

HAPPY
Valentine's
Day!



**FROM THE
PARTNERS
PEN....**

Dear Clients and Friends,

As you may have heard, the IRS has announced that the first day they will be able to process returns delayed due to last month's tax changes is February 14th. Returns impacted include any returns filing Schedule A Itemized Deductions, returns claiming the education tuition and fees deduction and returns with the educator expense deduction. These delays will not affect our tax preparation processes. We will have returns completed and ready for transmittal as soon as the IRS is ready.

Please keep in mind that the rules related to charitable contributions have become stricter in recent years. All cash/check contributions require supporting documentation. If the contribution is for \$250 or more, you are required to have a written acknowledgment which indicates whether you received anything of value from the charity. Non-cash donations of \$500 or more require detailed information describing the items donated, date acquired, original cost and value at the date of donation. Please contact us if you have any questions regarding these rules.

Please make every effort to return your year end tax information to us as soon as possible. Thank you for your cooperation.

Sincerely,

Mike Ryan

DONOVAN SULLIVAN & RYAN

February 2011

A Newsletter for our Clients and Friends

Reminder!

A reminder to all of our individual clients.

Once you have gathered all of your tax information, please forward it to us as soon as possible along with your signed and completed organizer and your signed engagement letter.

If you are waiting for a few documents, you may want to forward the majority of your information. Please send a note indicating the missing items. Following these guidelines will enable us to provide you with the best possible service and allow us to file your tax returns on a timely basis.

Can You Claim Your Parent as a Dependent?

There are five tests to determine whether you can claim a parent as a dependent:

- 1) The person you are claiming as a dependent must be related to you. This should not be a problem if you are claiming a parent (in-laws are also allowed).
- 2) Your parent must be a citizen or resident of the United States or a resident of Canada or Mexico. Your parent does not have to live with you.
- 3) Your parent must not file a joint return. If your parent is married, he or she must file separately. There is an exception if your parent is filing jointly, but has no tax liability. If your parent files a joint tax return solely to get a refund, you can claim him or her as a dependent.
- 4) Your parent must not have a gross income of \$3,650 (in 2010) a year or more. Gross income generally does not include Social Security payments or other tax-exempt income. For those with incomes above \$25,000, some portion of Social Security income may be includable in gross income.
- 5) You must provide more than half of the support for your parent during the year. Support includes amounts spent to provide food, lodging, clothing, education, medical and dental care, recreation, transportation and similar necessities. Even if you do not pay more than half of your parent's total support for the year, you may still be able to claim your parent as a dependent if you pay more than 10 percent of your parent's support for the year, and, with others, collectively contribute to more than half of your parent's support. To receive this exemption, all those supporting your parent must agree on and sign a "multiple support agreement".



Please give us a call if you have any questions about claiming your parent as a dependent.

"More than accountants...business advisors"



NEW 1099 REPORTING REQUIREMENTS FOR LANDLORDS

In the past, only landlords whose rental activities qualified as a business were required to file Form 1099 with the IRS. However, starting in 2011, all landlords must comply with 1099 reporting requirements, including those who are considered "investors" (owners who have turned over all or most management duties to someone else) for other tax purposes. However, there are some important exceptions to this new rule. Investor-landlords who fall into one of the following groups are exempt from the new 1099 reporting requirements:

- landlords who obtain substantially all of their rental income from renting their principal residence on a temporary basis
- landlords whose annual rental income is less than a minimum amount (to be established by the IRS), and
- other investor-landlords for whom complying with the reporting requirements would cause hardship. The IRS will adopt regulations providing guidelines on what constitutes a hardship. The IRS can impose monetary penalties on landlords who fail to comply with the reporting requirements. The penalty is \$250 for each 1099 you intentionally fail to file. The penalty is less if the failure is not intentional, ranging from \$30 to \$100, depending on how quickly you fix the error.

The IRS' message for landlords who report income from their rentals is this: Prepare and send 1099's to every service provider who maintains your property or helps you run your business, if you pay that provider \$600 or more per tax year. To complete a 1099, you will need an individual's Social Security number (or the company's Employer Identification Number). **We advise that you have each and every service provider fill out a form W-9 before any payment is issued so you will be sure to have the number on file when it comes time to issue the 1099's.** Undocumented workers -- those who are not authorized to work in the U.S. -- won't have Social Security numbers, and some people may supply phony numbers. Landlords who submit 1099's with incorrect Social Security numbers may be contacted by the IRS, when the numbers are checked against their records.

Also, the landlord must put his own EIN on each 1099 issued. Usually, this is a Social Security number. A landlord may want to apply for a separate EIN to avoid having to "make public" his Social Security number to any of his service providers.

The penalties for failure to file informational returns have been increased. These penalties alone will narrow the "tax gap" to the tune of \$421 million over 10 years, according to the Senate Finance Committee.

Please call our office with any questions or if you would like us to forward you a copy of Form W-9.



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