IRS kicks off tax filing season with reminders of law changes and new developments

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For the new year, IRS greets individual and business taxpayers with a batch of Fact Sheets that alert them to tax law changes and other developments that affect the filing of their 2010 return. The IRS news release (IR-2011-1) can be viewed on the IRS website at http://www.irs.gov/newsroom/article/0,,id=233910,00.html.

Three extra days to file and pay. Because of the Emancipation Day holiday in the District of Columbia, the due date of Form 1040 for 2010 is Apr. 18, 2011, instead of Apr. 15, 2011. The Apr. 18 deadline applies to any return or payment normally due on Apr. 15, and to the deadline for requesting a tax-filing extension and for making 2010 IRA contributions.

Special charitable contributions for certain IRA owners. Taxpayers who are age 70 1/2 or older can make qualified charitable distributions (QCDs)—tax-free distributions to a charity from an Individual Retirement Account (IRA) of up to $100,000. QCDs are counted in determining whether the owner has met the IRA's required minimum distribution (RMD). Where individuals have made nondeductible contributions to their traditional IRAs, QCD amounts are treated as coming first from taxable funds, instead of proportionately from taxable and nontaxable funds. These distributions aren't subject to the charitable contribution percentage limits since they are neither included in gross income nor claimed as a deduction on the taxpayer's return. These rules are available for charitable IRA transfers made in tax years beginning before Jan. 1, 2012. In addition, a taxpayer can elect for such a distribution made in January of 2011 to be treated as if it were made on Dec. 31, 2010. This option is available for distributions from IRAs, regardless of whether the owners itemize their deductions. Distributions from employer-sponsored retirement plans, including SIMPLE IRAs and simplified employee pension (SEP) plans, aren't eligible to be treated as a QCD. QDCs are reported on Form 1040, Line 15.

More taxpayers qualify for Roth IRA conversions. The 2010 tax year is the first in which taxpayers may convert funds in regular IRAs (as well as qualified plan funds) to Roth IRAs regardless of their income level. In addition, taxpayers have the choice of paying the tax on the conversion when they file their 2010 returns or deferring the tax hit on the conversion to the 2011 and 2012 tax years. For 2010 rollovers and conversions only, half of the resulting income must be included in income in tax year 2011 and the other half in 2012, unless the taxpayer chooses to include all of it in income in 2010. Taxpayers must report any 2010 conversion on Form 8606 for tax year 2010.

Personal exemptions and itemized deductions are no longer phased out*.* For 2010 (and for 2011 and 2012), no overall income limits for personal and dependency exemptions and itemized deductions apply. Limitations continue to apply to particular itemized deductions, such as medical and dental expenses, certain miscellaneous itemized deductions, and casualty and theft losses.

Adoption credit is expanded. The maximum adoption credit for 2010 is increased to $13,170 per child, and the credit is refundable. In addition to filling out Form 8839, Qualified Adoption Expenses, taxpayers must include with their return an adoption order or decree or certain other documents. As a result, taxpayers claiming the adoption credit must file paper tax returns.

Self-employed health insurance deduction. In 2010, eligible self-employed individuals can use the self-employed health insurance deduction to reduce their Social Security self-employment tax liability in addition to their income tax liability. This deduction is claimed on Form 1040, Line 29. In 2010, this amount is also entered on Schedule SE, Line 3, thus reducing net earnings from self-employment subject to the 15.3 percent social security self-employment tax. Premiums paid for health insurance covering the taxpayer, spouse and dependents generally qualify for this deduction. Premiums paid for coverage of an adult child, under age 27 at the end of the year, for the time period beginning on or after Mar. 30, 2010, also qualify for this deduction, even if the child is not the taxpayer's dependent.

First-time homebuyer credit. The first time homebuyer tax credit claimed for homes bought after Apr. 8, 2008 and before Jan. 1, 2009, generally must be recaptured in equal installments over a 15-year period that begins in 2010. Many of those affected by this requirement received reminder letters from IRS. In addition, a taxpayer generally must repay any credit claimed for 2008 or 2009 if he sold the home in 2010 or he stopped using it as his main home in 2010. Check box c and report the amount from line 16 of Form 5404, First-Time Homebuyer Credit and Repayment of the Credit.

