2010 Director of the Office of Professional Responsibility Karen L. Hawkins spoke before the NAEA national convention. I remember clearly her emphasis that conduct must be unreasonable, willful and material before she would consider it. She also said that she was looking for a pattern of misconduct, not single incidents and that she had the burden of proof with regard to all the elements necessary for her to impose sanctions. Of course I do not have the OPR's side of Mr. Frank's story, but based only on his side, the censure does not comport with her public statements.

By all accounts, there are between 500,000 and one million tax return preparers in the United States. I believe that constitutional rights of these people are being violated on a massive scale by the IRS preparer licensing program and by the requirements for efiling. Under the Constitution, citizens of the United States have a right to "due process." This process includes rights such as a speedy hearing, the right to know what the charges are, the right to confront one's accusers, and the right to have the hearing conducted in a fair manner. Constitutional rights also include the presumption of innocence. People are presumed innocent, not until the beginning of the hearing, but until its *end*. When compared to this standard, the process accorded Mr. Frank falls far short of the mark.

Dave's Corner – EA Survives OPR Censure, David J. Fayram, EA

Perhaps tax return preparers could protect themselves to some extent by having their clients sign a limited, irrevocable, waiver of confidentiality. In the event the IRS investigated the tax return preparer with the purpose of asserting preparer penalties, the waiver would grant the IRS permission to allow full access to the taxpayer's administrative record by the return preparer. This, along with IRS acquiescence, might allow tax return preparers to discover the nature of the charges against them.

The tragedy in Mr. Frank's situation is that the IRS might have bought the taxpayer's story hook, line and sinker. The taxpayer might have claimed to have relied on a professional to avoid penalties on a fraudulent return. If so, did the IRS go back to the taxpayer after finding that Mr. Frank did not participate in the fraud?

If there are 750,000 tax return preparers in the United States, and if 10% have been found "unsuitable" for electronic filing, then there should be 75,000 cases pending now before the IRS at one place or another. In the new regulatory environment, EAs have been searching for a way to distinguish themselves from RTRPs. Perhaps those EAs who are so inclined could establish a specialty in representing tax return preparers who have been found "unsuitable" for efiling. Of course EAs must avoid individuals with potential criminal problems, but many of the cases are probably similar to that of Mr. Frank. EAs could become known as "lawyers for the unsuitable," though the term "lawyers" should probably be avoided. The market should be there. No one else is practicing there now. Is anyone else interested?

[Note: The IRS must have realized that the problems described above with respect to return preparer rights have some validity. Shortly after finishing this article, I found that IRM section 20.1.6, headed "Preparer, Promoter, Material Advisor Penalties," was completely revised. The language continuously refers to "taxpayers," but the context seems to imply that "return preparers" is closer to the intended meaning. This new version offers return preparers some relief. For example:

> D. **Representation:** Taxpayers must be given the opportunity to have their interests heard and considered. Employees need to take an active and objective role in case resolution so that all factors are considered.[14]

Perhaps there is hope yet that our rights as tax return preparers will be respected, but I still find no explicit discussion about the conflict between taxpayer rights and return preparer rights. Most of the references I did find were not helpful. For example:

> Disclosure guidelines preclude reference to an examination of another taxpayer in the return preparer's client case file.[15]

How can an investigation of return preparer penalties possibly be conducted under this circumstance?]

