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Hello friends!

I hope everyone had a good summer. That might have been difficult for those of you affected by the flood or tornadoes. Please be sure to read the article on the front page about personal losses and feel free to call or email with any questions you may have.

Another tax season will soon be here and as always, I look forward to seeing each of you again. If you are in need of a tax organizer, be sure to call or email Cheri and she'll be happy to get one in the mail to you, or if you prefer she can email it.

There are a few tax changes to keep in mind for the 2011 tax year. As part of the new health care law, beginning in 2011, employers must report health care benefits for employees. This amount will appear on your form W-2 in 2012 as a report, but will not affect your taxable income.

On March 18, 2010, President Obama signed the Hiring Incentives to Restore Employment (HIRE) Act into law. The new law imposes additional reporting and disclosure requirements on your income tax return for US taxpayers with any interest in certain foreign assets worth more than \$50,000. This doesn't replace the existing FBAR requirements, those still apply. If you would like more information on this give our office a call.

The \$400 (\$800 if married filing jointly) Making Work Pay credit expired. The Social Security payroll tax rate decreased by 2%. The estate tax will return with a rate of 35% and a lifetime exclusion of \$5 million for 2011 and 2012. Lower rates for capital gains and dividends are extended through 2011 and the standard deduction rates, or the amount that you can claim if you don't itemize your deductions, stay largely the same for 2011.

Terry Lockie

Surviving 2011's Destructive Weather...

If you have suffered property damage from 2011's destructive weather, remember the rules on casualty loss write-offs. You can deduct losses resulting from disasters such as floods, tornadoes and the like, to the extent not reimbursed by insurance. However, if the property is insured and you don't file a claim, you can *not* take the deduction. For nonbusiness filers, your loss starts as the smaller of the property's tax basis or its decline in value, less any insurance proceeds that you received or expect to receive. Two offsets also apply to personal losses: The loss is first reduced by \$100. The balance is deducted only to the extent it tops 10% of your adjusted gross income. Only itemizers can claim a deduction for damage to non-business property. The rules for deducting casualty losses on business assets are more

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liberal. The \$100 and 10% of AGI offsets do not apply, and non itemizers can claim losses. Special rules apply to losses in presidentially declared disaster areas. You can deduct 2011 casualty losses on your 2010 or 2011 return, whichever saves you more money. Your 2010 return should already be filed but you can amend it and get a refund check from the IRS. The benefit to you is that you receive any accompanying tax refunds a year earlier which will provide additional funds to re-build after the casualty. Go to www.fema.gov/news/disasters.fema to view a list of federally declared disaster areas.

The Internal Revenue Code is filled with general rules, exceptions, and sometimes requires detail that is quite cumbersome. The IRS definition of a casualty loss is a sudden, unexpected, or unusual event,

such as flood, fire, tornado, earth quake, or hurricane. If your records meet all the general rules and exceptions, you may have a deductible loss on your federal income tax return.

The related expenses you have due to a casualty loss, such as for the treatment of personal injuries, temporary house, or rental car, are not deductible as casualty losses. However, they may be deductible as business expenses. Disaster unemployment assistance payments are taxable unemployment benefits. A loss of future profits is not deductible. Insurance and other reimbursement for your loss must be subtracted from the loss when you figure your deduction. You cannot deduct the reimbursed part of the casualty loss.

Casualty losses are a red flag for an IRS audit and you will need to produce documents supporting the values, basis, and depreciation. The IRS auditor is not sympathetic to a "I lost my records" excuse. First you will need to prove that you owned each and every asset. Secondly, you have to show that each individual asset was lost or destroyed. The amount of information you need to support your loss is very voluminous and detailed. You should have the following available: Contracts or purchase receipts for the original cost basis plus any improvements; Copies of old tax returns complete with detailed depreciation taken on each asset; Fair market value of each asset before the casualty; Fair market value after the casualty; Salvage value of surviving assets.

Protecting your records before a casualty occurs is often overlooked by individuals and business owners. A fireproof filing cabinet or safe on location is preferable to leaving records in an exposed area. The success or failure of your casualty loss standing up under an IRS audit will be determined by the quality of your records.

Any U.S. tax advice included in this written or electronic communication was not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

The IRS Wants Your Quickbooks Data

The American Institute of CPA's (AICPA) is communicating to the IRS its concerns regarding the Internal Revenue Service program that requests the accounting software files of certain small business taxpayers under examination.

This is a critical matter because the use of accounting software has become commonplace by businesses in meeting the requirement to maintain proper "books and records," including records involving income, expenses, assets and other pertinent information. If your business is subsequently selected by the IRS for examination, the Service's general position is that the entire file must be turned over to the IRS, even though it may contain information: (1) from tax years unrelated to the years under examination; or (2) even data not normally considered part of a business's "books and records" as it is commonly understood for tax administration or audit purposes.

