

SIERRA TAX SERVICE

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NEWSLETTER

QUESTIONNAIRE BOOKLET

You may visit our website www.sierrataxservice.com to print the booklet. Just click on Questionnaire . If you do not have the internet or email please request the booklet be mailed to you by calling the office. If you are a former Sharp client and want the organizer we can email or mail it to you. Just give us a call.

CHECKLIST: If you do not use our booklet or the organizer then please complete the checklist at the end of this newsletter and bring it to your appointment.

JANUARY DISCOUNTS: The 10% discount will apply to appointments from January 4th through January 20th. The 5% discount runs from January 21st to January 31st. Please call as soon as you can to take advantage of these early discount offers.

GETTING READY: If you're like most taxpayers, you find yourself with an ominous stack of "homework" around TAX TIME! Unfortunately, the job of pulling together the records for your tax appointment is never easy, but the effort usually pays off when it comes to the extra tax money you save! When you arrive at your appointment fully prepared, you'll have more time to:

1. Consider every possible legal deduction;
2. Better evaluate your options for reporting income and deductions to choose those best suited to your situation;
3. Explore current law changes that affect your tax status;
4. Talk about possible law changes and discuss tax planning alternatives that could reduce your future tax liability.

CHOOSING YOUR BEST ALTERNATIVES: Tax law allows a variety of methods for handling income and deductions on your return. Choices made at the time you prepare your return often affect not only the current year, but later year returns as well. When you're fully prepared for your appointment, you will have more time to explore all avenues available for lowering your taxes.

For example, the law allows choices in transactions such as:

Sales of property

If you're receiving payments on a sales contract over a period of years, you are sometimes able to choose between reporting the whole gain in the year you sell or over a period of time, as you receive payments from the buyer.

Depreciation

You're able to deduct the cost of your investment in certain business property using different methods. You can either depreciate the cost over a number of years, or in certain cases, you can deduct them all in one year.

Higher Education Expenses

If you are paying college expenses for yourself, your spouse, or your dependent(s), you may qualify for a tax benefit of either an above-the-line tax deduction or a tax credit.

WHERE TO BEGIN?

Ideally, preparation for your tax appointment should begin in January of the tax year with which you're working. Right after the New Year, set up a safe storage location—a file drawer, a cupboard, a safe, etc.

As you receive pertinent records, file them right away, before they're forgotten or lost. By making the practice a habit, you'll find your job a lot easier when your actual appointment date rolls around. Other general suggestions to consider for your appointment preparation include ...

- Segregate your records according to income and expense categories. For instance, file medical expense receipts in an envelope or folder, interest payments in another, charitable donations in a third, etc. If you receive an organizer or questionnaire to complete before your appointment, make certain you fill out every section that applies to you. (Important: Read all explanations and follow instructions carefully to be sure you don't miss important data. Organizers are designed to remind you of transactions you may miss otherwise.)
- Keep your annual income statements (e.g., W-2s from employers, 1099s from banks, stockbrokers, etc., and K-1s from partnerships, etc.) separate from your other documents. Be sure to take these documents to your appointment, including the instructions for K-1s!
- Write down questions you may have so you don't forget to ask them at the appointment. Review last year's return. Compare your income on that return to the income for the current year. For instance, a dividend from ABC stock on your prior-year return may remind you that you sold ABC this year and need to report the sale.
- Make certain that you have social security numbers for all your dependents. The IRS checks these carefully and can deny deductions for returns filed without them.
- Compare deductions from last year with your records for this year. Did you forget anything?
- Collect any other documents and financial papers that you're puzzled about. Prepare to bring these to your appointment so you can ask about them.

ACCURACY EVEN FOR BASIC DETAILS: To ensure the greatest accuracy possible in all details on your return, make sure you review personal data. Check name(s), address, social security number(s), and occupation(s) on last year's return. Note any changes for this year. Although your telephone number isn't required on your return, current home and work numbers are always helpful should questions occur during return preparation.

