

2012 Busy Season Look-Out List

- **Foreign Asset Reporting:** New Form 8938 required for individuals with specified foreign financial asset holdings over threshold amounts.
- **Cost Basis Reporting:** New Form 8949 requires segregation and identification of capital gain transactions. (*Sch. D Instructions*)
- **Cost Basis Elections:** New cost basis rules require election of default methods for determining basis of stock and mutual funds.
- **Capitalization Regs:** Regulations effective 1/1/2012 provide new rules and safe harbors for distinguishing capital expenditures from repairs. (*Reg §1.263(a)-2T & 3T*)
- **Revised Schedule E:** Disclosure of property type required.
- **Form 1099-MISC Questions:** Business tax returns and 1040 Schedules C, E, and F require inquiry regarding client filing of Form 1009s.
- **Passive Activity Grouping Disclosure:** New passive activity grouping disclosure rules kick in for activities acquired in 2011. (*Rev. Proc. 2010-13*)
- **Late Aggregation Elections for Real Professionals:** Retroactive rental property aggregation election allowed for real estate professionals under the new relief provision. (*Rev. Proc. 2011-34*).
- **Mortgage Assistance Payments:** Safe harbor method for reporting mortgage interest and property tax payments for recipients of federal mortgage assistance payments. (*Notice 2011-14*)
- **Adult Child Insurance Coverage:** California retroactive conformity to 2010 federal law change creates potential refund opportunity for clients who reported a 2010 fed-Cal difference for health insurance on an adult child. (*AB 36*)
- **Self-Employed Health Insurance:** Health insurance premiums no longer deductible in computing SE Tax; however, IRS now allows Medicare premiums to count as SE health insurance.
- **Earned Income Tax Credit Due Diligence Requirements:** Submission of Form 8867 required to avoid \$500 preparer penalty.
- **Energy Credits:** New dollar limits and eligibility requirements apply in 2011 for residential energy credits and green vehicle credits. (*Secs. 25C, , 30, 30B, 30C*)
- **California Use Tax Table:** New standard use tax table for safe-harbor reporting of small internet purchases. (*SB 86*)

- **New Hire Credit:** Federal credit of \$1,000 for qualified employees hired in 2010 and retained for 52 weeks. (*Form 5884-B*)
- **Credit for Hiring Veterans.** Expanded work opportunity tax credit for hiring qualified veterans after 11/21/2011.
- **California Multi-State Apportionment Changes:** Single sales factor apportionment option (with market-based sourcing for services and intangibles) may be elected in 2011. “*Finnigan Rule*” applies for determining throwback sales of combined groups.
- **Bonus Depreciation Component Election:** Written election required to claim 100% bonus depreciation on components of building placed in service in 2011, where construction began prior to 9/9/2010. (*Rev. Proc. 2011-26*)
- **Accounting Method Changes:** New *Rev. Proc. 2011-14* replaced *Rev. Proc. 2008-52* as operative guidance for automatic accounting method changes. Includes a new automatic change for accrual of California franchise tax deduction.
- **IRS Voluntary Classification Settlement Program:** Low-cost settlement program offered by IRS to employers who have misclassified employees as independent contractors.
- **New California Penalties for Misclassifying Employees:** SB 459 gives the California Department of Industrial Relations authority to impose penalties on employers who misclassify employees as independent contractors. The penalty can also be imposed on CPAs who give incorrect advice on employee classification.
- **Innocent Spouse Relief:** IRS drops 2-year limit on filing claims for “equitable relief” under the innocent spouse rules. (*Notice 2011-70*)
- **Estate Tax \$5 Million Exclusion Portability:** For deaths of a first spouse in 2011, consideration must be given to filing a Form 706 in order to elect to carry over the unused exclusion amount to the estate of the surviving spouse.
- **Estate Tax Deductions for Unpaid Claims:** The IRS has established new procedures for filing protective claims for refund of estate tax based upon deductions for claims of against the estate that remain unpaid as of the filing date of the Form 706. (*Rev. Proc. 2011-48*)
- **Modified Carryover Basis Calculations:** IRS has established safe harbor rules for calculating the basis of assets inherited from the estate of a 2010 decedent that elects out of federal estate tax. (*Rev. Proc 2011-41*)
- **Reinstatement of Exempt Status:** IRS establishes procedures for charities to reinstate exempt status lost due to failure to file 990s. (*Notices 2011-43 & 44*)