What's new on the 2010 Form 1040 and related forms and schedules—

Jan. 5, 2011

IRS has released on its website a number of the final tax forms and instructions for the 2010 tax year, including Form 1040 and related forms and schedules. They reflect many law changes that apply for the 2010 tax year, including changes made by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Relief Act) and the Small Business Jobs Act of 2010.

This Practice Alert Part II highlights key changes made on the 2010 return. Part I examined Form 1040 itself (see Newsstand e-mail 1/3/2011). This Part covers related forms and schedules.

Form 1040—Schedule A, Itemized Deductions [http://www.irs.gov/pub/irs-pdf/f1040sa.pdf]

Line 1. Medical and dental expenses. The standard mileage rate for medically-related use of an auto is 16.5¢ per mile for 2010.

Line 7. New motor vehicle taxes. The itemized deduction for state or local sales or excise taxes on the purchase of a new motor vehicle no longer applies (unless the taxpayer bought the vehicle in 2009 after Feb. 16 and paid the tax in 2010).

Line 16. Gifts to charity. The provision that excludes up to $100,000 of qualified charitable distributions (distributions to a charity from an Individual Retirement Account) has been extended. If a taxpayer elects, a qualified charitable distribution made in January, 2011, will be treated as made in 2010. See Weekly Alert ¶ 33 12/23/2010 .

Line 20. Casualty or theft losses. For 2010, a personal casualty or theft loss must only exceed $100 to be deductible (had been $500 for 2009).

A taxpayer who paid for repairs to his personal residence or household appliances because of corrosive drywall that was installed between 2001 and 2008 may be able to deduct those amounts on line 20.

The special limitation rule for an area determined by the President to warrant federal disaster assistance does not apply for 2010.

Line 21. Unreimbursed employee expenses. The standard mileage rate is 50¢ per mile for 2010.

Line 29. Total itemized deductions. For 2010, taxpayers with higher levels of AGI no longer face a reduction in their itemized deductions.

Form 1040—Schedule B, Interest and Ordinary Dividends [http://www.irs.gov/pub/irs-pdf/f1040sb.pdf]

Line 1. Interest. Accrued interest on Series E or EE U.S. savings bonds issued in '80 is taxable.

Line 3. Excludable interest on Series EE or Series I U.S. savings bonds. The exclusion for education related savings bond interest phases out at higher income levels. For 2010, the phaseout begins at modified adjusted gross income above $70,100 ($105,100 on a joint return).

Form 1040—Schedule C, Profit Or Loss From Business [http://www.irs.gov/pub/irs-pdf/f1040sc.pdf]

Part I. Income. A taxpayer can elect to have the debt discharge income from the reacquisition of an applicable debt instrument in 2010 included in gross income ratably over five tax years beginning in 2014.

Part II. Expenses. Line 9. Car and truck expenses. The standard mileage rate is 50¢ per mile for business travel during 2010.

Part II. Expenses. Line 13. Depreciation and section 179 expense. See entries for Form 4562, below.

Part II. Expenses. Line 14. Employee benefit programs. If the taxpayer's line 14 expenses include the cost of providing health insurance coverage to his employees, he must reduce the expenses by the amount of any new credit for small employer insurance premiums determined on Form 8941.

Part II. Expenses. Line 31. Net profit or loss. If the taxpayer's Schedule C activity includes processing a farm commodity, any losses the taxpayer has from that activity may be reduced or eliminated.

Part V. Other Expenses. For startup costs, see Part VI of Form 4562, below.

Reportable transactions penalties limited. The penalties for failure to disclose a reportable transaction have changed (see Federal Taxes Weekly Alert 09/30/2010).

Form 4562, Depreciation and Amortization [http://www.irs.gov/pub/irs-pdf/f4562.pdf]

Part I. Election to expense certain tangible property under Sec. 179. For tax years beginning in 2010 (or 2011), the amount that may be expensed under Code Sec. 179 is $500,000, with the investment-based phaseout beginning at $2,000,000.