Dave's Corner – EA Survives OPR Censure - Footnotes, David J. Fayram, EA

[1] §10.50 Circular 230, 2011(18), Stand. Fed. Tax Rep. (CCH), ¶43,600.
[2] §10.51 Circular 230, 2011(18), Stand. Fed. Tax Rep. (CCH), ¶43,604.
[3] §10.52 Circular 230, 2011(18), Stand. Fed. Tax Rep. (CCH), ¶43,609.
[4] This is a pseudonym. When I called the EA for the first time, he was completely cooperative. I called a second time after sending him a draft of the article to find him terrified that the article might open up the whole thing again if someone at OPR read it. I was sympathetic to this plea because "censure" does not require EAs to shun him and because an internet search could easily turn up my article.
[5] 5 IRM Abr. & Annot. (West Group), 20.1.6(6/2008).
[6] 5 IRM Abr. & Annot. (West Group), 20.1.6.1.1.13(6/2008).
[7] 5 IRM Abr. & Annot. (West Group), 20.1.6.1.3(2)(6/2008).
[8] 5 IRM Abr. & Annot. (West Group), 20.1.6.1.3.2.B (6/2008).
[9] 5 IRM Abr. & Annot. (West Group), 20.1.6.1.3.2.C (6/2008).
[10] 5 IRM Abr. & Annot. (West Group), 20.1.6.7.7 (6/2008).
[11] 5 IRM Abr. & Annot. (West Group), 20.1.6.1.11 (6/2008).
[12] 5 IRM Abr. & Annot. (West Group), 20.1.6.2.1 (6/2008).
[13] §10.21 Circular 230, 2011(18), Stand. Fed. Tax Rep. (CCH), ¶45,540.
[14] 5 IRM Abr. & Annot. (West Group), 20.1.6.1.1.1 (9/2011).
[15] 5 IRM Abr. & Annot. (West Group), 20.1.6.3.4 (9/2011).

Immigration and Tax Practice Management by, Tracey Hennessey, EA

In my practice, more than 75% of my clients are Spanish-speaking. As a Certifying Acceptance Agent, I process hundreds of ITIN applications every year. A sideline of my practice is assisting my clients with their Immigration needs. While a lot of our members may not have experience with this demographic of our population, I wanted to impart this information to all of you, in the event it does become relevant in your practice.

We all know that we have to retain return information for 5 years. It's been that way since I can remember. For your clients who have a potential immigration issue, it can be life-or-death (stay or get deported) unless you have all of the returns they have ever filed.

If you have any clients that file their taxes using an ITIN, they have a potential immigration issue. If they have a green card, they will have a social security number. Immigration and customs enforcement has ramped up their efforts, via the Secure Communities Act, to detain and deport as many people as they can. Having proof of "substantial presence in the United States" of 10 years or more can be the factor that allows them to get a bond, get their green card, and stay in the United States – legally. Tax returns are proof of their substantial presence. Once they have their green card and social security number, you only have to keep the most current 5 years.

If processing tax returns for clients that have an ITIN is a large part of your practice, it behooves you to get to know an Immigration Attorney to refer your clients to. To find one, please go to AILA.org, the American Immigration Lawyers Association, or the Wisconsin Bar Association at wisbar.org.

New Continuing Ed Requirements by, Don Wollersheim, EA

The application to become a certified continuing education provider has recently become available. Although we are struggling with a new system, just like everyone else, we did find some changes of which you should be aware.

The providing organization and the class content must be approved before a course can be used as qualified continuing education.

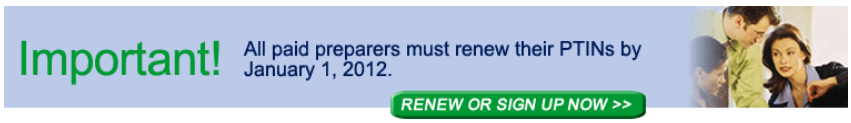
The providing organization will have to report your completion to the IRS by using your PTIN. It is important that you have that number available when you attend classes as the provider will need it to report your attendance to the IRS. WSEA's CPE forms will be modified to ask for both a PTIN and an EA number.

Once approved, each course will be assigned a specific number. This number is an indication to you that the course you are taking will be accepted by the IRS. We are currently in the process of getting approval on our courses, but numbers have not yet been assigned. Watch for these numbers when signing up for a course.

Update: Just before we went to print WSEA received course approval from the IRS for the January Seminars.

Session A: Dave & Mary Mellem, WI DOR and IRS program number is ZQTD6-U-00001-12-I.

Session B: Tax Basics Update program number is ZQTD6-U-00002-12-I



Click the icon above to renew your PTIN.

