



# Illinois Tax Law Bulletin

January 2012

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## ACCOUNTING SERVICES:

- ◆ Individual and Business Tax Preparation
- ◆ IRS Audit Defense
- ◆ New Business Consultations
- ◆ State Tax Defense
- ◆ Monthly or quarterly financial statement write-ups

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- ◆ Wills, Trusts, Probate and Estate Planning
- ◆ Bankruptcy Matters (Debt Relief Agency)
- ◆ Business Transactions and Litigation
- ◆ Property Tax Appeals
- ◆ Residential and Commercial Real Estate Transactions



## A Message from Bryan:



*Thank you for your continued business and we look forward to working with you for all your accounting and legal needs!*

Dear Client,

2012 is an exciting year as our firm is celebrating its 10-year anniversary. Please join us at our upcoming seminars this year and our anniversary and client appreciation event this summer.

Additionally, the new year brought about numerous changes to both the tax code and Illinois compiled statutes, several important ones are noted in this newsletter.

The greatest compliment that you can pay us is that of a referral. As you will read below, we are offering a special discount

to new clients and those who refer new clients in 2012.

I look forward to seeing you in the coming months and thank you again for your continued business.

Sincerely,

Bryan A. Gutraj, CPA



## New Client & Referral Special 25% Off

- \* We are offering a one-time discount of 25% off for each new paying client you refer to us in 2012 for any service.
- \* Additionally, the person you refer will receive a 25% discount off their services this year!

Offer expires 12/31/2012 and cannot be combined with any other discount

IRS CIRCULAR 230 NOTICE: To ensure compliance with IRS requirements, we inform you that any U.S. tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

# New Illinois Laws



**Comptroller (HB 1527/PA 97-0269):** Allows the Comptroller to enter into reciprocal offset agreements with the federal government and would require the Comptroller to reduce State payments to those owing federal nontax debts and remit the amount to the Treasury.

**Debt Collection (HB 1513/PA 97-0120):** Allows employers to deduct wages without the employee's consent in order to collect a debt owed to a municipality or to recoup excess money that was paid by a municipality in error.

**Death Reporting (HB 1259/PA 97-0111):** Requires the electronic reporting system for death registrations to transfer information to DHFS at least once every 3 months for the purpose of updating the Medicaid recipient roster.

**ID Theft Protection (SB 151/PA 97-0388):** Prohibits the use, possession, or transfer of a radio frequency identification device (RFID) capable of obtaining or processing personal identifying information from a credit or debit card to use the new chip technology for an illegal purpose.

**Identity Protection (HB 3513/PA 97-0139):** States that an individual's social security number may not be printed on a wristband or on the outside of any file associated with the products or services of the person.

**License Expiration Deferment (HB 3331/PA 97-0079):** Allows the Secretary of State to defer the expiration of the driver's license for a member of the Armed Forces on active duty outside the State, or their spouse or child, for up to 120 days, currently only 90, after the licensee's return to Illinois.

**Military Children Education (HB 3035/PA 97-0216):** Extends the Opportunity for Military Children Act until 6/30/2015

**Payday Loan Act Restrictions for Military (HB 3257/PA 97-0413):** States that a creditor charging an annual interest rate greater than 36 percent to a member of the military or their dependents is in violation of the Payday Loan Reform Act.

**Seat Belts (HB 219/PA 97-0016):** Requires adult passengers in the back seat of a vehicle to wear a seat belt, and also requires those 18 and younger riding in a taxi cab for school-related purposes to wear a seat belt.

**Specialty Plates (HB 2938/PA 97-0409):** Establishes that the Secretary of State (SOS) must receive 1,500 applications for a specialty plate within two years or the SOS's authority to issue the plate will be nullified. Requires charities that are to receive funds from the sale of a specialty license plate to meet the registration and reporting requirements of the Charitable Trust Act and the Solicitation for Charity Act each year. Provides that specialty plates will be discontinued if their registrations fall below 1,000 a year, and requires SOS to recall all issued plates of that type; vehicle owners who have the recalled plates are entitled to receive different plates without a fee.