For a tax year beginning in 2010 or 2011, a taxpayer may elect to treat up to $250,000 of qualified real property (qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property) as Code Sec. 179 property.

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

Part V. Listed property. First-year luxury auto limits for vehicles first placed in service in 2010 are $11,060 for autos and $11,160 for light trucks or vans (for vehicles ineligible for bonus depreciation, or if taxpayer elects out, $3,060 and $3,160, respectively).

For tax years beginning after Dec. 31, 2009, cellular telephones (cell phones) and other similar telecommunications equipment are removed from the categories of “listed property” under Code Sec. 280F .

Part VI. Amortization. An increased startup expense deduction ($10,000 limit, with $60,000 phaseout threshold) applies for tax years beginning after 2009 and before 2011.

Form 1040—Schedule D, Capital Gains And Losses [http://www.irs.gov/pub/irs-pdf/f1040sd.pdf]

For qualified small business stock (QSBS) acquired after Sept. 27, 2010 and before Jan. 1, 2011, no regular tax or AMT is imposed on the sale of QSBS held for more than five years.

Gain from the sale of the taxpayer's main home that is from a period of nonqualified use can no longer be excluded. A period of nonqualified use is any time after 2008 when the property was not used as the taxpayer's main home.

Form 1040—Schedule E, Supplemental Income and Loss [http://www.irs.gov/pub/irs-pdf/f1040se.pdf]

Part I. Income or Loss from Rental Real Estate and Royalties. Line 20. Depreciation. See Form 4562 above for discussion of increased section 179 expensing and the special depreciation allowance.

Part II. Income or Loss from Partnerships and S Corporations. If a taxpayer files Schedule E because he has an interest in a partnership or S corporation involved in farming, any losses he has from farming businesses may be reduced or eliminated if the entity accepted certain subsidies.

Reportable transaction penalties limited. The penalties for failure to disclose a reportable transaction have changed (see Federal Taxes Weekly Alert 09/30/2010).

Form 1040—Schedule F, Profit Or Loss From Farming [http://www.irs.gov/pub/irs-pdf/f1040sf.pdf]

Part II. Farm Expenses. Line 12. Car and truck expenses. The standard mileage rate is 50¢ per mile for business travel during 2010.

Part II. Farm Expenses. Line 17. Depreciation and section 179 expense. See Form 4562 above for discussion of increased section 179 expensing and the special depreciation allowance.

Part II. Farm Expenses. Line 17. Employee benefit programs. If the taxpayer's line 14 expenses include the cost of providing health insurance coverage to his employees, he must reduce the expenses by the amount of any new credit for small employer insurance premiums determined on Form 8941.

Part II. Farm Expenses. Line 34. Other expenses. If the taxpayer's business began in 2010, he can deduct up to $5,000 of certain business start-up costs incurred after Oct. 22, 2004, in tax years before 2010, and up to $10,000 of certain business start-up costs paid or incurred in 2010.

Part II. Farm Expenses. Line 36. Net farm profit (or loss). For tax years beginning after 2009, the farming loss of a non-C corporation taxpayer is limited for any tax year in which certain government subsidies are received. The loss is limited to the greater of (a) $300,000 ($150,000 for a married person filing separately), or (b) the taxpayer's total net farm income for the prior five tax years.

Form 1040—Schedule SE, Self-Employment Tax [http://www.irs.gov/pub/irs-pdf/f1040sse.pdf]

Line 3. For 2010, the income tax deduction allowed to self-employeds for the cost of health insurance for themselves, their spouses, dependents, and children who haven't attained age 27 as of the end of the tax year is also allowed in calculating net earnings from self-employment for purposes of the self-employment tax. On line 3 of Schedule SE, the self-employed individual reduces his net self-employment income by the amount of his self-employed health insurance deduction entered on line 29 of Form 1040 or Form 1040 NR.