Interesting Wisconsin Updates, by Katie Jansen, EA

As Christmas approaches we can all feel a change in the air that to most of us means longer hours and the pleasure of seeing clients who have grown to be friends return to have their taxes done. With the close of another year we become more eager to see what changes await our next tax season. 2012 will be a great year because it will be what we make it. To keep us all on our toes I am sure Congress will throw us a few curve balls, but thankfully Wisconsin has updated some of its tax laws to match the existing Federal laws.

First and foremost it is nice to see that HSA (Health Savings Accounts) contributions will no longer have to appear on Schedule I on the Wisconsin Form as an addition to Wisconsin taxable income. Although tax software had somewhat taken the confusion out of this Schedule I adjustment now it is cleared up for good. Sort of – I will get to the details in a bit. Wisconsin tax law follows Federal tax law exactly, so if an individual makes a contribution to an HSA they get a deduction for it on the front of the 1040 and if the contribution is made as a pre-tax deduction through their employer it is not considered taxable wages. The limits on contributions are $3,050 for individuals and $6,150 for families. There is a penalty for excess contributions of 6% and a 20% penalty if the distributions are not used for qualified medical expenses. The state has created a similar penalty system for the HSA as they have for IRA early withdrawals. The Wisconsin penalty will be 33% of what the federal penalty is. As with any good tax law there is an exception. If the individual had an HSA prior to 2011, could not take a deduction for the contribution on the Wisconsin return, reported any earnings as income and had a balance remaining in the account as of December 31, 2010 then the old Wisconsin rules apply to the distribution. Essentially, an individual could use the medical portion towards their Wisconsin Itemized Deduction, any excess or portion used for non-medical purposes is not taxable as Wisconsin income or subject to a penalty on the Wisconsin return.

Wisconsin has also adjusted their taxation of health insurance benefits for adult children under the age of 27. Previously, Wisconsin considered the portion of health insurance benefits for these individuals to be taxable income to their parents. Beginning with 2011 the fair market value of this health coverage is no longer taxable to the individual who provides the coverage. I am sure that if anyone out there handles a payroll where this is involved they are probably relieved to not have to adjust their W-2's and unemployment wages any longer.

The last interesting piece of Wisconsin updates that I came across was a "new" deduction for Child and Dependent Care Expenses. Apparently, this idea first came about in 2007, but was

Interesting Wisconsin Updates, by Katie Jansen, EA

delayed to start with taxable year 2011. The subtraction will be based upon the federal deduction and it will be clumped with other general subtractions. There will be no separate line item on the Wisconsin return for this subtraction. The 2011 subtraction will be limited to $750 for one qualifying person and $1,500 for more than one. These amounts are set to increase until they reach the current federal limits of $3,000 for on individual and $6,000 for more than one, which is set to occur in 2014.

Additonally, the My Tax Account page has also been redone – hope everyone likes the new improvements.

So keep these fun updates in mind as we enter not just a new year, but a new tax season! There is nothing better than tax updates to help keep us on our toes!

Pictures from September 2011 Seminar

Quickbooks Guru's in Training

Laurie Ziegler – Quickbooks Guru

Serious Discussion in the Hall

Sign-In Table

Pictures from September 2011 Seminar

Pat Handlos – Know Your Basics Seminar

Don Wollersheim- Real Estate Tax Specialist

Katie Jansen – Know Your Basics Seminar

Tom Copeland – Schedule C Day Care

Lunch is Served.

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"Next to being shot at and missed, nothing is really quite as satisfying as an income tax refund."
~ F. J. Raymond

WE SPEAK TAX!

EA's in the News

In November, EA's Tim Wollersheim and Katie Jansen ran a two day Quickbooks seminar open to their clients and the general public. In order to promote the seminar Tim and Katie spoke on local Manitowoc radio station, WCUB, to promote the seminar and good accounting preparation that makes for less stressful tax preparation.

Get your name and the designation out there on the airwaves, in the paper and on the internet.

Remember, we are going to have more competetion now and more confusion with prescene of RTRP's. As EA's we shouldcontinue to be actively involved in our communities and educating the public about what an EA is.

Katie Jansen on WCUB