Marital Status Change

If your marital status changed during the year, if you lived apart from your spouse, or if your spouse died during the year, list dates and details. Bring copies of prenuptial, legal separation, divorce, or property settlement agreements, if any, to your appointment.

Dependents

If you have qualifying dependents, you will need to provide the following for each:

- a) First and last name
- b) Social security number
- c) Birth date
- d) Number of months living in your home
- e) Their income amount (both taxable and nontaxable)

If you have dependent children over age 18, note how long they were full-time students during the year. To qualify as your dependent, an individual who is not a qualifying child must pass several strict dependency tests. If you think a person qualifies as your dependent (but you aren't sure), tally the amounts you provided toward his/her support vs. the amounts he/she provided. This will simplify making a final decision about whether you really qualify for the dependency deduction.

Some Transactions Deserve Special Treatment

Certain transactions require special treatment on your tax return. It's a good idea to invest a little extra preparation effort when you have had the following transactions:

- **Sales of Stock or Other Property:** All sales of stocks, bonds, securities, real estate, and any other type of property need to be reported on your return, even if you had no profit or loss. List each sale and have the purchase and sale documents available for each transaction. New for 2011, when a broker knows the purchase price of the stock that was sold during the year, the brokerage firm is required to show that amount on the broker transaction report, Form 1099-B. Purchase date, sale date, cost, and selling price must all be noted on your return. Make sure this information is contained on the documents you bring to your appointment.

- **Gifted or Inherited Property:** If you sell property that was given to you, you need to determine when and for how much the original owner purchased it and its value when you received it. If you sell property you inherited, you need to know the date of the decedent's death and the property's value at that time. You may be able to find this information on estate tax returns or in probate documents. If the property was inherited from someone who died in 2010, special complicated rules may apply in determining your inherited basis. Please call for further details.
- **Reinvested Dividends:** You may have sold stock or a mutual fund in which you participated in a dividend reinvestment program. If so, you will need to have records of each stock purchase made with the reinvested dividends. If you sold mutual fund shares, you may have received a statement from the fund that shows your average cost basis for the shares sold and any "wash sale" adjustments. Be sure to bring this statement to your appointment along with the purchase and reinvestment records you have.
- **Sale of Home:** The tax law provides special breaks for home sale gains, and you may be able to exclude all (or a part) of a gain on a home if you meet certain ownership, occupancy, and holding period requirements. If you file a joint return with your spouse and your gain from the sale of the home exceeds \$500,000 (\$250,000 for other individuals), record the amounts you spent on improvements to the property. Remember too, possible exclusion of gain applies only to a primary residence, and the amount of improvements made to other homes is required regardless of the gain amount. Be sure to bring a copy of the sale documents (usually the closing escrow statement) with you to the appointment.
- **Home Energy-Related Expenditures:** If you made home modifications to conserve energy (such as special windows, roofing, doors, etc.) or installed solar, geothermal, or wind power generating systems, please bring the details of those purchases and the manufacturer's credit qualification certification to your appointment. You may qualify for a substantial energy-related tax credit.
- **Car Expenses:** Where you have used one or more automobiles for business, list the expenses of each separately. To claim auto-related business expenses, the government requires that you provide your total mileage, business miles, and commuting miles for each car on your return, so be prepared to have that information available. If you were reimbursed for mileage through an employer, know the reimbursement amount and whether the reimbursement is included in your W-2. Mileage rates for 2011 changed mid-year so we need to know your business miles from 1/1 - 6/30 and then from 7/1 - 12/31.
- **Charitable Donations:** Cash contributions (regardless of amount) must be substantiated with a bank record or written communication from the charity showing the name of the charitable organization, date, record or written communication from the charity showing the name of the charitable organization, date, and amount of the contribution. Cash donations put into a "Christmas kettle," church collection plate, etc are not deductible unless verified by receipt from the charitable organization. For clothing and household contributions, the items donated must generally be in good or better condition, and items such as undergarments and socks are not deductible. A record of each item contributed must be kept, indicating the name and address of the charity, date and location of the contribution, and a reasonable description of the property. Contributions valued less than \$250 and dropped off at an unattended location do not require a receipt. For contributions of \$500 or more, the record must also include when and how the property was acquired and your cost basis in the property. For contributions valued at \$5,000 or more and other types of contributions, please call this office for additional requirements.
- **Foreclosure or Cancellation of Debt:** If you lost your home to a foreclosure, short sale, or voluntary re-conveyance, you will have to report both the sale of the home and cancellation of debt (COD) income. However, you may be able to exclude the gain and the COD income under provisions of the tax code. The lender may issue either a Form 1099-A or 1099-C or both. These forms should be retained as they include valuable information needed to report the transaction and exclude debt relief income. It may also be appropriate to contact this office in advance to determine exactly what additional information must be assembled in order to complete your return. If you had credit card debt discharged, the amount discharged is taxable income and you will receive a 1009-C. If, at the time the debt was forgiven, you were insolvent (where your liabilities were more than your assets), you will be able to exclude the debt relief income to the extent your liabilities exceeded your assets. Please call the office in advance of your appointment to determine what information will be needed.