**Taxation Disclosure Act (SB 43/PA 97-0353):** Directs the Dept. of Revenue to create an online searchable data base of all tax rates in the state, which will be publicly available by January 1, 2012. It must include all taxes: income, sales, property, and business taxes imposed by taxing districts and by the State.

**Utility Access (HB 1260/PA 97-0077):** Provides that service members and veterans are covered under the no utility disconnection law during the winter months.

## Mileage Rates:



### January 1, 2011- June 30, 2011

Business	51 cents/mile
Medical or Moving	19 cents/mile
Charitable	14 cents/mile

### July 1, 2011- December 31, 2012 (unless modified by IRS)

Business	55.5 cents/ mile
Medical or Moving	23 cents/mile
Charitable	14 cents/mile

Taxpayers always have the option of calculating the actual costs of using

their vehicle rather than using the standard mile-

# Federal Tax Law Updates

## INDIVIDUALS

### Medical Expenses

The recent Healthcare law imposes a new rule in 2011 that Health Savings Accounts (HSAs), Health Reimbursement Accounts (HRAs) and Flexible Spending Accounts (FSAs) cannot be used for non-prescription medicine. This is in effect a tax increase on anyone with such an account. Also, an annual tax on brand name pharmaceutical manufacturers will increase the cost of brand name drugs (even though this tax isn't paid directly by individuals). Also, Breast pumps are now considered qualified medical expenses.

### Credit for Energy-Saving Home Improvements

The 30 percent tax credit of the cost of energy-saving home improvements was extended by the Tax Relief Act of 2010 through 2011.

### Income Phase outs for Itemized Deductions and Personal Exemptions

The amount of itemized deductions and personal exemptions you can take are normally phased out as your income rises. In 2010, however, those income limits were repealed, and the recent tax relief act extends the repeal for two more years, through 2012.

### Child Tax Credit

If the credit exceeds the filer's tax liability, all or part of the credit will be refunded if the filer earns more than \$3,000 in 2011, down from \$12,550 in earnings previously. The credit of \$1,000 per eligible child continues through 2012. The credit was extended by two years by the 2010 Tax Relief Act.

### Direct Donations of IRAs to Charity

IRA owners age 70½ and older can donate up to \$100,000 of their IRAs to charity through 2012 without having to report the withdrawal as income and deduct the donation as a charitable contribution. Deductions will not be limited by the Adjusted Gross Income cap on charitable contributions or the itemized deduction phase-out. Keeping IRA distributions out of adjustable gross income in the first place can also have other benefits. Amounts donated in this way count as all of part of the IRA owner's required minimum distribution.

### Tax Rate on Capital Gains and Dividends

The tax rate on capital gains from the sale of assets held longer than one year remains at zero percent for people in the 10 percent or 15 percent tax brackets. The 15 percent maximum tax rate on long-term capital gains for taxpayers in higher brackets also remains the same. Similarly, the special 5 percent maximum rate on dividends of taxpayers in the 10 percent and 15 percent tax brackets remains at zero percent.

### Tax Relief for Taxpayers Who Lose Their Homes in Foreclosure

Beginning in 2013, debt forgiven in connection with the foreclosure of a principal residence will once again be considered taxable income (unless you are in bankruptcy or insolvent).

## COLLEGE SAVINGS

### Student Loan Interest Deduction

The Student Loan Interest Deduction has been extended for two more years. Starting in 2013, income limits for individuals or married couples

drop and taxpayers can only deduct interest from the first 5 years of their student loans.

### Tax Credit for College Tuition

For 2010 through 2012, the Hope credit is replaced by a new credit. Now called the American Opportunity Tax Credit, it provides a credit of up to \$2,500 per student per year for four years of college. It now also covers the cost of books, and begins to phase out at \$80,000 of Adjusted Gross Income for single filers and \$160,000 for joint filers. If the credit is more than your income tax liability, 40 percent of it is refundable. Also, the full credit is allowed against the Alternative Minimum Tax.