In response to the AICPA's concerns, the IRS sent a letter on April 20 to the Institute stating that "it is important an exact copy of the original data file be provided to the examiner and not an altered version." The Service wants to see the original data file because it would help identify whether there have been deleted or altered entries to the file. The letter elaborates that "the original data file may provide the date a transaction was originally created, dates of subsequent changes, what changes were made, and

the username of the person who entered or changed that transaction."

The AICPA has urged the Service to begin a dialogue on the issue to ensure reasonable safeguards are put in place "to protect small business taxpayers from turning over more data in an electronic format than is necessary for the IRS to perform an examination." In addition to requesting further dialogue with the Service, the AICPA has also begun discussions with two of the nation's accounting software developers about helping CPA's and their small business clients provide the Service with only the data that is responsive and relevant to an IRS examination—but not more. Here are some suggestions to help:

- You should consider backing up its electronic data files annually at the end of each tax year. This would lessen the amount of data provided to the IRS should you undergo a subsequent audit.

- Your electronic data files may generally be condensed for dates prior to the tax year(s) under audit, but the right to request another backup file involving data from the archive file created during the condensing process may occur if the scope of the audit expands.

The AICPA will keep an ongoing dialogue with the IRS about ways small business taxpayers might provide the Service with the necessary data in electronic format while providing the business with appropriate safeguards.

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We have
what it takes,
so you can
keep what
you have!

Steps To A Golden Financial Future

In just a few hours, you can start a financial plan. This simple method works if you're just starting out or haven't given planning much thought in the past.

- Mind Your Spending. Budgets don't work for many people. A spending plan is better. Start by writing down your fixed monthly costs, debt balances, and personal expenses. Now see if your monthly income covers those costs. If not, try to find a way to trim your spending.

- Weigh Your Dreams. Jot down your major financial goals, such as buying a house, paying for college, and saving for a comfy retirement. Then figure out how much you'll need by specific dates.

- Shave & Save. Cut back on expenses and set aside assets each month in appropriate accounts to achieve dream goals. Even saving a little is better than saving nothing. Over time, any sum will compound due to the effect of interest, and will benefit from market surges if invested wisely.

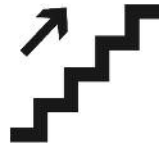
- Know The Details. A 529 education savings

plan and all retirement plans are great deals. But some are better than others. For example, not all state 529 plans are alike, some have better investment options and lower fees. A 401(k) often

beats an IRA given the higher maximum contribution level, contribution of pre-tax dollars, and possible employer match, which is free money. Find out the differences between plans.

- Rainy Day Money. It pays to plan for uncertainty, such as job loss or health crisis. Figure out how much you spend each month on bills and necessities. Then make sure you have access to three to six month's worth.

- Ditch The Debt. Choose credit cards with low interest rates, and avoid carrying excessive credit card balances. The easiest way to do this is to track your spending each month and know when your balances are getting out of control and need to be paid down aggressively.



IRS Increases Mileage Rate for 2011

The Internal Revenue Service announced an increase in the optional standard mileage rates for the final six months of 2011. Taxpayers may use the optional standard rates to calculate the deductible costs of operating an automobile for business and other purposes.

The rate will increase to 55.5 cents a mile for all business miles driven from July 1, 2011, through December 31, 2011. This is an increase of 4.5 cents from the 51 cent rate in effect for the first six months of 2011. In recognition of recent gasoline price increases, the IRS made this special adjustment for the final months in 2011. The IRS normally updates the mileage rates once a year in the fall for the next calendar year.

“This year’s increased gas prices are having a major impact on individual Americans. The IRS is adjusting the standard mileage rates to better reflect the recent increases in gas prices,” said IRS Commissioner Doug Shulman. “We are taking this step so the reimbursement rate will be fair to taxpayers.”

While gasoline is a significant factor in the mileage figure, other items enter into the calculation of mileage rates, such as depreciation and insurance and other fixed and variable costs.

The optional business standard mileage rate is used to compute the deductible costs of operating an automobile for business use in lieu of tracking actual costs.

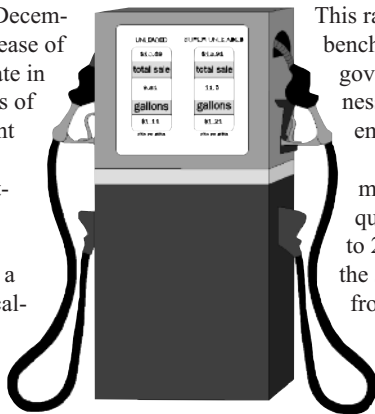
This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for mileage.