Deduction for corrosive drywall. IRS allows individuals with corrosive drywall to apply a safe harbor formula to treat the costs of repairing the defective drywall as a casualty loss. The safe harbor applies for original and amended federal income tax returns filed after Sept. 29, 2010. IRS won't challenge this treatment of damage resulting from corrosive drywall as a casualty loss (which might otherwise be difficult to achieve under the regular rules) if the loss is determined and reported under the safe harbor rule. A taxpayer who has a pending claim (or intends to pursue reimbursement) may claim a loss for 75% of the unreimbursed amount paid during the tax year to repair damage to the taxpayer's personal residence and household appliances that resulted from corrosive drywall.

Standard mileage rates for 2010. The standard mileage rate for business use of a car, van, pick-up or panel truck is 50 cents for each mile driven. The rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is 16.5 cents per mile. The rate for using a car to provide services to charitable organizations is set by law and remains at 14 cents a mile.

AMT exemption is increased. For tax-year 2010, the alternative minimum tax (AMT) exemption increases to: $72,450 for a married couple filing a joint return and qualifying widows and widowers; $36,225 for a married person filing separately; and $47,450 for singles and heads of household.

Tax breaks extended. Several tax breaks that expired at the end of 2009 were renewed and can be claimed on 2010 returns, including:

- State and local general sales tax deduction in lieu of state and local income taxes, claimed on Schedule A , Line 5.

- Higher education tuition and fees deduction, claimed on Form 8917.

- Educators' $250 expense deduction, claimed on Form 1040, Line 23 or Form 1040A Line 16.

- District of Columbia first-time homebuyer credit, claimed on Form 8859.

Small business health care tax credit. Subject to a phaseout, an eligible small employer (ESE) may claim a credit (on Form 8941) equal to a percentage (35% in tax years beginning in 2010 to 2013; 50% in tax years beginning after 2013) of nonelective contributions for health insurance for its employees. An ESE is generally an employer with no more than 25 full-time equivalent employees (FTEs) employed during its tax year, and whose employees have average annual wages of no more than $50,000.

General business credit for employers. General business credits can offset both regular income tax and AMT of eligible small businesses. This provision is effective for any general business credits determined in the first tax year beginning after Dec. 31, 2009, and to any carryback of such credits.

Expensing election. For tax years beginning in 2010 and 2011, small businesses can expense up to $500,000 of the first $2 million of certain business property placed in service during the year.

50% or 100% bonus depreciation. Businesses that acquire and place qualified property into service after Sept. 8, 2010 and before Jan. 1, 2012 (Jan. 14, 2013 in the case of certain longer-lived and transportation property) can claim a first-year depreciation allowance of 100% of the cost of the property. Businesses that acquire qualified property during 2010 on or before Sept. 8, 2010 can claim a first-year bonus depreciation allowance of 50% of the cost of the qualified property.

Depreciation limits on business vehicles. The total depreciation deduction (including the section 179 expense deduction and the 50% or 100% bonus depreciation) a taxpayer can take for a passenger automobile used in a business and first placed in service in 2010 is increased to $11,060 ($11,160 for a truck or van). If bonus depreciation can't be taken for a passenger automobile, truck, or van used in a business and first placed in service in 2010, the maximum deduction that can be taken is $3,060 for a passenger automobile ($3,160 for a truck or van).

Small businesses must use EFTPS for deposits. The paper coupon system for Federal Tax Deposits is no longer be maintained by the Treasury Department after Dec. 31, 2010. Most businesses must now make deposits and pay federal taxes through the Electronic Federal Tax Payment System (EFTPS).

Making work pay credit. The making working pay credit is available to eligible individuals for a tax year beginning in 2010. The credit, which is refundable, is the lesser of (1) 6.2% of an individual's earned income or (2) $400 ($800 for a joint return). It is phased out for higher income taxpayers. Schedule M is used to compute the amount of the credit, which generally was paid in advance through reduced withholding.