## ESTATE PLANNING

### Estate Tax

For individuals dying after 2010, the federal estate tax continues with a \$5 million exemption and a 35 percent maximum rate. The current federal estate tax rules are scheduled to end after 2012.

### Basis of Assets from a Decedent

Fair market value of basis for assets acquired from a decedent reinstated for 2011.

## BUSINESSES

### 1099 Reporting Requirements

Starting in 2011, any business that does more than \$600 in business with any vendor will be required to submit a 1099 form. This massive increase in paperwork will increase the cost of every small and large business and will likely increase prices on the goods and services that these businesses provide. For example, if a business purchases a \$1,000 computer from Amazon, that business will be required to file a 1099 with the IRS, something not previously required for vendors organized as corporations.

### Section 179 Expense Deduction

The maximum amount of equipment placed in service in 2011 that businesses can expense was increased to \$500,000. And the annual investment limit was raised to \$2,000,000. Thus, you won't begin to lose the benefit of expensing until you place more than \$2,000,000 of assets in service in 2011. The allowance drops to \$125,000 for tax years beginning in 2012.

### Tax-Free Parking for Employees

Companies can pay for \$230 a month of parking tax-free for employees. The cap on tax-free transit passes is now \$230 a month as well, the same as for parking.



# Tax Saving Tips

1. **Review your deductions toward the end of each year.** If you are close to the cutoff point between itemizing or taking the standard deduction, consider the advantage of bunching your deductible expenses every other year. You can then alternate between itemizing one year and taking the standard deduction the next, saving tax dollars by doing so.
2. **Maximize dependency deductions.** If you are helping to support an elderly parent, your college-age child, or others, know the requirements that will give you a dependency exemption. Do not let poor planning or paying for the wrong expenses cost you a tax-cutting dependency exemption.
3. **Take a tax deduction for bad debts.** If you lent money and it is beginning to look as though the loan is uncollectible, take steps to provide evidence of your attempts to collect. These provide evidence of your attempts to collect. These steps will help substantiate a bad debt deduction on your tax return.
4. **Sell an option instead of the property.** If you are selling property but want no more income in the current year, consider selling an option to purchase. The amount you receive for the option will be taxable in the year the option is exercised rather than in the current year.
5. **Your marital status can have a major impact on your taxes.** Sometimes changing the date for a wedding or the timing of a divorce can be a major tax saver. A divorce certainly requires some tax planning. How you structure support payments, who gets to claim the tax exemptions for dependent children, and how you split up assets can make a huge tax difference to both parties.
6. **If you are selling mutual fund shares,** consider using the specific identification method rather than the average cost method to determine your cost basis. This may allow you to fine-tune your tax planning by squeezing some extra gain or loss out of the sale.
7. **Give appreciated property to charity rather than cash.** You will generally get a charitable deduction for the property's market value without having to pay capital gains tax on the appreciation. Get details before you give, however, because other restrictions could apply.
8. **If you turned 70 1/2 during the year,** you have until December 31 to decide whether to take your first required IRA distribution. You can wait until April 1 of the following year to take your first distribution, but then you will have to take two distributions that year. Unless you are still working, these rules apply to qualified retirement plans, too. They do not apply to Roth IRAs.



