



# Tax Alerts

## New 1099 Requirements

With the goal of catching unreported income congress attached new tax reporting requirements to the Housing Assistance Tax Act and to the Patient Protection and Affordable Care Act. Unless congress repeals the new reporting requirements, as many believe will happen, business owners will need to become familiar with a new set of reporting guidelines.

The least burdensome change begins next year. In 2011 processors of credit or debit card payments are required to issue a 1099-K reporting the sum of annual transactions to their clients and the IRS. The form will be issued to merchants with greater than 200 payments that total more than \$20,000.

The bigger change comes in the 2012 tax year when the requirements to issue a 1099-Misc are greatly expanded. Currently business owners are required to issue a 1099-Misc when payments to an unincorporated individual for services exceed \$600 in a calendar year. The new requirement adds "amounts in consideration for property" to the types of payments and removes the corporate exemption. Therefore, businesses will be required to issue a 1099-Misc *any time* payments or purchases exceed \$600 in a calendar year regardless of what was purchased or the corporate status of the payee.

The changes, in effect, mean that merchants can expect to both receive and prepare substantially more 1099 forms at



### INSIDE THIS ISSUE

1	New 1099 Requirements
1	Deduct Mortgage Insurance Premiums
2	Arranging Child Care – Tax Breaks
2	Quickbooks Corner – Multi-User Permissions

year end. Business owners should be prepared by collecting tax data on all vendors at the time of the first transaction, since the IRS requires that you have it in your records at the time of the transaction, not just at tax-filing time.

Please call our office if you require assistance in preparing your year end 1099 forms, this is just one of the many services we offer to our clients. ♦

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## Deduct Mortgage Insurance Premiums

Homebuyers who do not have sufficient funds to make a full down payment on a home may be required to obtain mortgage insurance. Until 2007, mortgage insurance premiums were not deductible. The *Tax Relief and Healthcare Act of 2006* temporarily changed that by including premiums paid on home mortgage insurance within the definition of qualified residence interest. This treatment allows homeowners to deduct the premium payments as if they were interest on a home mortgage. The *Mortgage Forgiveness Debt Relief Act of 2007* extended this benefit for premiums paid or accrued on or before December 31, 2010.

For purposes of the deduction, "qualified mortgage insurance" means mortgage insurance provided by the Federal Housing Authority (FHA), Veterans Administration (VA), the Rural Housing Administration (RHA), and private mortgage insurance. Recipients of over \$600 or more of mortgage insurance premiums are required to report these amounts to the IRS.

The IRS's regulations provide that, for borrowers, the deduction for prepaid premiums on FHA or private mortgage insurance must be allocated ratably over the shorter of an 84-month period or the term of the loan. For mortgage servicers, the regulations require reporting on the total amount received on all prepaid premiums as well as mortgage interest from the homeowner during the calendar year. ♦

## Arranging Child Care – Tax Breaks

Although you cannot deduct per se what you pay for child care (whether in-home or at a child care center), these expenses can generate at least a partial tax credit if incurred to enable gainful employment by a parent or other custodian of a child under 13 or other dependent or spouse incapable of self care. The amount of this tax credit generally depends upon the amount of qualifying expenses, the number of qualifying dependents and the income level of the taxpayer. Those in higher income levels can usually qualify for a maximum credit of \$600 for one dependent and \$1,200 for two or more. The maximum credit for lower-income taxpayers is \$3,000 for one dependent and \$3,000 for more than one. Another way to receive a tax break on child care is to participate in an employer-sponsored child care program or the allocate funds from a flexible spending plan. This brief letter gives you an overview of what is available.

**Child-care credit.** You are eligible for a tax credit if you pay someone to watch your under-age-13 dependent child or children so that you can be gainfully employed. You must be eligible to claim a dependency exemption for such children. (Caution: Do not confuse the child-care credit (also called the child and dependent-care credit) with the child tax credit. Parents eligible for the child-care credit are usually also eligible for the child tax credit, a \$1,000 tax credit that is not dependent upon any child-care costs (except providing over half the child's support)).

The amount of eligible employment related expenses on which you can claim the child-care tax credit is \$3,000 each year for the care of one child under age 13; and \$6,000 for the care of two or more eligible children. The credit that most of our clients take is 20 percent of that eligible amount (the 20 percent rate applies if your income is more than \$43,000). That comes to a maximum credit of \$600 for one child and \$1,200 for two or more children. Unlike the child tax credit, which is phased out for taxpayers above certain income levels, the child-care credit remains at the \$600/\$1,200 level no matter how high your income goes.

For taxpayers with incomes of \$15,000, or less, the applicable percentage is 35 percent. The percentage is reduced by 1 percent for each \$2,000 of income over \$15,000 until the percentage reaches the 20 percent level for income or more than \$43,000. The 1 percentage point decrease applies even if the taxpayer's income is just a fraction over the previous level. For example, if a taxpayer has an income of \$15,002, the applicable percentage will be reduced to 34 percent.

Qualifying expenses can include the in-home related expenses of a housekeeper, babysitter or cook. Services performed by a dependent care center are allowed only if the center is certified and in compliance with all local laws. A portion of boarding-school expenses may qualify for the credit, but summer camp fees are specifically not allowed. The credit is allowed to enable part-time employment, too, but qualifying expenses must be directly related to the time needed for dependent care.

**Employer-provided assistance.** You may be fortunate enough to work for an employer that provides for tax-advantaged dependent care assistance:

- Up to \$5,000 of dependent-care assistance that you receive from an employer-paid nondiscriminatory child care program for employees is completely tax free (the figure is \$2,500 for married filing separate income tax returns). The excludable assistance must be for the care of children for whom the child-care credit is available.
- If your employer maintains a so-called cafeteria plan that lets employees choose between receiving fixed amounts of cash or qualified tax-free benefits, the amount you elect to receive for child-care assistance under the plan is tax-free if the benefit provided doesn't exceed \$5,000 (\$2,500 for married filing separately).
- Your employer may maintain a flexible spending account that essentially allows you to choose to reduce your salary by an amount that's set aside in an account set up to pay for child-care expenses (up to \$5,000 or \$2,500). In effect, such a plan enables you to pay for part or all of your child-care expenses with pre-tax dollars.

If you are provided with some form of employer-provided assistance other than an outright cash payment of eligible expenses, you may need to consider whether to use the cafeteria plan or flexible spending account or pay for the care expenses with your own cash and claim a tax credit. If you are in this position, a decision must be made well before the beginning of each year. We can tell you which choice will save you the most from a financial and a tax perspective in your circumstances. We can also fully explain any other tax issues related to your choice of child care, including your payroll tax responsibilities if you decide to have someone help with a child in your home. Please give us a call. ♦

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## Quickbooks Corner-Multi-User Permissions

If you have several users who each need access to a specific module within Quickbooks you may want to limit the access of the users to their selected area rather than granting all users unlimited access to your accounting data. First set up the individual users through Company – Set up Users and Passwords on the menu bar. To limit access to selected areas, select that option and follow the wizard. You must configure permissions for every component, as any component not configured defaults to “no Access”. ♦