| YES | NO | CHECK LIST |
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| | | Did you help support anyone? Please provide social security cards if requested. |
| | | Do you wish to designate a portion of your taxes to the Presidential Campaign Fund? (this will not increase your tax) |
| | | Did you use your car for business purposes other than commuting to and from work or did you travel between a first & second job? |
| | | Were you provided a company car for business and/or personal use? If so provide documentation to show how the car was treated by your employer for tax purposes. Was any use other than your personal use of the company vehicle included in your W-2? ___Yes ___No |
| | | Were you reimbursed by your employer for car, travel or entertainment expenses? If so, list amount \$_____. Was this amount included in your W-2? ___Yes ___No |
| | | Did you move because of a job change? If so, have your employer's statement available if they paid for move. |
| | | Do you or your spouse have any kind of retirement plan, such as pension, profit sharing, 401K or stock-purchase plan, or an IRA or Keogh account, or tax-sheltered annuity? If so, circle the applicable plans. |
| | | Have you contributed to your IRA or self-employed retirement plan for this year? If not would you like to? ___Yes ___No |
| | | Were you or your spouse at least 70 1/2 years of age on December 31? |
| | | Did you receive a distribution from a pension plan, profit sharing plan, tax-sheltered annuity, deferred compensation plan, IRA or Keogh? If so, please provide 1099-R. |
| | | Did you withdraw IRA or Keogh funds from one financial institution and re-deposit the funds at another institution during the year? |
| | | Do you have a foreign bank account or foreign income? |
| | | Do you have business or rental property? |
| | | Did you contribute to a Coverdell Education Savings Account? If so, how much? \$_____ |
| | | Did you sell or gift any ___ Stock, ___ Land, ___ Securities, ___ Partnership interests, or ___ Other Property, or ___ Have any become worthless? |
| | | Did you sell or gift any real estate last year? If so, provide the final settlement statements for the purchase and sale. If you sold your own home, provide a list of all improvements: If you purchased another home, provide the settlement statement for the purchase. |
| | | Does anyone owe you money for which you have exhausted all reasonable efforts to collect? |
| | | Did you have any income or loss from a ___ Partnership, ___ S Corporation, ___ Estate or ___ Trust? If so, provide K-1. |
| | | Did you have a casualty or theft loss? |
| | | Do you own a mobile home, motor home or boat that could be considered your vacation or "second" home? |
| | | Did you travel away from home as a volunteer for a charitable organization? |
| | | In order to work or attend school full time, did you have expenses for the care of your child or another dependent? |
| | | Did you pay quarterly estimated taxes? |
| | | Did you pay additional federal or state tax last year as a result of a government audit or notice, or because you filed a late return? |
| | | Did you incur any adoption expense last year? |
| | | Are you or your spouse permanently or totally disabled and under age 65? |
| | | Do you anticipate any substantial change in your income, deductions or tax withholding for next year? |
| | | Did you purchase a new or used vehicle, boat or motor home last year? |
| | | Did you install any energy efficient property to your home? Windows, Doors, Insulation, Water Heat etc. Appliances do not count. |