# Make note of upcoming tax dates

- **January 17, 2012** - IRS begins accepting electronically filed tax returns, but you must have received all your tax documents prior to filing.
  - **January 31, 2012** – Deadline for employers to mail out Form W-2 and for businesses to furnish Form 1099 statements reporting, among other things, non-employee compensation, bank interest, dividends, and distributions from a retirement plan.
  - **February 15, 2012** – Deadline for financial institutions to mail out Form 1099-B, relating to sales of stock, bonds or mutual funds through a brokerage account, and Form 1099-S, relating to real estate transactions.
  - **March 15, 2012** – Deadline for **corporate tax returns** (Forms 1120, 1120A, and 1120S), or to request automatic 6-month extension of time to file (Form 7004). (see September 17th, below).
  - **April 17, 2012**  
Deadline to file **individual tax returns** (Form 1040, 1040A, or 1040EZ) or to request an Automatic Extension (Form 4868). An extension provides an extra six months to file your return. Payment of the tax is still due by April 17th. You can submit payment for tax along with the extension form. Your tax documents must be postmarked or e-filed by midnight on April 17, 2012 to avoid a late penalty.
- Last day to make a retroactive contribution to traditional IRA, Roth IRA, Health Savings Account, SEP-IRA or solo 401(k) for the 2011 tax year. (However, if you get an extension, you will have until October 17th to fund a SEP-IRA or solo 401(k).)
- Deadline to file **estate income tax or trust income tax returns** (Form 1041) or to request an automatic 5-month extension of time to file (Form 7004).
- Deadline to file **partnership tax returns** (Form 1065) or to request an automatic 5-month extension of time to file (Form 7004).
- Last day to file an amendment to your 2008 tax return. You can file an Amended Return anytime, but you have a deadline of 3 years from the original due date to claim any tax refund.
- **May 16, 2012** - Deadline for **non-profit organizations** to file information returns (Form 990), or request an extension (Form 8868).
  - **June 30, 2012** – Deadline for IRS to **RECEIVE** form TD F 90-22.1 the report of Foreign Bank Accounts for the year 2011. This report is required if you have over \$10,000 (in aggregate) held in foreign bank accounts.
  - **September 17, 2012**  
Final deadline to file **corporate tax returns** if an extension was requested. (Forms 1120, 1120A, 1120S).  
Final deadline to file **trust income tax returns** (Form 1041) if an extension was requested.  
Final deadline to file **partnership tax returns** (Form 1065) if an extension was requested.
  - **October 3, 2012** - Final deadline for self-employed persons or employers to establish a SIMPLE IRA for the year 2011.
  - **October 15, 2012**  
Final income tax filing deadline for those who requested a six month extension back in April. Last day the IRS will accept an electronically filed tax return for the year 2011. If filing after October 15th, you'll need to mail in your tax return for processing.



This is also the deadline for funding a SEP-IRA or Solo 401(k) for 2011 if you requested an extension.

Last Chance to Recharacterize 2011 Roth IRA Conversion. If you converted a traditional IRA to a Roth during 2011 and paid tax on the conversion with your 2011 return, October 15, 2012 is the deadline for recharacterizing (undoing) the conversion. Doing so could save you money if the IRA has lost money since the time of the original conversion.

# Save the Date...

## We are Celebrating our 10 Year Anniversary!



Join our team in celebrating our 10-year anniversary! We will be hosting an outdoor summer movie night on the lawn so pack up your blankets and lawn chairs and plan to come out.

We invite you and your family to our client appreciation event on Saturday, July 14th, 2012.

Gates open at 6 p.m. Sunset is at 8:26 p.m., movie starts at 8:30 p.m. Location and movie title will be announced shortly.

RSVP: Call (847) 393-7679 or email [info@iltaxlaw.com](mailto:info@iltaxlaw.com)



## 2012 Free Seminars

Please join Bryan Gutraj in learning more about the following topics

**Introduction to Business (choice of entity for business formation and contract law)**

Thursday April 26

7-930 p.m.



**Debt relief (credit card debt, IRS tax liens, bankruptcy matters)**

Saturday October 20

10 a.m.-1230 p.m.

**Business tax and accounting issues (QuickBooks, payroll, income, deductions)**

Tuesday, November 13

7-930 p.m.

Location: The Law and Accounting Offices of Bryan A. Gutraj, CPA & Associates  
700 N. Lake Street, Suite 204, Mundelein, IL 60060

Please RSVP to reserve a spot by calling 847-393-7679 or email to [info@iltaxlaw.com](mailto:info@iltaxlaw.com)