The rate for driving for medical purposes or if required for a job move rose to 23.5 cents per mile for the second half of the year from 19 cents in the first

six months. The rate for providing services for charitable organizations is set by statute,

not the IRS, and remains at 14 cents a mile.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.



Got a question for Terry?

Email it to us at: tlockie@taxpros-plus.com

Question: If I cash out my 401k and invest it in a home, will I still have to pay taxes on the withdrawal?

Answer: Yes. All monies withdrawn, (unless it's a loan), from a 401(k) are considered taxable. You will receive a 1099-R for that year to report the income on your taxes. These monies are also subject to the 10% early withdrawal penalty, unless you are over age 59 1/2 or meet another exception. A distribution of up to \$10,000 from an IRA (not 401k) is penalty free if used for 1st time home purchase.

Question: Do you get a tax refund if you file bankruptcy?

Answer: Yes, unless you have an outstanding tax debt, then your refund could be applied to your tax liability.

Question: I inherited my father's traditional IRA account. At what age can I start using the money from this account without tax repercussions?

Answer: There is no age for which there won't be tax repercussions. It is always subject to tax. The issue is how fast it is subject to tax and potential penalties. Get tax advice before doing anything to an inherited IRA. Do not even change the name to your name on the IRA account without getting the appropriate tax advice.

Facts

about our taxes

The federal form 1040 was introduced in 1913 and was required of US citizens and residents with a net income of \$3000 or over for the taxable year.

The Social Security Act was signed into law by President Franklin D. Roosevelt in 1935, and Social Security numbers were made available the next year. However, taxpayers weren't required to use their Social Security number as a means of tax form ID until 1961.

The IRS reported receiving 131,543,000 individual income tax returns in 2009. If each return were processed at the rate of one per minute (and that's fast!), it would take more than 250 years for one person to do the job.

The cost of war has often driven the push for taxes. The first United States income tax was imposed in July 1861, to help pay for the Civil War; the rate was just 3% of income over \$800. That tax was eventually repealed and replaced by a tiered income tax in 1862. The income tax system we use today was made law in 1913, just before the start of World War I.

Federal income tax withholding as we know it today was made permanent in 1943 as part of the Current Tax Payment Act. The move was seen as a means of making tax payments and filings more convenient for taxpayers. At the time, US Treasury official Randolph Paul report to Congress that "the tax has been broadened to reach many millions of additional taxpayers with small incomes and little experience in planning their finances to meet large bills at infrequent intervals... A suitable pay-as-you-go method will be of great assistance to millions of persons."

The Sound of Music

Siouxland Music Supply

Success is the good fortune that comes from aspiration, desperation, perspiration and inspiration. ~Evan Esar

Kay Derby and Jeritt Munch are co-owners of Siouxland Music, located at 524 Nebraska Street in downtown Sioux City in the historic Commerce building. Kay and Jeritt have extensive backgrounds in music. Kay has played instruments of all types since school days. She majored in music at Morningside College and continues to play the bassoon in the All America Concert Band and various music groups in the area. Kay also has thorough knowledge of business affairs as well, having owned an appraisal business, served as a body shop manager, and in more recent years has come to work for our accounting firm. Jeritt also has a wide background in music and education fields. He started music lessons in grade school; continued being involved in music through high school; and pursued a music education degree at Wayne State College. He taught music in Remsen prior to returning to the Sioux City area. He has a variety of educational experiences tied to the Sergeant Bluff-Luten schools, serving as a substitute teacher, coach, and sports announcer since 1998.



Both Kay and Jeritt worked for Mike Hogan at the former Jay's

Music, a Siouxland institution. The experience and knowledge gained from working with Mike remain a large asset to both in opening and operating a music store of their own. After Mike passed away and it became known that Jay's Music store would close, Kay and Jeritt wanted to keep the long-running music store tradition alive and available in Sioux City. They opened Siouxland Music in November 2010 and are primarily a print music retailer, supplying music and related resources and products of all types. They also carry music accessories and some novelty gift items. Studio lessons in all areas are available and they have space available for hosting recitals. In addition to having the ability to order print music, they subscribe to a digital print service that allows them to print music on-site. This comes in handy when something is needed right away. If there is one thing that stands out about Siouxland Music, it's good, old-fashioned customer service. "We know our customers by name and treat them with courtesy and the respect they deserve" states Kay.

Be sure to stop in and check out their store when you're downtown or check them out online at: www.musicssupplysiouxcity.com.

All of our clients are special and we are delighted by their accomplishments and want to share them with everyone. We will be featuring some local businesses that we have the privilege of working with in upcoming newsletters. If you would like to see your business in the newsletter, or have a suggestion for a business to feature, please email Cheri at cheri@taxpros-plus.com or give us a call at: 712-277-2834.

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