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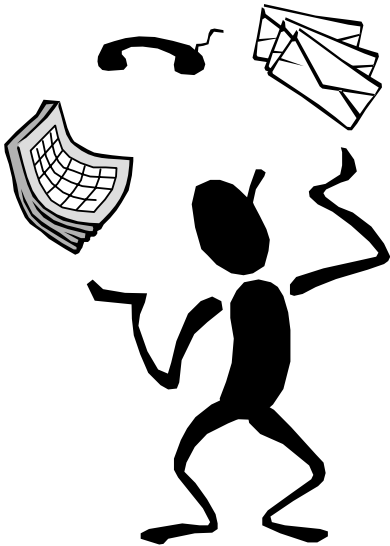
Tax Alerts

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Tax Organizers

We will be mailing out the tax organizers for 2010 shortly. This document is a great reminder of what documents and information will need to be gathered prior to preparing your 2010 income tax return. Generally, we send out the tax organizers via the U.S. Postal Service. However, this year we have the ability to email the organizer to our clients. If you would prefer to receive the 2010 tax organizer via email rather than regular mail please send an email to ldiederich@moceri-cpa.com or give our office a call at (586) 254-2010. ♦



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IRS Tax Tips: Selling Your Home

The IRS has posted tax facts on selling a home as part of its Tax Tips series. These tax tips are designed to make homeowners aware that they may not have to pay additional income tax if they make a profit on the sale of their home. Here are some tax facts related to selling a home.

Capital Gain Exclusion. If you have a gain from the sale of your main home and you meet the ownership and use tests, you may be able to exclude up to \$250,000 (\$500,000 for joint filers) of the gain from your income. The exclusion may be claimed each time that you sell your main home, but generally no more often than once every two years.

Ownership and Use Tests. In general, you are eligible to exclude from income all or part of any gain from the sale of your main home if you have owned and used your home as your main home for a period aggregating at least two years out of the five years prior to the sale.

Main Home. If you have more than one home, you can exclude gain only from the sale of your main home. You must pay tax on the gain from selling any other home. If you have two homes and live in both of them, your main home is ordinarily the one you live in most of the time.

Reduced Exclusion. If you do not meet the requirements to qualify for the full exclusion, you may still qualify for a reduced maximum exclusion. However, you must sell your home for other specific reasons such as serious health issues, a change in place of employment, or certain unforeseen circumstances such as divorce or legal separation, natural or man-made disasters resulting in a casualty to your home, or an involuntary conversion of your home.

Loss. You **cannot** deduct a loss from the sale of your main home. However, if you have a loss on the sale and you receive a Form 1099-S, Proceeds from Real Estate Transactions, you must report the loss on Form 1040 Schedule D, even though the loss is not deductible.

Other factors that may affect the application of the rules for the exclusion include business use of the home, and the suspension of the five-year test period for military families. If you plan on selling your home in the near future, please give our office a call to discuss this exclusion and how you may qualify. ♦

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Rental Real Estate

Rental real estate offers tremendous tax advantages and opportunity for tax planning. Taxpayers can depreciate property far exceeding their actual investment, deduct interest on borrowed capital, exchange rather than sell properties to defer tax on gains, use installment sales to defer tax on sales, and profit from preferential rates on long-term capital gains. Most importantly, you can generate "positive cash flow," or monthly income, with depreciation deductions that effectively turn the actual income into tax losses.

However, deductions are not unlimited. For example, real estate income and loss is generally considered passive income and loss for tax purposes. Taxpayers generally cannot use passive activity losses (PALs) to offset ordinary income from employment, self-employment, interest and dividends, or pensions and annuities. The *rental real estate loss allowance and real estate professional status* are two important exceptions to this rule. In addition, the tax consequences of renting out a vacation home depend upon the amount of time the home is rented and the amount of time you use the home for personal purposes.

As one exception to the PAL rules, taxpayers with adjusted gross incomes of \$150,000 or less can claim a rental real estate loss allowance of up to \$25,000 for property they actively manage. Active management does not require regular, continuous, or substantial involvement. However, it does require that the taxpayer own at least 10% of the property. Also, to qualify for the exception, married taxpayers must file jointly.

The second exception allows real estate professionals not to treat their rental activity as a passive activity. Therefore, their losses are not limited to passive income. This exception requires material participation by the taxpayer which is demonstrated by meeting one of seven tests. These tests are complex and include the number of hours of participation and the facts and circumstances of the participation in the activity.

Vacation homes are taxed under one of three sets of rules depending on how long the homeowner rents the property. If you rent your vacation home for fewer than 15 days during the year, no rental income is includible in gross income. If you rent the property for 15 or more days during the tax year and it is used by you for the greater of (a) more than 14 days or (b) more than 10% of the number of days during the year for which the home is rented, the rental deductions are limited. Under this limitation, the amount of the rental activity deductions may not exceed the amount by which the gross income derived from such activity exceeds the deductions otherwise allowable for the property, such as interest and taxes.

If you have any questions as to how the rental real estate rules apply to your particular situation, please do not hesitate to call for an appointment. We can assist you in taking advantage of the available tax benefits and develop an overall tax plan. ♦

Estate Planning – Non-Binding Letters

As part of your estate planning, it is a good idea to have a non-binding letter to your spouse, children, or other loved ones outlining where important documents are kept and contact names and numbers for help in administering your estate. The following is a list of suggested points to address in such a letter. Most importantly all the documents should be kept together and in a safe place, and the information contained in the letter should periodically be reviewed and updated so that it is as current as possible in the event of an unexpected occurrence.

- Contact information for your accountant and attorney.
- Safety deposit box— location of key, number of the box, and an inventory of the contents.
- Life insurance – location where your policies are stored, and the name and telephone number of your insurance agent.
- Will – location of the original and any copies.
- Funeral arrangements – location of any burial plots, location of the certificates of ownership, and any specific funeral instructions you desire.
- Loans – list any outstanding loans, include the location of title insurance policies and deeds for real estate loans.
- Tax returns – location of the prior years' tax returns. You may also wish to indicate that your accountant will be able to provide copies of the most recent years' returns.
- Pension plan – list any contact names and telephone numbers for your pension plan administrator.

Although this list is far from exhaustive, it does provide a good starting point for items that you may wish to address. ♦

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Quickbooks Corner-Using Classes

Using the class feature in Quickbooks allows the user to segregate income and expense by location, department, or business segment. Think of this feature as a way to "classify" business activities. To use classes, you must enable the feature, which is listed in the Accounting section of the Preferences window. Be aware that you should use classes for a single purpose; otherwise, the feature won't work properly. ♦